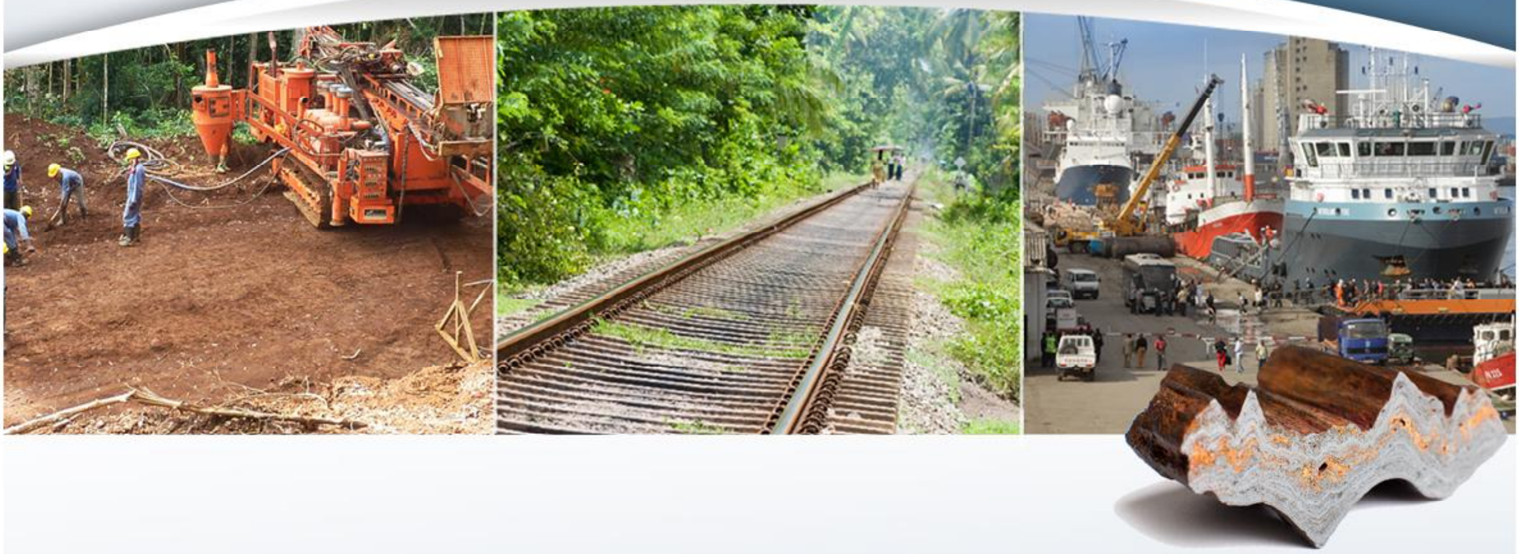
EQUATORIAL RESOURCES LTD



Annual Financial Report
30 June 2011

ASX : EQX
ABN : 50 009 188 694

CORPORATE DIRECTORY

DIRECTORS:	Mr Ian Middlemas – Chairman Mr John Welborn – Managing Director and Chief Executive Officer Mr Peter Woodman – Non-Executive Director Mr Mark Pearce – Non-Executive Director
COMPANY SECRETARY:	Mr Greg Swan
REGISTERED AND PRINCIPAL OFFICE:	Level 9, BGC Centre 28 The Esplanade Perth WA 6000 Tel: +61 8 9322 6322 Fax: +61 8 9322 6558
SHARE REGISTER:	Computershare Investor Services Pty Ltd Level 2 45 St Georges Terrace Perth WA 6000 Tel: 1300 557 010 Int: +61 8 9323 2000 Fax: +61 8 9323 2033
STOCK EXCHANGE LISTING:	Australian Securities Exchange Home Branch – Perth 2 The Esplanade Perth WA 6000
ASX CODE:	EQX – Fully paid Ordinary Shares
BANKERS:	Australia and New Zealand Banking Group Limited
SOLICITORS:	Hardy Bowen Lawyers
AUDITOR:	Ernst & Young

CONTENTS

The Directors of Equatorial Resources Limited (formerly Equatorial Coal Limited) present their report on the Consolidated Entity consisting of Equatorial Resources Limited ("**Company**" or "**Equatorial**" or "**EQX**") and the entities it controlled at the end of, or during, the year ended 30 June 2011 ("**Consolidated Entity**" or "**Group**").

DIRECTORS

The names and details of the Group's directors in office at any time during the financial year or since the end of the financial year are:

Current Directors
Mr Ian Middlemas – Chairman
Mr John Welborn – Managing Director and Chief Executive Officer (appointed 6 August 2010)
Mr Peter Woodman – Non-Executive Director
Mr Mark Pearce – Non-Executive Director

Former Directors
Mr Geoff Gander (resigned 8 July 2010)

Unless otherwise stated, Directors held their office from 1 July 2010 until the date of this report.

CURRENT DIRECTORS AND OFFICERS

Mr Ian Middlemas *B.Com, CA*
Chairman (non-executive)

Mr Middlemas is a Chartered Accountant, a member of the Financial Services Institute of Australasia and holds a Bachelor of Commerce degree. He worked for a large international Chartered Accounting firm before joining the Normandy Mining Group where he was a senior group executive for approximately 10 years. He has had extensive corporate and management experience, and is currently a director with a number of publicly listed companies in the resources sector.

Mr Middlemas was appointed a Director of the Company on 5 November 2009. During the three year period to the end of the financial year, Mr Middlemas has held directorships in Papillon Resources Limited (May 2011 – present), Pacific Ore Limited (April 2010 – present), Wildhorse Energy Limited (January 2010 – present), Coalspur Mines Limited (March 2007 – present), WCP Resources Limited (September 2009 – present), Global Petroleum Limited (April 2007 – present), Sovereign Metals Limited (July 2006 – present), Sierra Mining Limited (January 2006 – present), Odyssey Energy Limited (September 2005 – present), Mantra Resources Limited (September 2005 – June 2011), Aguia Resources Limited (September 2008 – August 2010), Pacific Energy Limited (June 2006 – August 2010), Indo Mines Limited (December 2006 – June 2010), Neon Energy Limited (November 1995 – June 2010), Transaction Solutions International Limited (July 2001 – February 2010) and Fusion Resources Limited (May 2002 – March 2009).

Mr John Welborn *B.Com, CA, FFin, FAICD*
Managing Director and Chief Executive Officer

Mr Welborn is a Chartered Accountant with a Bachelor of Commerce degree from the University of Western Australia and holds memberships of the Institute of Chartered Accountants in Australia, the Financial Services Institute of Australasia, and the Australian Institute of Company Directors. Mr Welborn is currently a Commissioner of Tourism in Western Australia.

Mr Welborn has extensive experience in the resources sector as a senior executive and in corporate management, finance and investment banking. Mr Welborn was the Head of Specialised Lending in Western Australia for Investec Bank (Australia) Ltd and has more than 15 years of commercial experience in national and international professional services and management consulting firms.

Mr Welborn was appointed a Director of the Company on 6 August 2010. During the three year period to the end of the financial year, Mr Welborn has held a directorship in Prairie Downs Metals Limited (February 2009 – present).

CURRENT DIRECTORS AND OFFICERS (Continued)

Mr Peter Woodman ***B.Sc. (Geology), MAusIMM***
Director (non-executive)

Mr Woodman is a geologist with over 20 years experience in exploration, development and operations in the resources sector. He is a graduate of the Australian National University and is a corporate member of the Australian Institute of Mining and Metallurgy.

Mr Woodman has worked for a number of mining companies during his extensive career in the resources sector and most recently held the position of Chief Executive Officer of Wedgetail Mining Limited where he oversaw the successful completion of the bankable feasibility study for the Nullagine Gold Project and then managed a $20 Million equity raising and the awarding of the banking mandate for $40 Million senior debt facility with a major Australian institutional bank.

Prior to his role with Wedgetail Mining Ltd, he held positions with Samantha Gold NL, Ranger Minerals NL, Hellman & Schofield Pty Ltd, Centamin Egypt Ltd and Kingsgate Consolidated Ltd. His background is in management, exploration planning and execution, resource development and mining operations both in Australia and overseas.

Mr Woodman was appointed a Director of the Company on 8 April 2010. During the three year period to the end of the financial year, Mr Woodman has held directorships in Papillon Resources Limited (May 2011 – present), WCP Resources Limited (August 2010 – present), Sovereign Metals Limited (May 2007 – present) and Coalspur Mines Limited (November 2008 – August 2009).

Mr Mark Pearce *B.Bus, CA, FCIS, FFin*
Director (non-executive)

Mr Pearce is a Chartered Accountant and is currently a director of several listed companies that operate in the resources sector. He has had considerable experience in the formation and development of listed resource companies and has worked for several large international Chartered Accounting firms. Mr Pearce is also a Fellow of the Institute of Chartered Secretaries and a Fellow of the Financial Services Institute of Australasia.

Mr Pearce was appointed a Director of the Company on 5 November 2009. During the three year period to the end of the financial year, Mr Pearce has held directorships in Pacific Ore Limited (April 2010 – present), Coalspur Mines Limited (March 2007 – present), WCP Resources Limited (September 2009 – present), Sovereign Metals Limited (July 2006 – present), Odyssey Energy Limited (September 2005 – present), Aguia Resources Limited (September 2008 – October 2010), Mantra Resources Limited (September 2005 – February 2010), Transaction Solutions International Limited (November 2004 – February 2010) and Fusion Resources Limited (May 2002 – February 2009).

Mr Greg Swan *B.Com, CA, ACIS, AFin*
Company Secretary

Mr Swan is a Chartered Accountant and Chartered Secretary. He commenced his career at a large international Chartered Accounting firm and has since worked in the corporate office of a number of listed companies that operate in the resources sector.

Mr Swan was appointed Company Secretary of the Company on 26 May 2010.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the year consisted of mineral exploration. No significant change in the nature of these activities occurred during the year.

EMPLOYEES

The Consolidated Entity currently has 23 full-time equivalent employees and contracts more than 100 workers in the Republic of Congo through a local employment agency. As at 30 June 2011 the Consolidated Entity had 15 full-time equivalent employees (2010: 1).

EARNINGS PER SHARE

	2011 Cents	2010 Cents
Basic loss per share	(8.02)	(3.20)

DIVIDENDS

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

REVIEW AND RESULTS OF OPERATIONS

Review of Operations

During the year, the Company acquired a 100% interest in two potentially large-scale iron projects in the Republic of Congo ("ROC"). The Company has made rapid exploration and project development progress at both the Mayoko-Moussondji Iron Project and the Badondo Iron Project.

Airborne geophysics programs conducted at both projects led to the identification of a global Exploration Target of 3.6 – 6.1 billion tonnes* at 30 – 65% Fe across the projects. These results confirmed the large scale potential of the projects and allowed the Company to accelerate its exploration and development activities through the remainder of the year. An experienced in-country management team was recruited and installed and suitable office space obtained in Pointe-Noire, ROC, from which the Company could provide logistical and administrative support for its exploration programs.

Equatorial significantly improved its cash position during the year, raising a total of A$72.1 million before costs through private placements made predominantly to European institutional investors including two of Europe's leading active asset managers.

On 30 June 2011, the Company announced it had acquired 19.9% of African Iron Limited (African Iron) through the purchase of 95.4 million African Iron shares using a combination of cash and shares in Equatorial Resources. African Iron is developing the Mayoko-Lekoumou Iron Project located adjacent to the Equatorial's Mayoko-Moussondji Iron Project and the acquisition of this stake in African Iron could lead to a number of positive synergies for the Company, especially in relation to the transport infrastructure that services both projects.

MAYOKO-MOUSSONDJI IRON PROJECT

The Mayoko-Moussondji Iron Project ("Mayoko-Moussondji") is located in the Department of Niari in the South West region of ROC and covers a total of 1,000km². The project hosts an Exploration Target of 2.3 to 3.9 billion tonnes* of iron mineralisation at an expected grade of 30% to 65% Fe. An operational bulk haulage railway line intersects the project area and connects it to the established deep-water port at Pointe-Noire. The Company is focused on the definition of high grade direct shipping ore at Mayoko-Moussondji and the subsequent rapid development of production utilising the existing transport infrastructure.

* *Exploration Target: The estimates of exploration target sizes mentioned in this report should not be misunderstood or misconstrued as estimates of Mineral Resources. The potential quantity and grade of the exploration targets are conceptual in nature and there has been insufficient exploration to define a Mineral Resource in accordance with the JORC Code (2004) guidelines. Furthermore, it is uncertain if further exploration will result in the determination of a Mineral Resource.*

REVIEW AND RESULTS OF OPERATIONS (Continued)

Figure 1: Location of Equatorial Resources' Iron Projects in Republic of Congo

Exploration Target

A helicopter-borne high resolution magnetic and radiometric geophysical survey was conducted in August 2010 over the entire Mayoko-Moussondji project. This survey revealed over 46km of prospective anomalous strike length within five target prospect areas. The main target, the "Makengui Prospect", extends over 12km of strike length, is up to 2km wide, and is located just 500 metres from the existing railway line.

2D and 3D modelling of the geophysical data by independent consultants estimated an initial global Exploration Target at Mayoko-Moussondji with a range between 2.3 to 3.9 billion tonnes* of iron mineralisation at an expected grade of 30% to 65% Fe.

The global Exploration Target is the combination of five main prospects and is comprised of:

- Potential enriched "hematite cap" mineralisation estimated to range between 500 to 900 million tonnes* at a grade of 40% to 65% Fe; and
- Primary magnetite BIF mineralisation estimated to range between 1.8 to 3.0 billion tonnes* at a grade of 30% to 45% Fe.

* *Exploration Target: The estimates of exploration target sizes mentioned in this report should not be misunderstood or misconstrued as estimates of Mineral Resources. The potential quantity and grade of the exploration targets are conceptual in nature and there has been insufficient exploration to define a Mineral Resource in accordance with the JORC Code (2004) guidelines. Furthermore, it is uncertain if further exploration will result in the determination of a Mineral Resource.*

REVIEW AND RESULTS OF OPERATIONS (Continued)

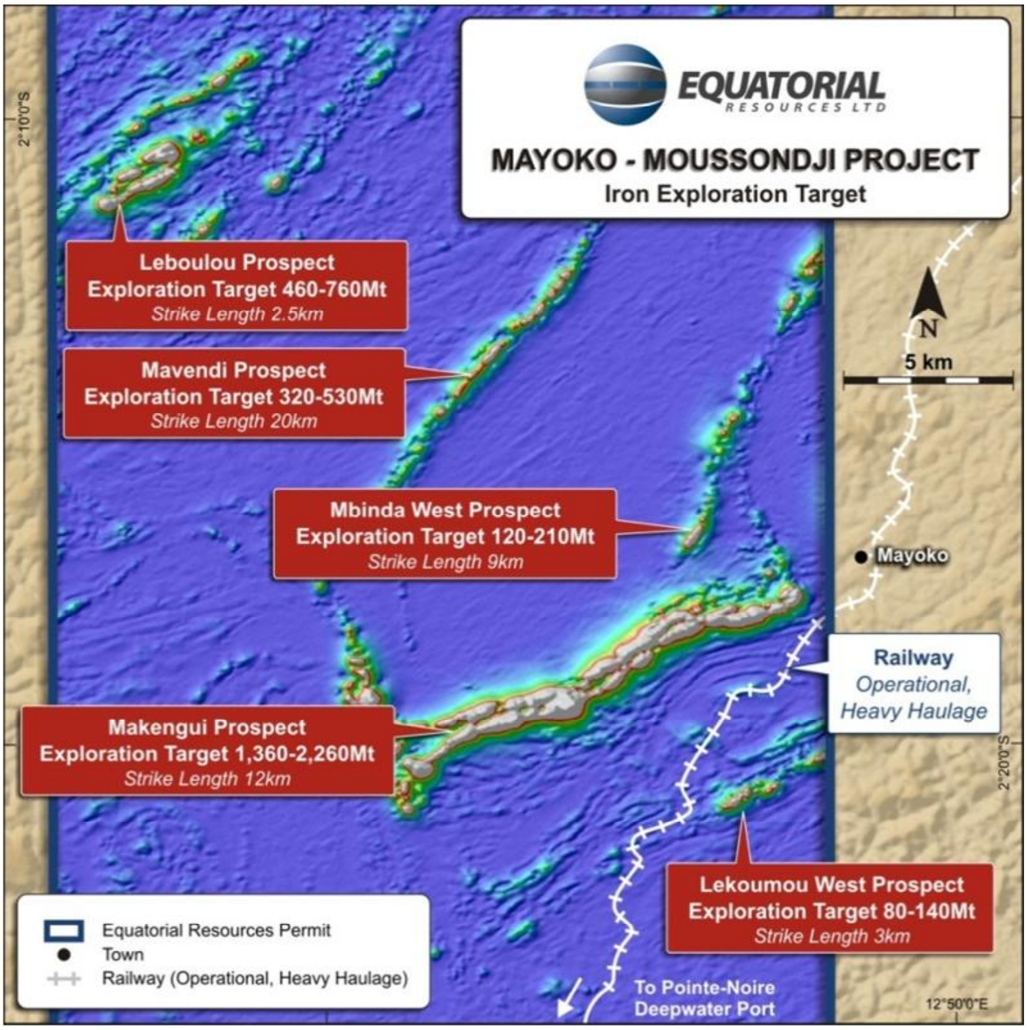


Figure 2: Location of Iron Exploration Targets at Mayoko-Moussondji Project

Rock sample assay program

A reconnaissance rock sample program conducted by the Company in September 2010 returned encouraging results with iron grades up to 61.6% Fe and indicated the potential for the project to host high grade hematite iron mineralisation.

Maiden Drill Program

Following confirmation of the large-scale and high-grade potential of Mayoko-Moussondji the Company designed a drilling program focused on validating the extent and grade of the hematite cap iron mineralisation located within key target zones of the project which could have the potential to host high grade direct shipping iron mineralisation.

A 5,000 metre diamond drilling campaign commenced at Mayoko-Moussondji in late March 2011 with Partners Drilling International ("Partners") and was focused on the Makengui Prospect. During May 2011, the Company announced it had expanded its drilling campaign by contracting Wallis Drilling Pty Ltd ("Wallis") from Australia to supply additional drill rigs for a 28,000 metre drilling program using one dedicated Diamond Drill rig (8,000 metres) and one multi-purpose RC and Diamond Drill Rig (20,000 metres). Wallis commenced drilling during August 2011, subsequent to the financial year end.

REVIEW AND RESULTS OF OPERATIONS (Continued)

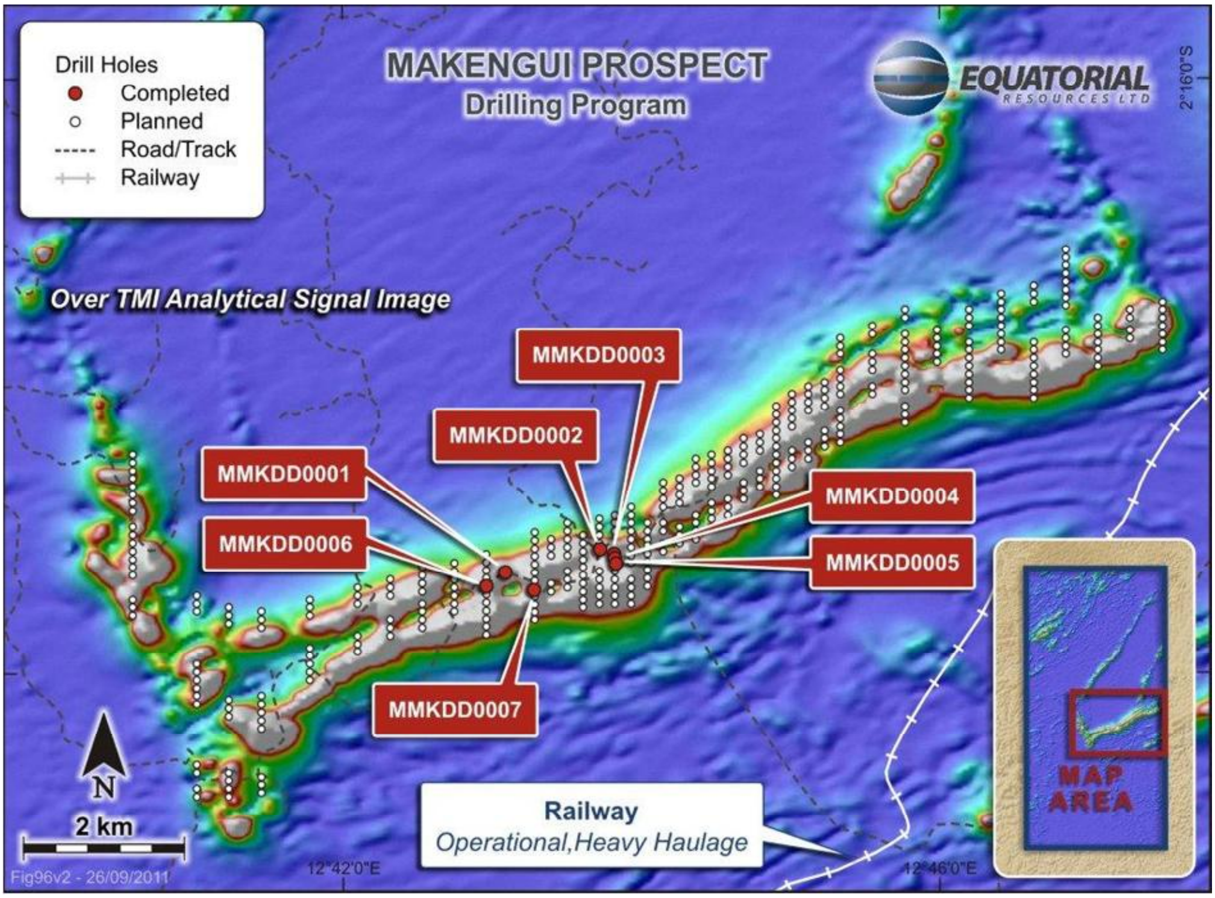


Figure 3: Drilling Program – Makengui Prospect (Mayoko-Moussondji)

Transport Infrastructure

During the year the Company made significant advances in the development of rail and port transport solutions for Mayoko-Moussondji. Relationships with the state-owned rail authority; Chemin de Fer Congo Ocean ("CFCO") and the Port Authority of Pointe-Noire ("PAPN") were developed and two key Memorandum of Understanding's ("MOU's") were signed by the Company:

- On 5 October 2010, Equatorial announced it had signed a "Protocol d'Accord", or MOU with the CFCO granting the Company immediate access to the railway line and committing the parties to conduct studies over the railway line and enter into a 25 year User Agreement setting forth the investment and operating parameters for the potential transport of iron from Mayoko-Moussondji.
- On 4 February 2011 Equatorial announced it had signed a "Protocol d'Accord", or MOU with the PAPN whereby the parties undertook to cooperate in investigating and implementing the infrastructure required to export iron from Mayoko-Moussondji.

Following the signature of both of these agreements, Equatorial appointed global engineering firms (R&H, Murray & Roberts and Demcotech Engineering) to conduct feasibility work to develop cost and operating parameters for its rail and port transport solutions.

REVIEW AND RESULTS OF OPERATIONS (Continued)

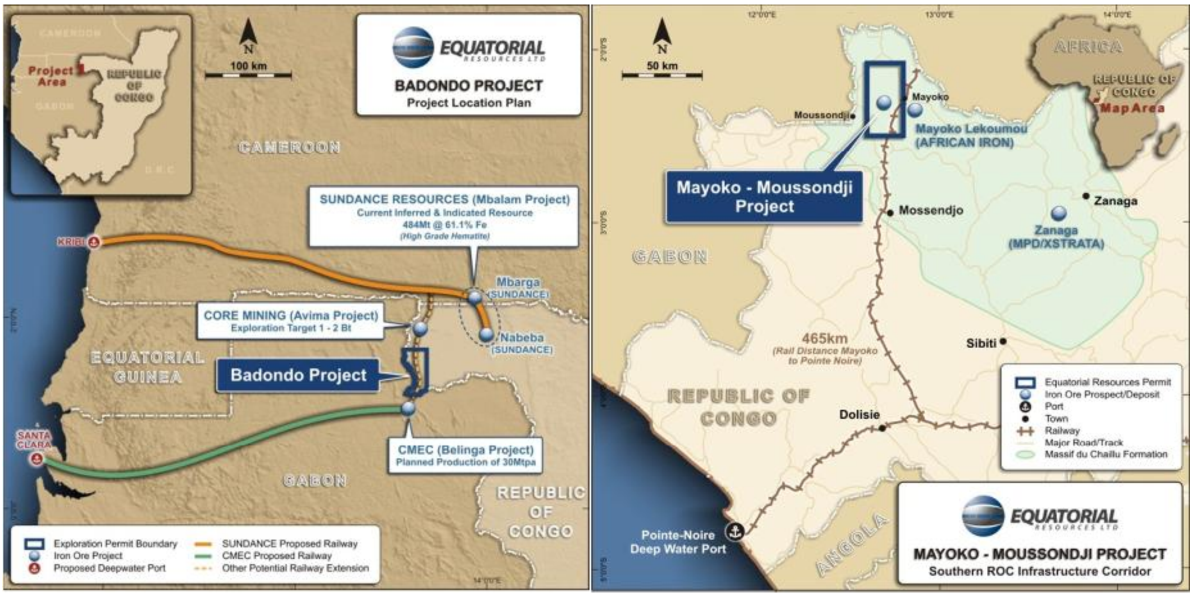


Figure 4 and Figure 5: Proposed and Existing Transport Infrastructure

BADONDO IRON PROJECT

The Badondo Iron Project ("Badondo") is located in the Department of Sangha in the north-west region of ROC and covers a total of 998km². The project hosts an Exploration Target of 1.3 to 2.2 billion tonnes* of iron mineralisation at an expected grade of 30% to 65% Fe. Badondo is located within an emerging hub of iron exploration projects that includes Sundance Resources' Mbalam Project and Core Mining's Avima Project.

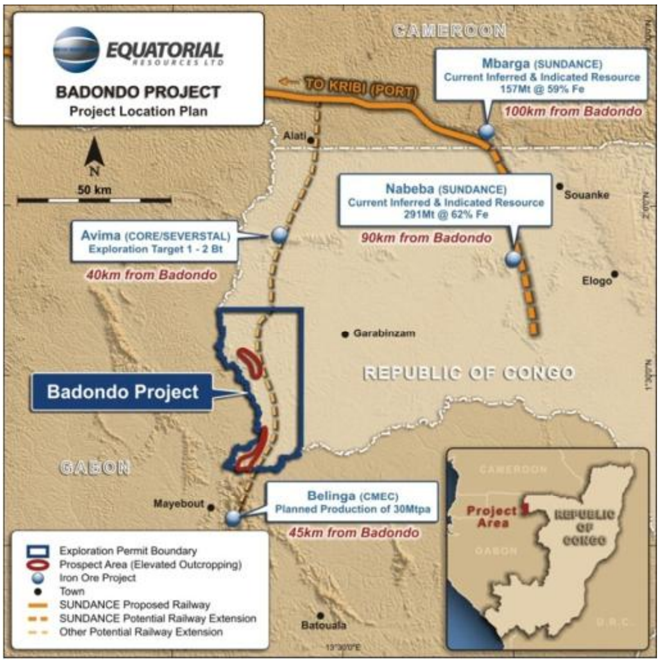


Figure 6: Project Location Plan for Badondo Iron Project

* *Exploration Target: The estimates of exploration target sizes mentioned in this report should not be misunderstood or misconstrued as estimates of Mineral Resources. The potential quantity and grade of the exploration targets are conceptual in nature and there has been insufficient exploration to define a Mineral Resource in accordance with the JORC Code (2004) guidelines. Furthermore, it is uncertain if further exploration will result in the determination of a Mineral Resource.*

REVIEW AND RESULTS OF OPERATIONS (Continued)

Exploration Target

A fixed-wing high resolution magnetic and radiometric survey was conducted at Badondo in December 2010 and January 2011 over the entire project area. This survey revealed over 22km of strike within three main prospect areas. 2D and 3D modelling of the geophysical data by independent consultants estimated an initial Exploration Target at Badondo with a range between 1.3 to 2.2 billion tonnes* of iron mineralisation at an expected grade of 30% to 65% Fe.

The global Exploration Target is the combination of five main prospects and is comprised of:

- Potential enriched "hematite cap" mineralisation estimated to range between 200 to 300 million tonnes* at a grade of 40% to 65% Fe; and
- Primary magnetite BIF mineralisation estimated to range between 1.1 to 1.9 billion tonnes* at a grade of 30% to 45% Fe.

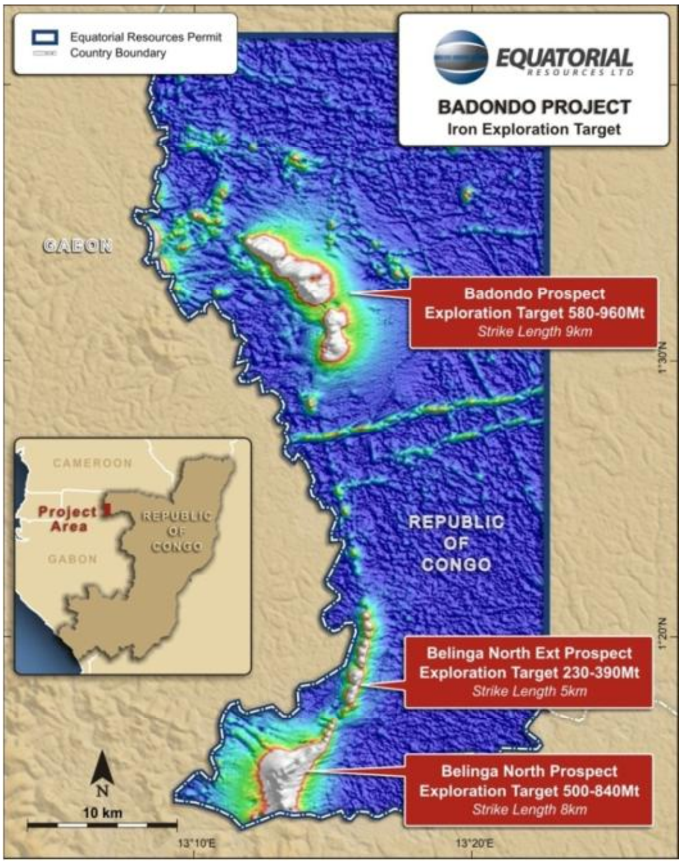


Figure 7: Badondo Exploration Targets

Rock sample assay program and other field work

On 28 January 2011, Equatorial announced that it had recovered rock samples collected by the French Bureau of Geological Research ("BRGM") during a ground survey in 2007 which had been independently assayed and returned grades of up to 64.7% Fe.

The Company then commenced with its own reconnaissance campaign at Badondo, focussing on the Badondo Prospect and the Belinga North Prospect. The campaign included the collection of rock samples and the selection of base camp sites to enable a maiden drilling campaign at Badondo in the fourth quarter of 2011.

* *Exploration Target: The estimates of exploration target sizes mentioned in this report should not be misunderstood or misconstrued as estimates of Mineral Resources. The potential quantity and grade of the exploration targets are conceptual in nature and there has been insufficient exploration to define a Mineral Resource in accordance with the JORC Code (2004) guidelines. Furthermore, it is uncertain if further exploration will result in the determination of a Mineral Resource.*

BUSINESS STRATEGIES AND PROSPECTS

The Group currently has the following business strategies and prospects over the medium to long term:

- seek to advance the development of the Group's exploration assets in Africa; and
- continue to actively assess new business opportunities in the resources sector.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is the Board's current intention that the Consolidated Entity will focus on maximising the value of the Projects. Specifically, in the coming year the Company intends to:

- Continue its aggressive drilling campaign at Mayoko-Moussondji;
- Establish a resource base for Mayoko-Moussondji;
- Finalise rail and port engineering studies in relation to the development of transport infrastructure solutions for Mayoko-Moussondji;
- Progress agreements with the CFCO and PAPN in relation to the use of, and investment in, transport infrastructure in ROC;
- Commence with an Environmental and Social Impact Assessment ("ESIA") at Mayoko-Moussondji;
- Commence drilling at Badondo;
- Continue negotiations with regional exploration companies for the development of regional transport solutions servicing Badondo; and
- Further strengthening of the management team through the appointment of individuals to key positions within the Company.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity's operations are subject to various environmental laws and regulations under the relevant government's legislation. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve.

Instances of environmental non-compliance by an operation are identified either by external compliance audits or inspections by relevant government authorities.

There have been no significant known breaches by the Consolidated Entity during the financial year.

CORPORATE

On 31 August 2010, the Group acquired 100% of Congo Mining Ltd SARL ("CML"), which holds the rights to the Mayoko-Moussondji and Badondo Iron Ore Projects in the ROC. In part consideration for the acquisition of CML, the Company issued 5,700,000 Ordinary Shares to the vendors. Shareholder approval for this issue of vendor shares was obtained at a General Meeting held on 18 August 2010.

The Company completed several placements during the year, raising $72.1 million before costs. The placements were predominantly to European based institutions. At 30 June 2011, the current cash and cash equivalent holdings of the Group were $56,246,310 (2010: $591,428).

On 30 June 2011, the Company announced that it had acquired 19.9% of the Ordinary Share capital of African Iron Limited (ASX: AKI) ("African Iron") through the purchase of 95.4 million Ordinary Shares in AKI. The Company purchased 13.9 million shares on market for a total cash consideration of $3.4 million and 81.5 million shares off-market for consideration in the form of 11.4 million shares in Equatorial at the rate of one share in Equatorial for every 7.16 shares in African Iron. Shareholder approval for the acquisition and the issue of shares was obtained at a General Meeting held on 23 August 2011.

RESULTS OF OPERATIONS

The net loss of the Consolidated Entity for the year ended 30 June 2011 was $6,446,750 (2010: $1,072,178), including $2,370,937 (2010: $33,883) in non-cash share based payments. Specifically, this loss is largely attributable to:

(i) Exploration and evaluation expenses of $4,981,728 (2010: nil), which is attributable to the Group's accounting policy of expensing exploration and evaluation expenditure incurred by the Group subsequent to the acquisition of the rights to explore and up to the successful completion of definitive feasibility studies for each separate area of interest. Non-cash share based payments included in the exploration nd evaluation expenses are $733,064 (2010: Nil).

RESULTS OF OPERATIONS (Continued)

(ii) Corporate expenses of $3,869,486 (2010: $223,071), which includes $1,637,873 in expenses relating to non-cash share-based payments (2010: $33,883), expenses relating to the management of an ASX listed company and expenses relating to the Group's investor relations activities during the year; and

(iii) Administration expenses of $1,145,273 (2010: $447,792), which results from the costs required to support the Group's aggressive exploration and development of the Projects during the 2011 year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Consolidated Entity during the financial year were as follows:

(i) On 6 August 2010, Mr John Welborn was appointed as Managing Director and Chief Executive Officer of the Company. Mr Geoff Gander resigned as a Director of the Company on 8 July 2010;

(ii) On 31 August 2010, the Company changed its name to Equatorial Resources Limited. Shareholder approval for the name change was obtained at a General Meeting held on 18 August 2010;

(iii) On 31 August 2010, the Group completed the acquisition of 100% of Congo Mining Ltd SARL ("**CML**"), which holds 100% of the Mayoko-Moussondji and Badondo Iron Ore Projects in the ROC. In part consideration for the acquisition of CML, the Company issued 5,700,000 Ordinary Shares to the vendors. Shareholder approval for this issue of vendor shares was obtained at a General Meeting held on 18 August 2010;

(iv) On 31 August 2010, the Company completed a placement of 10,000,000 Ordinary Shares at $0.25 each to raise $2,500,000 before costs. Shareholder approval for the placement was obtained at a General Meeting held on 18 August 2010;

(v) On 6 September 2010, the Company issued the following incentive options to Directors, key employees and consultants of the Company:

- 2,500,000 Incentive Options exercisable at $0.25 each on or before 30 June 2012;
- 3,950,000 Incentive Options exercisable at $0.40 each on or before 30 June 2013; and
- 3,950,000 Incentive Options exercisable at $0.60 each on or before 31 December 2013.

Shareholder approval to grant the incentive options was obtained at a General Meeting held on 18 August 2010;

(vi) On 5 October 2010, the Company completed a placement of 9,780,000 Ordinary Shares to raise $8,019,600 before costs.

(vii) On 10 December 2010, the Company completed the first tranche of a placement of 14,200,000 Ordinary Shares to raise $25,560,000 before costs, consisting of 11,200,000 shares at an issue price of $1.80 per share.

(viii) On 25 January 2011, the Company completed the second tranche of a placement of 14,200,000 Ordinary Shares to raise $25,560,000 before costs, consisting of 3,000,000 shares at an issue price of $1.80 per share. Shareholder approval for the placement was obtained at a General Meeting held on 21 January 2011;

(ix) On 31 March 2011, the Company completed a placement of 12,000,000 Ordinary Shares at $3.00 each to raise $36,000,000 before costs. Shareholder approval for the placement was obtained at a General Meeting held on 23 August 2011; and

(x) On 30 June 2011, the Company announced that it has acquired 19.9% of the Ordinary Share capital of African Iron Limited (ASX: AKI) ("African Iron") through the purchase of 95.4 million Ordinary Shares in AKI. The Company purchased 13.9 million shares on market for a total cash consideration of $3.4 million and 81.5 million shares off-market for consideration in the form of 11.4 million shares in Equatorial at the rate of one share in Equatorial for every 7.16 shares in African Iron. Shareholder approval for the issue of 11.4 million shares in Equatorial was obtained at a General Meeting held on 23 August 2011.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

(i) At a General Meeting held on 23 August 2011, shareholders ratified the prior placement completed on 31 March 2011 of 12,000,000 Ordinary Shares at $3.00 each.

(ii) At a General Meeting held on 23 August 2011, the Company received shareholder approval to issue 11,380,631 shares at the rate of one share in the Company for every 7.16 shares in African Iron Limited as off-market consideration for the purchase of 81,500,000 shares in African Iron Limited. The shares were issued and alloted on 26 August 2011 at which date the closing bid price of AKI was $0.29 which equates to a transaction value of $23,635,000 before costs.

Other than as outlined above, at the date of this report, there are no matters or circumstances, which have arisen since 30 June 2011 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2011, of the Consolidated Entity;
- the results of those operations, in financial years subsequent to 30 June 2011, of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2011, of the Consolidated Entity.

DIRECTORS' INTERESTS

As at the date of this report, the Directors' interests in the securities of the Company are as follows:

	Interest in securities at the date of the report	
	Ordinary Shares [1]	Options [2]
Mr Ian Middlemas	5,210,000	-
Mr John Welborn	2,000,000	4,500,000
Mr Peter Woodman	100,000	1,000,000
Mr Mark Pearce	750,000	800,000

Notes:
[1] "Ordinary Shares" means fully paid Ordinary Shares in the capital of the Company.
[2] "Options" means an option to subscribe for one Ordinary Share in the capital of the Company.

SHARE OPTIONS

At the date of this report the following options have been issued over unissued Ordinary Shares of the Company:

- 100,000 options exercisable on or before 31 December 2012 at an exercise price of $2.835 each;
- 150,000 options exercisable on or before 30 July 2013 at an exercise price of $3.00 each;
- 200,000 options exercisable on or before 30 July 2013 at an exercise price of $2.00 each;
- 100,000 options exercisable on or before 30 July 2013 at an exercise price of $4.00 each;
- 2,300,000 options exercisable on or before 30 June 2012 at an exercise price of $0.25 each;
- 3,900,000 options exercisable on or before 30 June 2013 at an exercise price of $0.40 each;
- 3,900,000 options exercisable on or before 31 December 2013 at an exercise price of $0.60 each; and
- 586,800 options exercisable on or before 5 October 2012 at an exercise price of $0.82 each.

During the year ended 30 June 2011, 325,000 Ordinary Shares have been issued as a result of the exercise of 325,000 Unlisted Options.

Subsequent to year end and up until the date of this report, 150,000 Ordinary Shares have been issued as a result of the exercise of 150,000 Unlisted Options.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Constitution of the Company requires the Company, to the extent permitted by law, to indemnify any person who is or has been a director or officer of the Company or Group for any liability caused as such a director or officer and any legal costs incurred by a director or officer in defending an action for any liability caused as such a director or officer.

During or since the end of the financial year, no amounts have been paid by the Company or Group in relation to the above indemnities.

During the financial year, an annualised insurance premium of $23,220 was paid by the Group to insure against a liability incurred by a person who is or has been a director or officer of the Company or Group.

REMUNERATION REPORT (AUDITED)

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of Key Management Personnel ("**KMP**") of the Group.

Details of Key Management Personnel

Details of the KMP of the Group during or since the end of the financial year are set out below:

Current Directors
Mr Ian Middlemas
Mr John Welborn (appointed 6 August 2010)
Mr Peter Woodman
Mr Mark Pearce

Former Directors
Mr Geoff Gander (resigned 8 July 2010)

Executives
Mr Sean Halpin (appointed 28 February 2011) – *General Manager – Geology*
Mr Roger Staley (appointed 2 August 2010) – *Exploration Manager – Republic of Congo*
Mr Hugo Schumann (appointed 19 July 2010) – *Group Executive – Business Development*
Mr Jonathan Hericourt (appointed 28 February 2011) – *Country Manager – Republic of Congo*
Mr Brendon Morton (appointed 1 June 2011) – *Chief Financial Officer*
Mr Greg Swan – *Company Secretary*

Unless otherwise disclosed, the KMP held their position from 1 July until the date of this report.

Remuneration Policy

The Group's remuneration policy for its KMP has been developed by the Board taking into account the size of the Group, the size of the management team for the Group, the nature and stage of development of the Group's current operations, and market conditions and comparable salary levels for companies of a similar size and operating in similar sectors.

In addition to considering the above general factors, the Board has also placed emphasis on the following specific issues in determining the remuneration policy for KMP:

- the Group is currently focused on undertaking exploration, appraisal and development activities;
- risks associated with small cap resource companies whilst exploring and developing projects; and
- other than profit which may be generated from asset sales, the Company does not expect to be undertaking profitable operations until some time after the commencement of commercial production on any of its projects.

Executive Remuneration

The Group's remuneration policy is to provide a fixed remuneration component and a performance based component (short term incentive and long term incentive). The Board believes that this remuneration policy is appropriate given the considerations discussed in the section above and is appropriate in aligning executives' objectives with shareholder and business objectives.

REMUNERATION REPORT (Continued)

Fixed Remuneration
Fixed remuneration consists of base salaries, as well as employer contributions to superannuation funds and other non-cash benefits. Non-cash benefits may include provision of car parking and health care benefits.

Fixed remuneration is reviewed annually by the Board. The process consists of a review of company and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices.

Performance Based Remuneration – Short Term Incentive("STI")
Some executives are entitled to an annual cash bonus upon achieving various key performance indicators ("**KPI's**"), as set by the Board. Having regard to the current size, nature and opportunities of the Company, the Board has determined that these KPI's will include measures such as;

- Successful commencement of exploration activities (e.g. commencement of exploration programs within budgeted timeframes and costs);
- Establishment of government relationship (e.g. establish and maintain sound working relationships with government and officialdom);
- Development activities (e.g. completion of infrastructure studies and commercial agreements);
- Corporate activities (e.g. recruitment of key personnel and representation of the company at international conferences); and
- Business development activities (e.g. corporate transactions and capital raisings).

These measures were chosen as the Board believes these represent the key drivers in the short and medium term success of the projects development. On an annual basis, subsequent to year end, the board assesses performance against each individual executive's KPI criteria.

STI awards for 2011 and 2010 financial years;
In respect to the 2011 financial year, 100% of the STI cash bonuses totalling $230,000 (2010: nil) were awarded to executives, following the achievement of the executives' respective individual KPI's. These cash bonuses were awarded by the board and paid subsequent year end. No cash bonuses were forfeited during the 2011 year, and no further cash bonuses are outstanding in relation to the 2011 financial year.

Performance Based Remuneration – Long Term Incentive
The Board has chosen to issue Incentive Options (where appropriate) to some executives as a key component of the incentive portion of their remuneration, in order to attract and retain the services of the executives and to provide an incentive linked to the performance of the Company. The Board considers that each executives' experience in the resources industry will greatly assist the Company in progressing its projects to the next stage of development and the identification of new projects. As such, the Board believes that the number of Incentive Options granted to executives is commensurate to their value to the Company.

Incentive Options granted to executives will generally only be of benefit if the executives perform to the level whereby the value of the Company increases sufficiently to warrant exercising the Incentive Options granted.

Other than service-based vesting conditions, there are no additional performance criteria relating to the Incentive Options granted to executives. Given the speculative nature of the Company's activities and the small management team responsible for its running, the Company considers that the performance of the executives and the performance and value of the Company are closely related.

The Company prohibits executives entering into arrangements to limit their exposure to Incentive Options granted as part of their remuneration package.

REMUNERATION REPORT (Continued)

Non-Executive Director Remuneration

The Board's policy is for fees to Non-Executive Directors to be no greater than market rates for comparable companies for time, commitment and responsibilities. Given the current size, nature and risks of the Company, Incentive Options have been used to attract and retain Non-Executive Directors. The Board determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at a General Meeting. Director's fees paid to Non-Executive Directors accrue on a daily basis. Fees for Non-Executive Directors are not linked to the performance of the economic entity. However, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and given the current size, nature and opportunities of the Company, Non-Executive Directors may receive Incentive Options in order to secure and retain their services.

Fees for the Chairman were $36,000 per annum (excluding post-employment benefits) and fees for Non-Executive Directors' were set at a maximum of $15,000 per annum (excluding post-employment benefits). These fees cover main board activities only. Subsequent to the end of financial year, the board approved an increase in fees for the Chairman to $50,000 per annum and fees for Non-Executive directors were increased to $30,000 per annum. Non-Executive Directors may receive additional remuneration for other services provided to the Company, including but not limited to, membership of committees.

Other than service-based vesting conditions, there are no additional performance criteria relating to the Incentive Options granted to non-executive directors. Given the speculative nature of the Company's activities and the small management team responsible for its running, the Company considers that the performance of the executives and the performance and value of the Company are closely related.

The Company prohibits non-executive directors entering into arrangements to limit their exposure to Incentive Options granted as part of their remuneration package.

Relationship between Remuneration of KMP and Shareholder Wealth

During the Company's exploration and development phases of its business, the Board anticipates that the Company will retain earnings (if any) and other cash resources for the exploration and development of its resource projects. Accordingly the Company does not currently have a policy with respect to the payment of dividends and returns of capital. Therefore there was no relationship between the Board's policy for determining, or in relation to, the nature and amount of remuneration of KMP and dividends paid and returns of capital by the Company during the current and previous four financial years.

The Board did not determine, and in relation to, the nature and amount of remuneration of the KMP by reference to changes in the price at which shares in the Company traded between the beginning and end of the current and the previous four financial years. Discretionary annual cash bonuses are based upon achieving various non-financial key performance indicators as detailed under "Performance Based Remuneration – Short Term Incentive" and are not based on share price or earnings. However, as noted above, certain KMP have received Incentive Options which generally will be of greater value to KMP if the value of the Company's shares increases.

Relationship between Remuneration of KMP and Earnings

As discussed above, the Company is currently undertaking exploration and development activities, and does not expect to be undertaking profitable operations (other than by way of material asset sales, none of which is currently planned) until sometime after the successful commercialisation, production and sales of commodities from one or more of its projects. Accordingly the Board does not consider earnings during the current and previous four financial years when determining, and in relation to, the nature and amount of remuneration of KMP.

REMUNERATION REPORT (Continued)

Emoluments of Directors and Executives

Details of the nature and amount of each element of the emoluments of each Director and KMP of Equatorial Resources Limited are as follows:

2011	Short-term benefits Salary & fees $	Short-term benefits Cash Bonus $	Short-term benefits Other $	Post-employment benefits $	Share-based payments $	Total $	Percentage performance related %
Directors							
Mr Ian Middlemas	36,000	-	-	3,240	-	39,240	-
Mr John Welborn [1]	229,166	150,000	13,669	20,625	923,167	1,336,627	11.22
Mr Peter Woodman	15,000	-	100,000[8]	1,350	264,500	380,850	26.26
Mr Mark Pearce	15,000	-	-	1,350	211,500	227,850	-
Mr Geoff Gander [2]	3,750	-	-	338	-	4,088	-
Executives							
Mr Sean Halpin [3]	67,043	5,000	-	-	-	72,043	6.94
Mr Roger Staley [4]	201,666	-	9,140	18,150	135,726	364,682	-
Mr Hugo Schumann [5]	123,397	70,000	-	-	181,302	374,699	18.68
Mr Jonathan Hericourt [6]	64,146	-	-	-	-	64,146	-
Mr Brendon Morton [7]	14,166	5,000	1,568	1,275	-	22,009	22.72
Mr Greg Swan[9]	-	-	-	-	196,304	196,304	-
Total	**769,334**	**230,000**	**124,377**	**46,328**	**1,912,499**	**3,082,538**	

Notes:

1 Mr Welborn was appointed Director on 6 August 2010.
2 Mr Gander resigned as Director on 8 July 2010.
3 Mr Halpin was appointed 28 February 2011.
4 Mr Staley was appointed 2 August 2010.
5 Mr Schumann was appointed 19 July 2010.
6 Mr Hericourt was appointed 28 February 2011.
7 Mr Morton was appointed 1 June 2011.
8 Mr Woodman was granted a success fee of $100,000 by the board upon the completed acquisition of the two exploration projects.
9 Mr Swan provides services through a services agreement with Apollo Group Pty Ltd. Under the agreement, Apollo Group Pty Ltd provides administrative and accounting services and a fully serviced office to the Company for a monthly retainer of $19,000 ($21,500 from 1 July 2011). Apollo Group Pty Ltd is a company controlled by Mr Pearce.
10 During the financial year, an annualised insurance premium of $23,220 was paid by the Group to insure against a liability incurred by a person who is or has been a director or officer of the Company or Group. This has not been included in the table above.

2010	Short-term benefits Salary & fees $	Short-term benefits Other $	Post-employment benefits $	Share-based payments $	Total $	Percentage performance related %
Directors						
Mr Ian Middlemas [1]	24,000	-	2,160	-	26,160	-
Mr Peter Woodman [2]	3,750	-	338	-	4,088	-
Mr Mark Pearce [3]	10,000	-	900	-	10,900	-
Mr Geoff Gander	46,250	-	2,250	27,800	76,300	-
Mr Sol Majteles [4]	8,610	-	1,675	-	10,285	-
Mr Paul Sharbanee [5]	3,333	-	300	-	3,633	-
Mr Scott Mison [6]	22,250	-	2,002	6,083	30,335	-
Executives						
Mr Hugo Schumann [7]	-	39,146	-	-	39,146	-
Mr Greg Swan [8]	-	-	-	-	-	-
Total	**118,193**	**39,146**	**9,625**	**33,883**	**200,847**	**-**

REMUNERATION REPORT (Continued)

Emoluments of Directors and Executives (continued)

Notes:

1 Mr Middlemas was appointed Director on 5 November 2009.
2 Mr Woodman was appointed Director on 8 April 2010.
3 Mr Pearce was appointed Director 5 November 2009.
4 Mr Majteles resigned as Director 5 November 2009.
5 Mr Sharbanee resigned as Director 19 August 2009.
6 Mr Mison was appointed Director 19 August 2009; resigned as Director 5 November 2009.
7 Mr Schumann was appointed 19 July 2010. During the year ended 30 June 2010, Mr Schumann was paid a sign-on fee of £22,000 (A$39,146) to cover costs associated with commencing employment with the Company in accordance with his employment contract.
8 Mr Swan was appointed 26 May 2010 and provides services through a services agreement with Apollo Group Pty Ltd. Under the agreement, Apollo Group Pty Ltd provides administrative and accounting services and a fully serviced office to the Company for a monthly retainer of $17,000 ($19,000 from 1 July 2010). Apollo Group Pty Ltd is a company controlled by Mr Pearce.

Options Granted to Key Management Personnel

Details of Unlisted Options granted by the Company to each KMP of the Group during the financial year are as follows:

2011	Grant Date[4]	First Exercise Date[5]	Expiry Date	Exercise Price $	Grant Date Fair Value[1] $	Number Granted	Number Vested[6]
Directors							
Mr John Welborn	18 Aug 10	6 Feb 11	30 Jun 12	$0.25	$0.2650	1,000,000	1,000,000
Mr John Welborn	18 Aug 10	6 Aug 11	30 Jun 13	$0.40	$0.2640	1,500,000	1,500,000
Mr John Welborn	18 Aug 10	6 Feb 12	31 Dec 13	$0.60	$0.2530	2,000,000	-
Mr Peter Woodman[3]	18 Aug 10	6 Sep 10	30 Jun 12	$0.25	$0.2650	500,000	500,000
Mr Peter Woodman [3]	18 Aug 10	6 Sep 10	30 Jun 13	$0.40	$0.2640	500,000	500,000
Mr Mark Pearce [3]	18 Aug 10	6 Sep 10	30 Jun 12	$0.25	$0.2650	300,000	300,000
Mr Mark Pearce [3]	18 Aug 10	6 Sep 10	30 Jun 13	$0.40	$0.2640	500,000	500,000
Executives							
Mr Hugo Schumann	18 Aug 10	19 Jan 11	30 Jun 12	$0.25	$0.2650	100,000	100,000
Mr Hugo Schumann	18 Aug 10	19 Jul 11	30 Jun 13	$0.40	$0.2640	300,000	300,000
Mr Hugo Schumann	18 Aug 10	19 Jan 12	31 Dec 13	$0.60	$0.2530	500,000	-
Mr Roger Staley	18 Aug 10	2 Feb 11	30 Jun 12	$0.25	$0.2650	100,000	100,000
Mr Roger Staley	18 Aug 10	2 Aug 11	30 Jun 13	$0.40	$0.2640	200,000	200,000
Mr Roger Staley	18 Aug 10	2 Feb 12	31 Dec 13	$0.60	$0.2530	400,000	-
Mr Greg Swan [3]	6 Sep 10	26 Nov 10	30 Jun 12	$0.25	$0.3250	200,000	200,000
Mr Greg Swan [3]	6 Sep 10	26 May 11	30 Jun 13	$0.40	$0.3210	200,000	200,000
Mr Greg Swan [3]	6 Sep 10	26 Nov 12	31 Dec 13	$0.60	$0.3070	300,000	-

Notes:

1 For details on the valuation of the Unlisted Options, including models and assumptions used, please refer to Note 24 to the financial statements.
2 Each Unlisted Option converts into one Ordinary Share of Equatorial Resources Limited.
3 Options granted to Mr Woodman, Mr Pearce and Mr Swan were not granted as part of an employment contract.
4 Grant date refers to the deemed date that options were granted to the recipient in accordance with applicable accounting standards and taxation legislation. The Issue date refers to the date the company issued and allotted the options, and is 6 September 2010 for all KMP's.
5 First exercise date refers to the earliest permitted exercise date under the terms of the options.
6 Number vested refers to the number of options that have vested at the date of this report.

REMUNERATION REPORT (Continued)

Options Granted to Key Management Personnel (continued)

Details of the value of Unlisted Options granted, exercised or lapsed for each KMP of the Group during the financial year are as follows:

2011	Value of Options Granted during the Year[1] $	Value of Options exercised during the year $	Value of Options lapsed during the year $	Value of Options included in remuneration report for the year $	Remuneration for the year that consists of options %
Directors					
Mr John Welborn	1,167,000	-	-	923,167	69.07
Mr Peter Woodman	264,500	-	-	264,500	69.45
Mr Mark Pearce	211,500	-	-	211,500	92.82
Executives					
Mr Hugo Schumann	232,200	-	-	181,302	48.39
Mr Roger Staley	180,500	193,000[2]	-	135,726	37.22
Mr Greg Swan	221,300	-	-	196,304	100.00
Total	**2,277,000**	**193,000**	**-**	**1,912,499**	

Notes:

[1] For details on the valuation of the Unlisted Options, including models and assumptions used, please refer to Note 24 to the financial statements.

[2] 100,000 Options were exercised on the 27th May 2011, with $0.25 paid per share and nil unpaid per share. The value of options exercised is calculated using the closing bid price ($2.18) less the exercise price ($0.25) on that date.

Employment Contracts with Directors and KMP

Mr Welborn, Managing Director and Chief Executive Officer, has a contract with the Company for an initial fixed period of two years which commenced on 6 August 2010. Upon completion of the initial fixed period the contract has a rolling annual term. The Company must give notice to Mr Welborn not less than 3 months prior to the end of each annual term if it does not wish to renew his employment period for a further term of one year. After completion of the initial fixed period, if the Company gives notice to terminate the contract earlier than 3 months prior to the end of any annual period, Mr Welborn will be entitled to normal salary and other entitlements up to the end of that annual period provided that the amount does not to exceed 6 month's pay.

Mr Welborn currently receives a fixed remuneration component of $250,000 per annum and a discretionary annual bonus of up to $150,000 per annum to be paid upon Mr Welborn achieving key performance indicators, as agreed with the Board. Following shareholder approval at a General Meeting held on 18 August 2010, Mr Welborn was granted the following option package:

(a) 1,000,000 incentive options exercisable at A$0.25 each on or before 30 June 2012, vesting after 6 months of service;
(b) 1,500,000 incentive options exercisable at A$0.40 each on or before 30 June 2013, vesting after 12 months service; and
(c) 2,000,000 incentive options exercisable at A$0.60 each on or before 31 December 2013, vesting after 18 months service.

REMUNERATION REPORT (Continued)

Employment Contracts with Directors and KMP (Continued

Mr Schumann, Group Executive – Business Development, has a contract of employment with the Company dated 25 June 2010. The contract specifies the duties and obligations to be fulfilled by the Group Executive – Business Development. The contract may be terminated by the Company by giving 3 months notice. No amount is payable in the event of termination for gross negligence or incompetence in regard to the performance of duties. Mr Schumann receives a fixed remuneration component of $120,000 per annum and a discretionary annual bonus of up to $70,000 per annum to be paid upon Mr Schumann achieving key performance indicators, as agreed with by the Board. Following shareholder approval at a General Meeting held on 18 August 2010, Mr Schumann was granted the following option package in accordance with his employment contract:

(a) 100,000 incentive options exercisable at A$0.25 each on or before 30 June 2012, vesting after 6 months of service;
(b) 300,000 incentive options exercisable at A$0.40 each on or before 30 June 2013, vesting after 12 months service; and
(c) 500,000 incentive options exercisable at A$0.60 each on or before 31 December 2013, vesting after 18 months service.

Mr Staley, Country/Exploration Manager – Republic of Congo, has a contract of employment with the Company dated 29 June 2010. The contract specifies the duties and obligations to be fulfilled by the Country/Exploration Manager. The contract may be terminated by the Company by giving 3 months notice. No amount is payable in the event of termination for gross negligence or incompetence in regard to the performance of duties. Mr Staley receives a fixed remuneration component of $220,000 per annum. Following shareholder approval at a General Meeting held on 18 August 2010, Mr Staley was granted the following option package in accordance with his employment contract:

(a) 100,000 incentive options exercisable at A$0.25 each on or before 30 June 2012, vesting after 6 months of service;
(b) 200,000 incentive options exercisable at A$0.40 each on or before 30 June 2013, vesting after 12 months service; and
(c) 400,000 incentive options exercisable at A$0.60 each on or before 31 December 2013, vesting after 18 months service.

Mr Hericourt, Country Manger – Republic of Congo, has a contract of employment with the Company dated 24 January 2011. The contract specifies the duties and obligations to be fulfilled by the Country Manager – Republic of Congo. The contract has a rolling annual term and may be terminated by the Company by giving 3 months notice. No amount is payable in the event of termination for gross negligence or incompetence in regard to performance of duties. Mr Hericourt receives a fixed remuneration component of $200,000 per annum and a discretionary bonus of up to $100,000 per annum to be paid upon Mr Hericourt achieving key performance indicators, as agreed by the Board.

Mr Halpin, General Manger – Geology, has a contract of employment with the Company dated 28 February 2011. The contract specifies the duties and obligations to be fulfilled by the General Manager – Geology. The contract has a rolling annual term and may be terminated by the Company by giving 3 months notice. No amount is payable in the event of termination for negligence or incompetence in regard to performance of duties. Mr Halpin receives a fixed remuneration component of $225,000 per annum and a discretionary bonus of up to $50,000 per annum to be paid upon Mr Halpin achieving key performance indicators, as agreed by the Board.

Mr Morton, Chief Financial Officer, has a contract of employment with the Company dated 1 June 2011. The contract specifies the duties and obligations to be fulfilled by the Chief Financial Officer. The contract has a rolling annual term and may be terminated by the Company by giving 3 months notice. No amount is payable in the event of termination for gross negligence or incompetence in regard to performance of duties. Mr Morton receives a fixed remuneration component of $170,000 per annum and a discretionary bonus of up to $30,000 per annum to be paid upon Mr Morton achieving key performance indicators, as agreed by the Board.

End of Remuneration Report.

DIRECTORS' MEETINGS

The number of meetings of directors held during the year and the number of meetings attended by each director were as follows:

	Board Meetings	
	Number eligible to attend	Number attended
Mr Ian Middlemas	8	7
Mr John Welborn	7	7
Mr Peter Woodman	8	8
Mr Mark Pearce	8	8
Mr Geoff Gander	-	-

There were no Board committees during the financial year.

NON-AUDIT SERVICES

During the year, Ernst & Young (Republic of Congo), a related party of the Company's auditor, Ernst & Young (Australia), received or are due to receive approximately $16,836 for the provision of non-audit services consisting of tax compliance and advisory services provided to the Company's subsidiary, Congo Mining Limited SARL.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of the non-audit services provided (tax compliance and advisory services) means that auditor independence was not compromised.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 20 of the Directors' Report.

Signed in accordance with a resolution of the directors.

JOHN WELBORN
Managing Director

Perth, 29 September 2011

The information in this announcement that relates to Geophysical Exploration Results is based on information compiled by Mr Mathew Cooper who is a member of The Australian Institute of Geoscientists. Mr Cooper is Principal Geophysicist of Core Geophysics Pty Ltd who are consultants to Equatorial Resources Limited. Mr Cooper has sufficient experience which is relevant to the style of mineralization and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Cooper consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The information in this report that relates to Exploration Results, other than Geophysical Exploration Results, is based on information compiled by Mr Sean Halpin, who is a member of the Australian Institute of Geoscientists. Mr Halpin is a full time employee of Equatorial Resources Limited. Mr Halpin has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and to the activity, which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Halpin consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's Independence Declaration to the Directors of Equatorial Resources Limited

In relation to our audit of the financial report of Equatorial Resources Limited for the financial year ended 30 June 2011, 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

P McIver

P McIver
Partner
Perth
29 September 2011

PM:MBEQX:015

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2011

	Notes	2011 $	2010 $
Continuing operations			
Revenue	2(a)	**1,485,830**	54,186
Other income	2(b)	**3,648**	14,387
Exploration and evaluation expenses		**(4,981,728)**	-
Corporate expenses		**(3,869,486)**	(223,071)
Administrative expenses		**(1,145,273)**	(447,792)
Business development expenses		**(99,583)**	(477,364)
Finance costs	3(a)	**(10,141)**	(3,973)
Other expenses	3(d)	**(321,993)**	(7,783)
Loss before income tax		**(8,938,726)**	(1,091,410)
Income tax expense	4	**-**	-
Loss after tax from continuing operations		**(8,938,726)**	(1,091,410)
Profit after tax from discontinued operation	19	**2,491,976**	19,232
Loss for the year		**(6,446,750)**	(1,072,178)
Loss attributable to members of Equatorial Resources Limited		**(6,446,750)**	(1,072,178)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**104,197**	(63,293)
Exchange differences relating to discontinued operation taken to profit after tax from discontinued operation		**(1,463,555)**	-
Net fair value loss on available for sale financial assets		**(216,002)**	-
Net realised gain on available for sale financial assets transferred to other income		**-**	(11,700)
Other comprehensive loss for the year, net of tax		**(1,575,360)**	(74,993)
Total comprehensive loss for the year		**(8,022,110)**	(1,147,171)

	Notes	2011 $	2010 $
Loss for the period is attributable to:			
Members of the parent		**(6,446,750)**	(1,072,178)
		(6,446,750)	(1,072,178)
Total comprehensive loss for the period is attributable to:			
Members of the parent		**(8,022,110)**	(1,147,171)
		(8,022,110)	(1,147,171)
Earnings per share			
Continuing and Discontinued Operations:			
Basic loss per share (cents per share)	20	**(8.02)**	(3.20)
Diluted loss per share (cents per share)	20	**(8.02)**	(3.20)
Continuing Operations:			
Basic loss per share (cents per share)	20	**(11.11)**	(3.25)
Diluted loss per share (cents per share)	20	**(11.11)**	(3.25)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position
as at 30 June 2011

	Notes	2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	**56,246,310**	591,428
Trade and other receivables	7	**2,577,433**	24,526
Other assets	8	**87,244**	-
Total Current Assets		**58,910,987**	615,954
Non-current Assets			
Available-for-sale financial assets	9	**3,266,500**	-
Property, plant and equipment	10	**2,814,871**	2,715
Exploration and evaluation assets	11	**7,148,050**	-
Other assets	8	**-**	3,760,454
Total Non-current Assets		**13,229,421**	3,763,169
TOTAL ASSETS		**72,140,408**	4,379,123
LIABILITIES			
Current Liabilities			
Trade and other payables	12	**1,967,152**	790,046
Interest bearing loans	13	**-**	500,000
Provisions		**23,570**	-
Total Current Liabilities		**1,990,722**	1,290,046
Non-current Liabilities			
Other Liabilities		-	-
Total Non-current Liabilities		-	-
TOTAL LIABILITIES		**1,990,722**	1,290,046
NET ASSETS		**70,149,686**	3,089,077
EQUITY			
Contributed equity	14	**143,940,782**	72,856,513
Reserves	15	**4,923,145**	2,500,055
Accumulated losses	16	**(78,714,241)**	(72,267,491)
TOTAL EQUITY		**70,149,686**	3,089,077

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
for the year ended 30 June 2011

	Ordinary Shares	Investments Available-For-Sale Reserve	Option Premium Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total Equity
	$	$	$	$	$	$
Balance at 1 July 2010	**72,856,513**	**-**	**1,036,500**	**1,463,555**	**(72,267,491)**	**3,089,077**
Net loss for the year	**-**	**-**	**-**	**-**	**(6,446,750)**	**(6,446,750)**
Other comprehensive income:						
Exchange differences on translation of foreign operations	**-**	**-**	**-**	**104,197**	**-**	**104,197**
Exchange differences on discontinued operation taken to profit after tax from discontinued operation	**-**	**-**	**-**	**(1,463,555)**	**-**	**(1,463,555)**
Net unrealised loss on available-for-sale financial assets	**-**	**(216,002)**	**-**	**-**	**-**	**(216,002)**
Total comprehensive loss for the period	**-**	**(216,002)**	**-**	**(1,359,358)**	**(6,446,750)**	**(8,022,110)**
Transactions with owners recorded directly in equity						
Share placements	**72,079,600**	**-**	**-**	**-**	**-**	**72,079,600**
Share issue costs (Cash)	**(3,085,193)**	**-**	**-**	**-**	**-**	**(3,085,193)**
Share issue costs (Non-Cash)	**(1,737,013)**	**-**	**1,737,013**	**-**	**-**	**-**
Exercise of options	**438,875**	**-**	**(109,500)**	**-**	**-**	**329,375**
Share based payments	**3,388,000**	**-**	**2,370,937**	**-**	**-**	**5,758,937**
Balance at 30 June 2011	**143,940,782**	**(216,002)**	**5,034,950**	**104,197**	**(78,714,241)**	**70,149,686**
Balance at 1 July 2009	68,768,666	11,700	1,387,018	1,526,848	(71,579,714)	114,518
Net loss for the year	-	-	-	-	(1,072,178)	(1,072,178)
Other Comprehensive Income:						
Exchange differences on translation of foreign operations	-	-	-	(63,293)	-	(63,293)
Net realised gain on available for sale financial assets taken to other income	-	(11,700)	-	-	-	(11,700)
Total comprehensive loss for the period	-	(11,700)	-	(63,293)	(1,072,178)	(1,147,171)
Transactions with owners recorded directly in equity						
Rights issue	1,655,642	-	-	-	-	1,655,642
Share placements	2,600,000	-	-	-	-	2,600,000
Share issue costs	(167,795)	-	-	-	-	(167,795)
Transfer of expired option balance	-	-	(384,401)	-	384,401	-
Share based payments	-	-	33,883	-	-	33,883
Balance at 30 June 2010	72,856,513	-	1,036,500	1,463,555	(72,267,491)	3,089,077

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

	Notes	2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Management fees received		**-**	12,000
Payments to suppliers and employees and others		**(7,144,533)**	(961,053)
Interest paid		**(10,141)**	(2,719)
Interest received		**931,839**	42,185
NET CASH FLOWS USED IN OPERATING ACTIVITIES	17(a)	**(6,222,835)**	(909,587)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration and evaluation assets	18	**(471,505)**	-
Payments for property, plant and equipment		**(4,044,192)**	-
Net cash inflow on disposal of discontinued operation	19	**1,028,421**	-
Payments for prepaid acquisition costs	18	**-**	(3,288,949)
Proceeds from sale of property, plant and equipment		**20,812**	3,323
Payments for available-for-sale financial assets		**(3,382,502)**	-
Proceeds from sale of available-for-sale financial assets		**-**	18,800
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(6,848,966)**	(3,266,826)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**72,408,975**	2,600,000
Proceeds from rights issue		**-**	1,655,642
Payments for share issue costs		**(3,097,432)**	(149,460)
Proceeds from borrowings		**100,000**	500,000
Repayment of borrowings		**(600,000)**	(21,303)
Repayments to related party		**-**	(159,457)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**68,811,543**	4,425,422
Net increase/(decrease) in cash and cash equivalents		**55,739,742**	249,009
Net foreign exchange differences		**(84,860)**	26,639
Cash and cash equivalents at beginning of period		**591,428**	315,780
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6	**56,246,310**	591,428

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in preparing the financial report of Equatorial Resources Limited ("Equatorial" or "Company") and its consolidated entities ("Consolidated Entity" or "Group") for the year ended 30 June 2011 are stated to assist in a general understanding of the financial report.

Equatorial is a Company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

The financial report of the Group for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 28 September 2011.

(a) Basis of Preparation

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

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 Australian dollars.

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

(b) Statement of Compliance

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

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes to follow.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2011. These are outlined in the table overleaf:

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
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. (a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013
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	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
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	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2011
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	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2011
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2011

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
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 Public sector entities other than the Australian Government and State, Territory and Local Governments	1 July 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013
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	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2011
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]	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	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AABS 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and Interpretation 112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.	1 January 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013
AASB 11	Joint Arrangements	AASB 11 replaces AASB 131 Interests in Joint Ventures and Interpretation 113 Jointly-controlled Entities – Non-monetary Contributions by Ventures. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	1 January 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013
AASB 2011-7	Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards	Consequential amendments to AASB 127 Separate Financial Statements and AASB 128 Investments in Associates as a result of the adoption of AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements and AASB 12 Disclosure of Interests in Other Entities.	1 January 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 13	Fair Value Measurement	AASB 13 establishes a single source of guidance under Australian Accounting Standards for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under Australian Accounting Standards when fair value is required or permitted by Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.	1 January 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013
AASB 2011-8	Amendments to Australian Accounting Standards arising from the Fair Value Measurement Standard	Consequential amendments to existing Australian Accounting Standards as a result of the adoption of AASB 13 Fair Value Measurement.	1 January 2013	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2013
AASB 2011-9	Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	The main change resulting from the amendments relates to the 'Statement of Profit or Loss and Other Comprehensive Income' and the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not remove the option to present profit or loss and other comprehensive income in two statements. The amendments do not change the option to present items of OCI either before tax or net of tax. However, if the items are presented before tax then the tax related to each of the two groups of OCI items (those that might be reclassified to profit or loss and those that will not be reclassified) must be shown separately.	1 July 2012	These amendments are not expected to have any significant impact on the Group's financial report.	1 July 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2011 and the results of all subsidiaries for the year then ended.

Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.
Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. Intercompany transactions and balances, income and expenses and profits and losses between Group companies, are eliminated.

(d) Foreign Currencies

(i) Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income.

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

(iii) Group companies

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

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Trade and Other Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due and are interest free.

(g) Investments and Other Financial Assets

(i) Classification

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value though profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than twelve months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

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 other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the reporting date.

(ii) Recognition and derecognition

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

(iii) Subsequent measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity in the investments available for sale reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously reported in equity are included in the statement of comprehensive income as gains and losses on disposal of investment securities.

(iv) Impairment

The Group assesses at each balance 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 in determining whether the security is 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 and loss – is transferred from equity to the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as held for sale are not reversed through the statement of comprehensive income.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, Plant and Equipment

(i) Cost and valuation

All classes of property, plant and equipment are measured at historical cost.

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

(ii) Depreciation and Amortisation

Depreciation is provided on a straight line basis on all property, plant and equipment.

	2011	2010
Major depreciation and amortisation periods are:		
Leasehold Land:	Life of mine	-
Buildings:	5 – 20 years	-
Plant and equipment:	2 -10 years	5 years
Work in Progress:	-	-

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

(iii) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(i) Exploration and Development Expenditure

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method and with AASB 6 *Exploration for and Evaluation of Mineral Resources*.

Exploration and evaluation expenditure encompasses expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

For each area of interest, expenditure incurred in the acquisition of rights to explore is capitalised, classified as tangible or intangible, and recognised as an exploration and evaluation asset. Exploration and evaluation assets are measured at cost at recognition and are recorded as an asset if:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

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

Exploration and evaluation expenditure incurred by the Group subsequent to acquisition of the rights to explore is expensed as incurred, up to costs associated with the preparation of a feasibility study.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Exploration and Development Expenditure (continued)

Capitalised exploration costs are reviewed each reporting date to establish whether an indication of impairment exists. If any such indication exists, the recoverable amount of the capitalised exploration costs is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision is made to proceed with development, accumulated expenditure is tested for impairment and transferred to development properties, and then amortised over the life of the reserves associated with the area of interest once mining operations have commenced.

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

(j) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received. Trade accounts payable are normally settled within 60 days.

(k) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Revenue Recognition

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

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

(m) Income Tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction 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 a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose on goodwill or 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 liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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.

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

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

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Income Tax (continued)

Tax consolidation

Equatorial Resources Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the Company. The current tax liability of each group entity is then subsequently assumed by the Company. The tax consolidated group has entered a tax sharing agreement whereby each company in the Group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(n) Employee Entitlements

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within 12 months have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than 12 months have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(o) Earnings per Share

Basic earnings per share (“EPS”) is calculated by dividing the net profit attributable to members of the Company for the reporting period, after excluding any costs of servicing equity, by the weighted average number of Ordinary Shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential Ordinary Shares and the effect on revenues and expenses of conversion to Ordinary Shares associated with dilutive potential Ordinary Shares, by the weighted average number of Ordinary Shares and dilutive Ordinary Shares adjusted for any bonus issue.

(p) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

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

(q) 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 maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the 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 for “all other segments”.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Business Combinations

Acquisitions of subsidiaries that are regarded as carrying on a business are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively*;*

- liabilities or equity instruments related to the replacement by the Group of an acquiree's sharebased payment awards are measured in accordance with AASB 2 *Share-based Payment*; and

- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(s) Acquisition of Assets

A group of assets may be acquired in a transaction which is not a business combination. In such cases the cost of the group is allocated to the individual identifiable assets (including intangible assets that meet the definition of and recognition criteria for intangible assets in AASB 138) acquired and liabilities assumed on the basis of their relative fair values at the date of purchase.

(t) Discontinued Operations

A discontinued operation is a component of the entity that has been disposed or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

The results of discontinued operations are presented separately on the face of the statement of comprehensive income and the assets and liabilities are presented separately on the face of the statement of financial position.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(v) Fair Value Estimation

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

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(w) Issued and Unissued Capital

Ordinary Shares and Performance Shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

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.

(x) Share-Based Payments

Equity-settled share-based payments are provided to officers, employees, consultants and other advisors. These share-based payments are measured at the fair value of the equity instrument at the grant date. Fair value is determined using the Binomial option pricing model. Further details on how the fair value of equity-settled share based payments has been determined can be found in Note 24.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each reporting date, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the option premium reserve.

Equity-settled share-based payments may also be provided as consideration for the acquisition of assets. Where Ordinary Shares are issued, the transaction is recorded at fair value based on the quoted price of the Ordinary Shares at the date of issue. The acquisition is then recorded as an asset or expensed in accordance with accounting standards.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Use and Revision of Accounting Estimates, Judgements and Assumptions

The preparation of the financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Impairment of assets (Note 10 and Note 11); and
- Share-Based Payments (Note 24).

2. REVENUE AND OTHER INCOME

	Note	2011 $	2010 $
(a) Revenue			
Management fees		**-**	12,000
Interest income		**1,485,830**	42,186
		1,485,830	54,186
(b) Other Income			
Net gain on sale of property, plant and equipment		**3,648**	-
Net gain on sale of available for sale financial assets		**-**	11,727
Other income		**-**	2,660
		3,648	14,387

3. EXPENSES

	Note	2011 $	2010 $
(a) Finance costs			
Interest expense		**10,141**	3,973
(b) Depreciation and amortisation included in statement of comprehensive income			
Depreciation of plant and equipment		**120,156**	9,913
(c) Employee benefits expense			
Wages and salaries		**1,764,980**	84,693
Superannuation costs		**48,581**	9,625
Share-based payments expense		**2,370,937**	33,883
Other		**51,595**	39,202
		4,236,093	167,403
(d) Other expenses			
Impairment of plant and equipment		**18,237**	-
Impairment of refundable deposits		**51,494**	-
Net realised foreign exchange losses		**83,002**	7,783
Withholding tax expense		**169,260**	-
		321,993	7,783

4. INCOME TAX

	Note	2011 $	2010 $
(a) Recognised in the statement of comprehensive income			
Current income tax			
Current income tax benefit in respect of the current year		**260,474**	(313,606)
Adjustments in respect of current income tax of previous years		**169,399**	4,437,778
Deferred income tax			
Relating to origination and reversal of temporary differences		**106,742**	2,118
Benefit arising from previously unrecognised temporary differences of a prior period		**(263,224)**	(4,126,290)
Deferred tax assets not brought to account		**(273,391)**	-
Income tax reported in the statement of comprehensive income		**-**	-
(b) Reconciliation between tax expense and accounting profit/(loss) before income tax			
Accounting loss before income tax		**(6,446,750)**	(1,072,178)
At the domestic income tax rate of 30% (2010: 30%)		**(1,934,025)**	(321,653)
Foreign Expenditure not brought into account		**2,270,733**	-
Effect of tax rate in foreign jurisdictions		**(273,391)**	-
Income not assessable for income tax purposes		**(465,808)**	-
Expenditure not allowable for income tax purposes		**769,707**	10,165
Adjustments in respect of current income tax of previous years		**169,399**	4,438,844
Previously unrecognised temporary differences of a prior period		**(263,224)**	(4,127,356)
Deferred tax assets not brought to account		**(273,391)**	-
Income tax expense attributable to profit/(loss)		**-**	-
(c) Deferred Tax Assets and Liabilities			
Deferred income tax at 30 June relates to the following:			
Deferred Tax Assets			
Accrued expenditure		**84,803**	20,400
Available-For-Sale Financial Assets		**-**	-
Capital allowances		**11,070**	24,588
Provisions		**7,071**	-
Tax losses available to offset against future taxable income		**1,584,333**	1,739,315
DTA used to offset DTL		**(166,197)**	-
Deferred tax assets not brought to account		**(1,521,080)**	(1,784,303)
		-	-
Deferred Tax Liabilities			
Accrued interest		**166,197**	-
DTA used to offset DTL		**(166,197)**	-
		-	-

4. INCOME TAX (continued)

The benefit of deferred tax assets not brought to account will only be brought to account if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the Group in realising the benefit.

(d) Tax Consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Equatorial Resources Limited.

5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

No dividends have been paid or proposed for the year ended 30 June 2011 (2010: Nil).

	Note	2011 $	2010 $
(a) Franking Credit Balance			
Franking credits available to shareholders of Equatorial Resources Limited for subsequent financial years		**-**	-

6. CASH AND CASH EQUIVALENTS

	Note	2011 $	2010 $
Cash on Hand		**14,167,012**	591,428
Deposits at Call		**42,079,298**	-
		56,246,310	591,428

7. TRADE AND OTHER RECEIVABLES

	Note	2011 $	2010 $
Deposits on Plant and Equipment		**1,017,963**	-
Accrued Interest		**553,990**	-
GST receivable		**377,868**	24,526
		1,909,821	24,526
Refundable deposits		**679,106**	-
Impairment allowance		**(51,494)**	-
		627,612	-
Trade and Other Receivables		**2,577,433**	24,526

7. TRADE AND OTHER RECEIVABLES (continued)

(a) Reconciliation of impairment allowance:

	Note	2011 $	2010 $
At 1 July		-	(9,781,678)
Impairment provided for during the year		**(51,494)**	-
Foreign exchange movement		-	731,304
Impairment on discontinued operation	19(c)	-	9,050,374
At 30 June		**(51,494)**	-

8. OTHER ASSETS

	Note	2011 $	2010 $
Current;			
Prepayments		**87,244**	-
		87,244	-
Non- Current;			
Prepaid acquisition costs[1]		-	3,760,454
		-	3,760,454

Notes:

[1] These costs relate to part consideration of US$3,200,000 to acquire Congo Mining Limited SARL ("CML"). The acquisition of CML was not completed until after year end on 31 August 2010.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS (NON-CURRENT)

	Note	2011 $	2010 $
At fair value:			
Shares – Australian listed	9(a)	**3,266,500**	-
		3,266,500	-

(a) Listed Shares

Investment relates to 13,900,000 shares in African Iron Limited (ASX: AKI).

The fair value of listed available for sale investments has been determined directly by reference to published quotations in an active market.

Subsequent to year end the Company received shareholder approval to issue 11.4 million shares at the rate of one share in the Company for every 7.16 shares in African Iron Limited as off-market consideration for the purchase of a further 81.5 million shares in African Iron Limited.

10. PROPERTY, PLANT AND EQUIPMENT

	Note	2011 $	2010 $
(a) Leasehold Land			
At cost		**63,136**	-
(b) Buildings			
At cost		**98,050**	-
Accumulated Depreciation and impairment		**(5,820)**	-
Net carrying amount		**92,230**	-
(c) Plant and Equipment			
At cost		**1,981,497**	47,701
Accumulated depreciation and impairment		**(116,262)**	(44,986)
Net carrying amount		**1,865,235**	2,715
(d) Work in Progress			
At cost		**794,270**	-
Total Property, Plant and Equipment		**2,814,871**	2,715

(e) Reconciliation of Property, Plant and Equipment:

	Leasehold Land $	Buildings $	Plant & Equipment $	Work in Progress $	Total $
2011					
Carry amount at beginning	**-**	**-**	**2,715**	**-**	**2,715**
Additions	**63,136**	**98,050**	**2,009,913**	**794,270**	**2,965,369**
Disposals	**-**	**-**	**(16,837)**	**-**	**(16,837)**
Depreciation	**-**	**(5,934)**	**(114,222)**	**-**	**(120,156)**
Impairment	**-**	**-**	**(18,237)**	**-**	**(18,237)**
Foreign Exchange Movement	**-**	**114**	**1,903**	**-**	**2,017**
Carrying amount at 30 June 2011 net of accumulated depreciation and impairment	**63,136**	**92,230**	**1,865,235**	**794,270**	**2,814,871**
2010					
Carry amount at beginning	-	-	44,854	-	44,854
Additions	-	-	-	-	-
Disposals	-	-	(3,345)	-	(3,345)
Depreciation	-	-	(9,913)	-	(9,913)
Impairment	-	-	(25,933)	-	(25,933)
Foreign Exchange Movement	-	-	(2,948)	-	(2,948)
Carrying amount at 30 June 2010 net of accumulated depreciation and impairment	-	-	2,715	-	2,715

Notes:
[1] No impairment indicators have been identified for each class of Property, Plant and Equipment as at 30 June 2011.

11. EXPLORATION AND EVALUATION ASSETS

	Note	2011 $	2010 $
(a) Areas of Interest			
Mayoko-Moussondji Iron Project		**5,003,635**	-
Badondo Iron Project		**2,144.415**	-
Carrying amount at end of year [1]		**7,148,050**	-
(b) Reconciliation			
Carrying amount at beginning		**-**	-
Additions	18	**7,148,454**	-
Foreign exchange movement [2]		**(404)**	-
Carrying amount at end of year [1]		**7,148,050**	-

Notes:

[1] The ultimate recoupment of costs carried for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas. The carrying values above are based upon the Groups assumption that the exploration licenses will be renewed when required, subject to the company meeting its agreed budgets and work programs. No impairment indicators have been identified by management and the exploration program continues on each area of interest.

[2] Foreign exchange movement results from translation from functional currency to presentation currency at reporting date.

12. TRADE AND OTHER PAYABLES

	Note	2011 $	2010 $
Trade creditors		**789,908**	722,046
Accrued expenses		**1,116,822**	68,000
Other payables		**60,422**	-
		1,967,152	790,046

13. INTEREST BEARING LOANS

	Note	2011 $	2010 $
Interest bearing loan[1]		-	500,000
		-	500,000

Notes:

[1] This unsecured loan had an interest rate of 10% and was fully repaid during the year.

14. CONTRIBUTED EQUITY

	Note	2011 $	2010 $
(a) Issued and Unissued Capital			
101,517,922 (2010: 49,512,922) fully paid Ordinary Shares		**143,060,782**	72,856,513
2,000,000 (2010: nil) unissued milestone shares[1]	18	**880,000**	-
		143,940,782	72,856,513

Notes:

[1] As part consideration for the acquisition of Congo Mining Limited SARL, the Company agreed to issue 2,000,000 Ordinary Shares to the vendors no later than 45 days after Equatorial Resources Ltd makes an announcement to the ASX of the discovery of a 100Mt Mineral Resource. Refer to Note 18 for further details.

(b) Movements in Ordinary Shares During the Past Two Years Were as Follows:

Date	Details	Note	Number of Ordinary Shares	$
01-Jul-10	**Opening balance**		**49,512,922**	**72,856,513**
31-Aug-10	Share placement		10,000,000	2,500,000
31-Aug-10	Vendor shares	18	5,700,000	2,508,000
5-Oct-10	Share placement		9,780,000	8,019,600
10-Dec-10	Share placement		11,200,000	20,160,000
25-Jan-11	Share placement		3,000,000	5,400,000
31-Mar-11	Share placement		11,000,000	33,000,000
4-Apr-11	Share placement		1,000,000	3,000,000
	Exercise of options		325,000	329,375
	Transfers from share based payment reserve		-	109,500
	Share issue expenses		-	(4,822,206)
30-Jun-11	**Closing Balance**		**101,517,922**	**143,060,782**
01-Jul-09	Opening balance		165,564,170	68,768,666
26-Oct-09	Rights issue		165,564,171	1,655,642
22-Dec-09	Share placement		100,000,000	1,000,000
11-May-10	1 for 10 share consolidation		(388,015,419)	-
02-Jun-10	Share placement		6,400,000	1,600,000
	Share issue expenses		-	(167,795)
30-Jun-10	Closing balance		49,512,922	72,856,513

(c) Rights Attaching to Ordinary Shares:

The rights attaching to fully paid Ordinary Shares ("**Ordinary Shares**") arise from a combination of the Company's Constitution, statute and general law.

14. CONTRIBUTED EQUITY (continued)

Ordinary Shares issued following the exercise of Options in accordance with Note 17(c) will rank equally in all respects with the Company's existing Ordinary Shares.

Copies of the Company's Constitution are available for inspection during business hours at the Company's registered office. The clauses of the Constitution contain the internal rules of the Company and define matters such as the rights, duties and powers of its shareholders and directors, including provisions to the following effect (when read in conjunction with the Corporations Act 2001 or Listing Rules).

(i) Shares

The issue of shares in the capital of the Company and options over unissued shares by the Company is under the control of the directors, subject to the Corporations Act 2001, ASX Listing Rules and any rights attached to any special class of shares.

(ii) Meetings of Members

Directors may call a meeting of members whenever they think fit. Members may call a meeting as provided by the Corporations Act 2001. The Constitution contains provisions prescribing the content requirements of notices of meetings of members and all members are entitled to a notice of meeting. A meeting may be held in two or more places linked together by audio-visual communication devices. A quorum for a meeting of members is 2 shareholders.

The Company holds annual general meetings in accordance with the Corporations Act 2001 and the Listing Rules.

(iii) Voting

Subject to any rights or restrictions at the time being attached to any shares or class of shares of the Company, each member of the Company is entitled to receive notice of, attend and vote at a general meeting. Resolutions of members will be decided by a show of hands unless a poll is demanded. On a show of hands each eligible voter present has one vote. However, where a person present at a general meeting represents personally or by proxy, attorney or representative more than one member, on a show of hands the person is entitled to one vote only despite the number of members the person represents.

On a poll each eligible member has one vote for each fully paid share held and a fraction of a vote for each partly paid share determined by the amount paid up on that share.

(iv) Changes to the Constitution

The Company's Constitution can only be amended by a special resolution passed by at least three quarters of the members present and voting at a general meeting of the Company. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

(v) Listing Rules

Provided the Company remains admitted to the Official List, then despite anything in its Constitution, no act may be done that is prohibited by the Listing Rules, and authority is given for acts required to be done by the Listing Rules. The Company's Constitution will be deemed to comply with the Listing Rules as amended from time to time.

15. RESERVES

	Note	2011 $	2010 $
Share based payments reserve	15(b)	**5,034,950**	1,036,500
Investments available-for-sale reserve	15(d)	**(216,002)**	-
Foreign currency translation reserve	15(e)	**104,197**	1,463,555
		4,923,145	2,500,055

(a) Nature and Purpose of Reserves

(i) Foreign Currency Translation Reserve

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in Note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Investments Available-For-Sale Reserve

Changes in the fair value and exchange differences arising on translation of investments classified as available-for-sale financial assets are taken to the investments available for sale reserve as described in Note 1(g). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

(iii) Share based payments reserve
The share based payments reserve is used to record the fair value of options issued by the Group.

(b) Movements in share based payments reserve during the past two years were as follows:

Date	Details	Number of Incentive Options	$
01-Jul-10	**Opening Balance**	725,000	1,036,500
06-Sep-10	Grant of $0.25 incentive options	2,500,000	-
06-Sep-10	Grant of $0.40 incentive options	3,950,000	-
06-Sep-10	Grant of $0.60 incentive options	3,950,000	-
25-Jan-11	Share issue expenses paid in options	586,800	1,737,013
	Exercise of options	(325,000)	(109,500)
	Share based payment expense		2,370,937
30-Jun-11	**Closing Balance**	**11,386,800**	**5,034,950**
01-Jul-09	Opening Balance	7,250,000	1,387,018
11-May-10	1 for 10 share consolidation	(6,525,000)	-
	Expired vested option balance transferred to accumulated losses	-	(384,401)
	Share based payment expense	-	33,883
30-Jun-10	Closing Balance	725,000	1,036,500

15. RESERVES (Continued)

(c) Terms and Conditions of Options

The Incentive Options are granted based upon the following terms and conditions:

- Each Incentive Option entitles the holder to subscribe for one Ordinary Share upon exercise of each incentive Option;
- The Incentive Options have the following exercise prices and expiry dates:
  - 100,000 options exercisable on or before 31 December 2012 at an exercise price of $2.835 each;
  - 150,000 options exercisable on or before 30 July 2013 at an exercise price of $3.00 each;
  - 200,000 options exercisable on or before 30 July 2013 at an exercise price of $2.00 each;
  - 100,000 options exercisable on or before 30 July 2013 at an exercise price of $4.00 each;
  - 2,400,000 options exercisable on or before 30 June 2012 at an exercise price of $0.25 each;
  - 3,900,000 options exercisable on or before 30 June 2013 at an exercise price of $0.40 each;
  - 3,900,000 options exercisable on or before 31 December 2013 at an exercise price of $0.60; and
  - 586,800 options exercisable on or before 5 October 2012 at an exercise price of $0.82 each.
- Subject to any vesting conditions, the Incentive Options are exercisable at any time prior to the Expiry Date;
- Ordinary Shares issued on exercise of the Incentive Options rank equally with the then Ordinary Shares of the Company;
- Application will be made by the Company to ASX for official quotation of the Ordinary Shares issued upon the exercise of the Incentive Options;
- If there is any reconstruction of the issued share capital of the Company, the rights of the Optionholders may be varied to comply with the ASX Listing Rules which apply to the reconstruction at the time of the reconstruction; and
- No application for quotation of the Incentive Options will be made by the Company.

(d) Movements in Investments Available-for-Sale Reserve During the Past Two Years Were as Follows:

	Note	2011 $	2010 $
Investments Available-for-Sale Reserve			
Balance at 1 July		**-**	11,700
Net fair value movement		**(216,002)**	-
Reclassification adjustment on sale of investment		**-**	(11,700)
Balance at 30 June		**(216,002)**	-

(e) Movements in Foreign Currency Translation Reserve During the Past Two Years Were as Follows:

	Note	2011 $	2010 $
Foreign Currency Translation Reserve			
Balance at 1 July		**1,463,555**	1,526,848
Exchange differences		**104,197**	(63,293)
Transfer on deconsolidation of entity		**(1,463,555)**	-
Balance at 30 June		**104,197**	1,463,555

16. ACCUMULATED LOSSES

	Note	2011 $	2010 $
Balance at 1 July		**(72,267,491)**	(71,579,714)
Transfer of option premium reserve for expired vested options		**-**	384,401
Net profit/(loss) for the year		**(6,446,750)**	(1,072,178)
Balance at 30 June		**(78,714,241)**	(72,267,491)

17. CASH FLOW STATEMENT

(a) Reconciliation of the Net Loss after Tax to the Net Cash Flows from Operations

	Note	2011 $	2010 $
Loss for the year attributable to members of the parent		**(6,446,750)**	(1,072,178)
Adjustment for non-cash income and expense items			
Depreciation and amortisation		**120,516**	9,913
Provision for employee entitlements		**23,570**	-
Share based payment expense		**2,370,937**	33,883
Impairment of plant and equipment		**18,237**	25,933
Impairment of refundable deposit		**51,494**	-
Net gain on disposal of non-current assets		**(3,647)**	(11,727)
Gain on deconsolidation of controlled entity		**(2,491,976)**	(10,677)
Net foreign exchange loss/(gain)		**246,992**	(72,767)
Change in operating assets and liabilities			
(Increase)/decrease in trade and other receivables and prepayments		**(1,672,697)**	(9,596)
Increase/(decrease) in operating trade and other payables		**1,560,850**	197,629
Net cash outflow from operating activities		**(6,222,835)**	(909,587)
(b) Reconciliation of Cash			
Cash at bank and on hand		**56,246,310**	591,428
		56,246,310	591,428

(c) Non-cash Financing and Investing Activities

	Note	2011 $	2010 $
Non-cash financing and investing activities;			
Settlement of asset acquisition with shares	**18**	**3,388,000**	-
Settlement of share issue costs for placement with shares	**15(b)**	**1,737,013**	-

18. ACQUISITION OF EXPLORATION AND EVALUATION ASSETS

On 31 August 2010, Equatorial acquired 100% of Congo Mining Limited SARL ("**CML**"). The only assets of CML at the time of the acquisition were two highly prospective exploration licences located in Congo-Brazzaville. Accordingly, the transaction was treated as an asset acquisition. The total cost of the acquisition was $7,148,454 and comprised an issue of equity instruments and cash as follows:

(i) US$3,200,000 (A$3,760,454) cash;

(ii) 5,700,000 vendor shares with a fair value of $2,508,000, based on the quoted price of the Ordinary Shares of Equatorial at the acquisition date; and

(iii) 2,000,000 milestone shares to be issued not later than 45 days after Equatorial makes an announcement to the ASX of the discovery of a 100Mt Mineral Resource ("**100Mt Resource Milestone**"), with a fair value of $880,000, based on the quoted price of the Ordinary Shares of Equatorial at the acquisition date.

	Note	Fair values on acquisition $
Exploration and evaluation assets		**7,148,454**
Net assets acquired		**7,148,454**
Costs of the acquisition:		
US$3,200,000 cash		**3,760,454**
5,700,000 Ordinary Shares	14	**2,508,000**
2,000,000 milestone shares[1]	14	**880,000**
Total cost of the acquisition		**7,148,454**
Net cash outflow on acquisition:		
Cash paid during year ended 30 June 2010		**(3,288,949)**
Cash paid during year ended 30 June 2011		**(471,505)**
Net cash outflow		**(3,760,454)**

Notes:

[1] The acquisition date fair value of the milestone shares has been determined to be $880,000, as management believe that it is probable that the 100Mt Resource Milestone will be satisfied, based on the Company's previously announced Exploration Target (refer ASX release dated 30 November 2010). As such the quoted price of the Ordinary Shares of Equatorial at the acquisition date has been applied to 100% of the milestone shares.

19. DISCONTINUED OPERATION

During the year, the Company completed a settlement agreement with PT. Mega Coal Indomine ("**Mega Coal**") regarding historical disputes relating to coal assets previously held by the Company in Indonesia.

The Company received US$1,000,000 from Mega Coal as a settlement payment, which represents a payment, net of all collection fees and charges, in full and final settlement of all disputes in relation to the Company's historical Indonesian operations.

Equatorial has executed a settlement agreement with Mega Coal accepting this payment as full and final settlement of all disputes between the Company and Mega Coal in relation to Equatorial's historical operations in Indonesia. The Company now intends, as soon as practicably possible, to liquidate the relevant subsidiary companies.

(a) Results of discontinued operation;

	Note	2011 $	2010 $
Results of discontinued operation			
Other income		**1,028,500**	91,227
Expenses		**-**	(71,995)
Results from operating activities		**1,028,500**	19,232
Income tax expense		**-**	-
Results after tax from operating activities		**1,028,500**	19,232
Profit on disposal of discontinued operation	19(b)	**1,463,476**	-
Profit/(loss) after tax from discontinued operation		**2,491,976**	19,232

(b) Profit and cash inflow on disposal of discontinued operation;

	30 June 2011 $
Profit on disposal of discontinued operation	
Consideration received:	
Settlement proceeds received in cash	**1,028,500**
Total value of consideration received on disposal	**1,028,500**
Net assets relinquished:	
Cash and cash equivalents	**79**
Refundable deposits	**-**
Total value of assets relinquished	**79**
Foreign currency translation reserve taken to statement of comprehensive income	**(1,463,555)**
Profit on disposal of discontinued operation	**1,463,476**
Net cash flow on disposal of discontinued operation	
Settlement proceeds received in cash	**1,028,500**
Cash relinquished on disposal of discontinued operations	**(79)**
Net cash inflow on disposal of discontinued operation	**1,028,421**

19. DISCONTINUED OPERATION (Continued)

(c) Net Assets of discontinued operation;

	Note	2011 $	2010 $
Assets:			
Cash and cash equivalents		**79**	79
Refundable deposits		**-**	7,587,254
Impairment allowance on refundable deposits		**-**	(7,587,254)
Advance for mine development		**-**	1,463,120
Impairment allowance on advance for mine development		**-**	(1,463,120)
Total Assets		**79**	79
Net Assets Relinquished		**79**	79

(d) Earnings per share of discontinued operation;

	2011	2010
Discontinued Operations:		
Basic profit per share (cents per share)	**3.10**	**0.06**
Diluted profit per share (cents per share)	**2.78**	**0.06**

20. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of;

- Basic earnings per share;
- Earnings per share from continued operations; and
- Earnings per share from discontinued operations

	2011 $	2010 $
Basic Earnings: Net (loss) used in calculating basic earnings per share:	**(6,446,750)**	(1,072,178)
Earnings from continued operations: Net (loss) from continued operations:	**(8,938,726)**	(1,091,410)
Earnings from discontinued operations: Net profit from discontinued operations:	**2,491,976**	19,232

	Number of Ordinary Shares 2011	Number of Ordinary Shares 2010
Weighted average number of Ordinary Shares	**80,429,347**	33,547,146
Diluted weighted average number of Ordinary Shares	**89,798,326**	34,272,146

(a) Non-Dilutive Securities

As at balance date, 11,386,800 Unlisted Options (which represent 11,386,800 potential Ordinary Shares) were considered non-dilutive (other than in respect to profit on discontinued operation) as they would decrease the loss per share.

20. EARNINGS PER SHARE (Continued)

(b) Conversions, Calls, Subscriptions or Issues after 30 June 2011

Since 30 June 2011, the Company issued the following securities:

- 11,380,631 fully paid Ordinary Shares as consideration for the acquisition of 81,500,000 African Iron Limited shares, following shareholder approval on the 23 August 2011.
- 50,000 fully paid Ordinary Shares at an issue price of $2.335 following the exercise of 50,000 options.
- 100,000 fully paid Ordinary Shares at an issue price of $0.25 following the exercise of 100,000 options.

Other than as outlined above, there have been no other conversions to, calls of, or subscriptions for Ordinary Shares or issues of potential Ordinary Shares since the reporting date and before the completion of this financial report.

21. RELATED PARTIES

(a) Subsidiaries

Name	Country of Incorporation	% Equity Interest 2011 %	% Equity Interest 2010 %
Subsidiaries of Equatorial Resources Ltd:			
Equatorial (Africa) Pty Ltd	Australia	100	100
ImmunoTX Pty Ltd [2]	Australia	100	100
Equatorial Resources Pte. Ltd[3]	Singapore	100	100
Titan Resources Pte. Ltd [3]	Singapore	100	100
Subsidiaries of Equatorial (Africa) Pty Ltd:			
Congo Mining Ltd SARL[1]	Republic of Congo	100	-
Subsidiaries of Titan Resources Pte Ltd:			
PT Krypton Mining[3]	Indonesia	51	51
PT Mustang Mining[3]	Indonesia	70	70

Notes:
1 Acquired on 31 August 2010.
2 During the period the company commenced proceedings to wind up its dormant Australian controlled entity.
3 During the period the company commenced proceedings to wind up its Singapore and Indonesian Controlled entities.

(b) Ultimate Parent

Equatorial Resources Limited is the ultimate parent of the Group.

(c) Key Management Personnel

Details relating to Key Management Personnel, including remuneration paid, are included at Note 24.

(d) Transactions with Related Parties

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Transactions with Key Management Personnel, including remuneration and equity holdings, are included at note 24.

22. PARENT ENTITY DISCLOSURES

	Notes	2011 $	2010 $
(a) Financial Position			
Assets			
Current Assets		**57,632,464**	615,875
Non-Current Assets		**18,574,568**	3,763,169
Total Assets		**76,207,032**	4,379,044
Liabilities			
Current Liabilities		**655,940**	1,284,689
Total Liabilities		**655,940**	1,284,689
Equity			
Contributed equity		**143,940,782**	72,856,513
Accumulated losses		**(73,208,638)**	(70,798,658)
Share based payments reserve		**5,034,950**	1,036,500
Investments available for sale reserve		**(216,002)**	-
Total Equity		**(75,551,092)**	3,094,355
(b) Financial Performance			
Loss for the year		**(2,406,425)**	(1,120,061)
Other comprehensive income		**-**	(11,700)
Total comprehensive income		**(2,406,425)**	(1,131,761)

(c) Other information

The Company has not entered into any guarantees in relation to its subsidiaries.
Refer to note 29 for details of contingent assets and liabilities.

23. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

The KMP of the Group during or since the end of the financial year were as follows:

Current Directors
Mr Ian Middlemas (appointed 5 November 2009)
Mr Mark Pearce (appointed 5 November 2009)
Mr Peter Woodman (appointed 8 April 2010)
Mr John Welborn (appointed 6 August 2010)

Former Directors
Mr Geoff Gander (resigned 8 July 2010)

Other key management personnel
Mr Sean Halpin (appointed 28 February 2011) – *General Manager - Geology*
Mr Roger Staley (appointed 2 August 2010) – *Exploration Manager – Republic of Congo*
Mr Hugo Schumann (appointed 19 July 2010) – *Group Executive – Business Development*
Mr Jonathon Hericourt (appointed 28 February 2011) – *Country Manager – Republic of Congo*
Mr Brendon Morton (appointed 1 June 2011) – *Chief Financial Officer*
Mr Greg Swan (appointed 26 May 2010) – *Company Secretary*

Unless otherwise disclosed, the KMP held their position from 1 July until the date of this report.

(b) Key Management Personnel Compensation

	Note	2011 $	2010 $
Short-term employee benefits		**1,123,711**	157,339
Post-employment benefits		**46,327**	9,625
Share-based payments		**1,912,499**	33,883
Total compensation		**3,082,537**	200,847

23. KEY MANAGEMENT PERSONNEL (Continued)

(c) Option holdings of Key Management Personnel

2011	Held at 1 July 2010	Granted as Remuneration	Options Exercised	Net Change Other	Held at 30 June 2011	Vested and exercisable at 30 June 2011
Directors						
Mr Ian Middlemas	-	-	-	-	**-**	
Mr John Welborn	-[1]	4,500,000	-	-	**4,500,000**	1,000,000
Mr Peter Woodman	-	1,000,000	-	-	**1,000,000**	1,000,000
Mr Mark Pearce	-	800,000	-	-	**800,000**	800,000
Mr Geoff Gander	275,000	-	-	-	**275,000**[2]	275,000
Executives						
Mr Sean Halpin	-[1]	-	-	-	**-**	-
Mr Roger Staley	-[1]	700,000	(100,000)	-	**600,000**	-
Mr Hugo Schumann	-[1]	700,000	-	(100,000)[3]	**600,000**	-
Mr Jonathan Hericourt	-[1]	-	-	-	**-**	-
Mr Brendon Morton	-[1]	-	-	-	**-**	-
Mr Greg Swan	-	700,000	-	-	**700,000**	400,000

Notes:
1 As at date of appointment.
2 As at date of resignation.
3 Off market transfer of options to unrelated third party.

2010	Held at 1 July 2009	Granted as Remuneration	Options Exercised	Net Change Other	Held at 30 June 2010	Vested and exercisable at 30 June 2010
Directors						
Mr Ian Middlemas	-[1]	-	-	-	-	-
Mr Peter Woodman	-[1]	-	-	-	-	-
Mr Mark Pearce	-[1]	-	-	-	-	-
Mr Geoff Gander	2,750,000	-	-	(2,475,000)[3]	275,000	275,000
Mr Sol Majteles	1,000,000	-	-	(900,000)[3]	100,000[2]	100,000[2]
Mr Paul Sharbanee	-	-	-	-	-[2]	-[2]
Mr Hilton Nathanson	1,000,000	-	-	(900,000)[3]	100,000[2]	100,000[2]
Mr Scott Mison	500,000	-	-	(450,000)[3]	50,000[2]	50,000[2]
Executives						
Mr Greg Swan	-[1]	-	-	-	-	-

Notes:
1 As at date of appointment.
2 As at date of resignation.
3 During the year the Company completed a 1 for 10 consolidation of its share capital.

23. KEY MANAGEMENT PERSONNEL (Continued)

(d) Shareholdings of Key Management Personnel

2011	Held at 1 July 2010	Rights Issue	Share Placement[3]	Other Purchases	Net Change Other[4]	Held at 30 June 2011
Directors						
Mr Ian Middlemas	5,210,000	-	-	-	-	**5,210,000**
Mr John Welborn	-[1]	-	2,000,000	-	-	**2,000,000**
Mr Peter Woodman	100,000	-	-	-	-	**100,000**
Mr Mark Pearce	750,000	-	-	-	-	**750,000**
Mr Geoff Gander	387,519	-	-	-	-	**387,519**[2]
Executives						
Mr Sean Halpin	-[1]	-	-	-	-	**-**
Mr Roger Staley	-[1]	-	-	-	100,000[4]	**100,000**
Mr Hugo Schumann	-[1]	-	50,000	-	-	**50,000**
Mr Jonathan Hericourt	-[1]	-	-	-	-	**-**
Mr Brendon Morton	-[1]	-	-	-	-	**-**
Mr Greg Swan	-	-	50,000	30,000	-	**80,000**

Notes:
1 As at date of appointment.
2 As at date of resignation.
3 Subsequent to shareholder approval at a General Meeting on 18 August 2010, the Directors and Executives participated in a share placement at $0.25 per share on terms and conditions no more favourable than to other participants in the placement.
4 Exercise of Options.

2010	Held at 1 July 2009	Rights Issue[3]	Share Placement[4]	Other Purchases	Net Change Other[5]	Held at 30 June 2010
Directors						
Mr Ian Middlemas	2,100,000[1]	-	50,000,000	-	(46,890,000)	5,210,000
Mr Peter Woodman	1,000,000[1]	-	-	-	(900,000)	100,000
Mr Mark Pearce	-[1]	-	7,500,000	-	(6,750,000)	750,000
Mr Geoff Gander	886,231	886,231	1,000,000	1,102,727	(3,487,670)	387,519
Mr Sol Majteles	725,000	725,000	-	-	(1,305,000)	145,000[2]
Mr Paul Sharbanee	6,070,000	-	-	-	(5,463,000)	607,000[2]
Mr Hilton Nathanson	4,714,613	-	-	-	(4,243,152)	471,461[2]
Mr Scott Mison	476,666	476,666	-	-	(857,999)	95,333[2]
Executives						
Mr Greg Swan	-[1]	-	-	-	-	-

Notes:
1 As at date of appointment.
2 As at date of resignation.
3 Directors participated in a 1 for 1 rights issue completed 26 October 2009 on terms and conditions no more favourable than other shareholders.
4 Subsequent to shareholder approval at a General Meeting on 18 December 2009, the Directors participated in a share placement at $0.10 per share (on a post consolidation basis) on terms and conditions no more favourable than to other participants in the placement.
5 During the year the Company completed a 1 for 10 consolidation of its share capital.

(e) Loans from Key Management Personnel

No loans were provided to or received from Key Management Personnel during the year ended 30 June 2011 (2010: Nil).

23. KEY MANAGEMENT PERSONNEL (Continued)

(f) Other Transactions

Apollo Group Pty Ltd, a Company of which Mr Mark Pearce is a director and beneficial shareholder, was paid $271,088 for the provision of serviced office facilities and administration services (2010: $137,000). The amount is based on a monthly retainer due and payable in arrears, with no fixed term. This item has been recognised as an expense in the statement of comprehensive income.

24. SHARE-BASED PAYMENTS

(a) Recognised Share-based Payment Expense

From time to time, the Group provides Incentive Options to officers, employees, consultants and other key advisors as part of remuneration and incentive arrangements. The number of options granted, and the terms of the options granted are determined by the Board. Shareholder approval is sought where required. During the past two years, the following equity-settled share-based payments have been recognised:

	Note	2011 $	2010 $
Expense arising from equity-settled share-based payment transactions		**2,370,937**	33,883

(b) Summary of Options Granted as Share-based Payments

The following Options were granted as share-based payments during the year ended 30 June 2011:

Options Series	Issuing Entity	Number	Grant Date	Expiry Date	Exercise Price	Grant Date Fair Value
Series 1	Equatorial Resources Ltd	2,000,000	18 Aug 10	30 Jun 12	$0.25	$0.2650
Series 2	Equatorial Resources Ltd	500,000	6 Sep 10	30 Jun 12	$0.25	$0.3250
Series 3	Equatorial Resources Ltd	3,000,000	18 Aug 10	30 Jun 13	$0.40	$0.2640
Series 4	Equatorial Resources Ltd	9,50,000	6 Sep 10	30 Jun 13	$0.40	$0.3210
Series 5	Equatorial Resources Ltd	2,900,000	18 Aug 10	31 Dec 13	$0.60	$0.2530
Series 6	Equatorial Resources Ltd	1,050,000	6 Sep 10	31 Dec 13	$0.60	$0.3070
Series 7	Equatorial Resources Ltd	586,800	25 Jan 11	5 Oct 12	$0.82	$2.9601

No Incentive Options were granted as share-based payments during the year ended 30 June 2010.

The following table illustrates the number and weighted average exercise prices (WAEP) of Options granted as share-based payments at the beginning and end of the financial year:

	2011 Number	2011 WAEP	2010 Number	2010 WAEP
Outstanding at beginning of year	**725,000**	**$2.78**	7,250,000	$0.28
Granted by the Company during the year	**10,986,800**	**$0.46**	-	-
1 for 10 share consolidation	**-**	**-**	(6,525,000)	$2.50
Exercised during the year	**(325,000)**	**$1.35**	-	-
Outstanding at end of year	**11,386,800**	**$0.58**	725,000	$2.78

(c) Weighted Average Remaining Contractual Life

At 30 June 2011, the weighted average remaining contractual life of Incentive Options on issue that had been granted as share-based payments was 1.92 years (2010: 1.91 years).

24. SHARE-BASED PAYMENTS (Continued)

(d) Range of Exercise Prices

At 30 June 2011, the range of exercise prices of Incentive Options on issue that had been granted as share-based payments was $0.25 to $4.00 (2010: $1.835 to $4.00).

(e) Weighted Average Fair Value

The weighted average fair value of Incentive Options granted as share-based payments by the Group during the year ended 30 June 2011 was $0.4171. No Incentive Options were granted as share-based payments by the Group during the year ended 30 June 2010.

(f) Option Pricing Model

The fair value of the equity-settled share options granted is estimated as at the date of grant using the Binomial option valuation model taking into account the terms and conditions upon which the options were granted.

The table below lists the inputs to the valuation model used for share options granted by the Group during the last two years:

Inputs	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Series 7
Exercise price	$0.25	$0.25	$0.40	$0.40	$0.60	$0.60	$0.82
Grant date share price	$0.405	$0.475	$0.405	$0.475	$0.405	$0.475	$3.61
Dividend yield [1]	-	-	-	-	-	-	-
Volatility [2]	105%	105%	105%	105%	105%	105%	100%
Risk-free interest rate	4.47%	4.50%	4.50%	4.53%	4.50%	4.53%	4.96%
Grant date	18 Aug 10	6 Sep 10	18 Aug 10	6 Sep 10	18 Aug 10	6 Sep 10	25 Jan 11
Expiry date	30 Jun 12	30 Jun 12	30 Jun 13	30 Jun 13	31 Dec 13	31 Dec 13	5 Oct 12
Expected life of option [3]	1.87 years	1.82 years	2.87 years	2.82 years	3.37 years	3.32 years	1.70 years
Fair value at grant date	$0.2650	$0.3250	$0.2640	$0.3210	$0.2530	$0.3070	$2.9601

Notes:

1 The dividend yield reflects the assumption that the current dividend payout will remain unchanged.

2 The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

3 The expected life of the options is based the expiry date of the options as there is limited track record of the early exercise of options.

25. AUDITORS' REMUNERATION

The auditor of Equatorial Resources Limited is Ernst & Young.

	2011 $	2010 $
Amounts received or due and receivable by Ernst & Young (Australia) for:		
• an audit or review of the financial report of the entity and any other entity in the consolidated group	**33,392**	31,500
Amounts received or due and receivable by Ernst & Young (Republic of Congo) for:		
• taxation services provided by to Congo Mining Ltd SARL, a subsidiary of Equatorial Resources Ltd	**16,836**	-
	50,228	31,500

26. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.
The Consolidated Entity operates in one segment, being mineral exploration. This is the basis on which internal reports are provided to the Directors for assessing performance and determining the allocation of resources within the Consolidated Entity.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Overview

The Group's principal financial instruments comprise receivables, payables, available for sale investments, cash and short-term deposits. The main risks arising from the Group's financial instruments are interest rate risk, equity price risk, foreign currency risk, credit risk and liquidity risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk, and the management of capital. Other than as disclosed, there have been no significant changes since the previous financial year to the exposure or management of these risks.

The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. Key risks are monitored and reviewed as circumstances change (e.g. acquisition of a new project) and policies are revised as required. The overall objective of the Group's financial risk management policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

Given the nature and size of the business and uncertainty as to the timing and amount of cash inflows and outflows, the Group does not enter into derivative transactions to mitigate the financial risks. In addition, the Group's policy is that no trading in financial instruments shall be undertaken for the purposes of making speculative gains. As the Group's operations change, the Directors will review this policy periodically going forward.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board reviews and agrees policies for managing the Group's financial risks as summarised below.

(b) Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from cash and cash equivalents and trade and other receivables.

The carrying amount of the Group's financial assets represents the maximum credit risk exposure, as represented below:

	2011	2010
	$	$
Cash and cash equivalents	**56,246,310**	591,428
Trade and other receivables	**2,577,433**	24,526
	58,823,743	615,954

With respect to credit risk arising from cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Where possible, the Group invests its cash and cash equivalents with banks that are rated the equivalent of investment grade and above. The Group’s exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board's approach to managing liquidity is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities when due. As at 30 June 2011 and the date of this report, the Group has sufficient liquid assets to meet its financial obligations.

The contractual maturities of financial liabilities, including estimated interest payments, are provided below. There are no netting arrangements in respect of financial liabilities.

	≤6 Months $	6-12 Months $	1-5 Years $	≥5 Years $	Total $
2011 **Group**					
Financial Assets					
Cash and cash equivalents	**56,246,310**	**-**	**-**	**-**	**56,246,310**
Trade and other receivables	**2,577,433**	**-**	**-**	**-**	**2,577,433**
Available for sale financial assets	**3,266,500**	**-**	**-**	**-**	**3,266,500**
	62,090,243	**-**	**-**	**-**	**62,090,243**
Financial Liabilities					
Trade and other payables	**1,967,152**	**-**	**-**	**-**	**1,967,152**
	1,967,152	**-**	**-**	**-**	**1,967,152**

(d) Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the cash and short-term deposits with a floating interest rate.

These financial assets with variable rates expose the Group to cash flow interest rate risk. All other financial assets and liabilities, in the form of receivables and payables and available-for-sale investments are non-interest bearing.

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

	2011 $	2010 $
Interest-bearing financial instruments		
Cash at bank and on hand	**56,246,310**	591,428
	56,246,310	591,428

The Group's cash at bank and on hand and short term deposits had a weighted average floating interest rate at year end of 5.11% (2010: 2.25%).

The Group currently does not engage in any hedging or derivative transactions to manage interest rate risk.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Interest Rate Risk (continued)

Interest rate sensitivity

A sensitivity of 1% (100 basis points) has been selected as this is considered reasonable given the current level of both short term and long term interest rates. A 1% (100 basis points) movement in interest rates at the reporting date would have increased (decreased) equity and profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Profit or loss		Other Comprehensive Income	
	+ 100 basis points	- 100 basis points	+ 100 basis points	- 100 basis points
2011				
Group				
Cash and cash equivalents	**549,464**	**(549,464)**	**-**	**-**
2010				
Group				
Cash and cash equivalents	5,914	(5,914)	-	-

(e) Foreign Currency Risk

As a result of activities overseas, the Group's statement of financial position can be affected by movements in exchange rates.

The Group also has transactional currency exposures. Such exposure arises from transactions denominated in currencies other than the functional currency of the entity.

The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk.

The Group's exposure to foreign currency risk throughout the current year primarily arose from controlled entities of the Company whose functional currency is the Central African CFA franc (XAF). The Central African Franc is fixed against the Euro (EUR). Foreign currency risk arises on translation of the net assets of these controlled entities to Australian dollars and on intercompany account balances. In the Group accounts, the foreign currency gains or losses arising from this risk are recorded through the foreign currency translation reserve.

	2011 AUD equivalent	2010 AUD equivalent
Foreign Currency Group		
Financial Assets		
Cash and cash equivalents	**356,070**	**-**
Trade and other receivables	**835,606**	**-**
	1,191,676	**-**
Financial Liabilities		
Trade and other payables	**1,203,922**	**-**
	1,203,922	**-**
Net Exposure	**(12,246)**	**-**

The Group's exposure to foreign currency risk throughout the prior year primarily arose from controlled entities of the Company whose functional currency was the US dollar. These controlled entities are now considered discontinued operations and have been deconsolidated pending deregistration.

The Group does not have any material exposure to financial instruments denominated in foreign currencies.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Foreign Exchange Risk (continued)

Foreign exchange rate sensitivity

At the reporting date, had the Australian Dollar appreciated or depreciated against the Central African CFA franc as illustrated in the table below, equity and profit and loss would have been affected by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss		Other Comprehensive Income	
	10% increase	10% decrease	10% increase	10% decrease
2011				
Group				
AUD to XAF	**1,205**	**(1,205)**	**-**	**-**
2010				
Group				
AUD to XAF	-	-	-	-

(f) Equity Price Risk

The Group is exposed to equity price risk arising from its single equity investment in AKI which is held for strategic rather than trading purposes. The Group does not actively trade this investment and no hedging or derivative transactions have been used to manage equity price risk.

With respect to equity price risk arising from the Group's equity investments, the maximum exposure is equal to the carrying amount of the Group's equity investments at 30 June 2011 of $3,266,500 (2010: nil).

Subsequent to 30 June 2011, the Company has acquired an additional 81.5 million AKI shares (Refer Note 30) resulting in a total shareholding at the date of this report of 95.4 million shares.

Equity price sensitivity

A sensitivity of 20% has been selected as this is considered reasonable given the current volatility of global equity markets. The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. This analysis assumes that all other variables remain constant.

	Profit or loss		Other Comprehensive Income	
	20% increase	20% decrease	20% increase	20% decrease
2011				
Group				
Available-for-sale financial assets	**-**	**-**	**653,300**	**(653,300)**
2010				
Group				
Available-for-sale financial assets	-	-	-	-

(g) Commodity Price Risk

The Group is exposed to commodity price risk. These commodity prices can be volatile and are influenced by factors beyond the Group's control. As the Group is currently engaged in exploration and business development activities, no sales of commodities are forecast for the next 12 months, and accordingly, no hedging or derivative transactions have been used to manage commodity price risk.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(h) Capital Management

The Group defines its Capital as total equity of the Group, being $70,149,686 for the year ended 30 June 2011 (2010: $3,089,077). The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while financing the development of its projects through primarily equity based financing. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Given the stage of development of the Group, the Board's objective is to minimise debt and to raise funds as required through the issue of new shares.

The Group is not subject to externally imposed capital requirements.

There were no changes in the Group's approach to capital management during the year. During the next 12 months, the Group will continue explore project financing opportunities, primarily consisting of additional issues of equity.

(i) Fair Value

The net fair value of financial assets and financial liabilities approximates their carrying value.

- The fair value of available-for-sale financial assets is calculated using quoted prices in active markets (Level 1).

Quoted market price represents the fair value determined based on quoted prices on active markets at the reporting date without any deduction for transaction costs.

No other financial instruments are recognised as at 30 June 2011.

28. CONTINGENT ASSETS AND LIABILITIES

(i) Contingent Assets

As at the date of this report, no contingent assets had been identified in relation to the 30 June 2011 financial year.

(ii) Contingent Liability

As at the date of this report, no contingent liabilities had been identified in relation to the 30 June 2011 financial year.

29. COMMITMENTS

Management have identified the following material commitments for the consolidated group as at 30 June 2011 (30 June 2010: Nil);

2011	Note	Payable within 1 year $	Payable within 1 year less than 5 years $	Total $
Capital commitments				
Property, plant & equipment	30(a)	**948,764**	-	**948,764**
Operating commitments				-
Drilling contract commitments	30(b)	**5,654,278**	-	**5,654,278**
Total Commitments		**6,603,042**	-	**6,603,042**

29. COMMITMENTS (Continued)

(a) Capital commitments

The consolidated group had obligations to purchase property, plant and equipment totalling $948,764 as at 30 June 2011 (2010: nil).

(b) Operating commitments

The commitments disclosed above represent the Company's estimate of its contracted commitment to Wallis Drilling Pty Ltd ("Wallis Drilling") and Partners Drilling International ("Partners Drilling") for the Mayoko-Moussondji drilling program.

Wallis Drilling Pty Ltd ("Wallis Drilling") have been initially contracted for 20,000 metres of reverse circulation ("RC") drilling and 8,000 metres of diamond drilling. The Company has an option to extend the contract for an additional 40,000 metres, with approximately 10,000 metres of diamond drilling and 30,000 metres of RC drilling. Wallis Drilling are operating two drill rigs, a UDR900 dual purpose (diamond and RC) rig and an Alton 650 diamond drill rig.

Partners Drilling International ("Partners Drilling") have been initially contracted for 5,000 metres of diamond and RC drilling. The Company has an option to extend the contract for an additional 5,000 metres of diamond and RC drilling. Partners Drilling are operating a single Hanjin P7000 CDS dual purpose (diamond and RC) drill rig.

The contracted commitments are based on numerous assumptions including, average hole depth, average standby times, consumables rates, type/size of drilling and productivity.

30. EVENTS SUBSEQUENT TO BALANCE DATE

(i) At a General Meeting held on 23 August 2011, the Company received shareholder approval for the placement completed on 31 March 2011 of 12,000,000 Ordinary Shares at $3.00 each.

(ii) At a General Meeting held on 23 August 2011, the Company received shareholder approval to issue 11.4 shares at the rate of one share in the Company for every 7.16 shares in African Iron Limited as off-market consideration for the purchase of 81.5 million shares in African Iron Limited. The shares were issued and allotted on 26 August 2011 at which date the closing bid price of AKI was $0.29 which equates to a transaction value of $23,635,000 before costs.

Other than as outlined above, at the date of this report, there are no matters or circumstances, which have arisen since 30 June 2011 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 30 June 2011, of the Consolidated Entity;
- the results of those operations, in financial years subsequent to 30 June 2011, of the Consolidated Entity; or
- the state of affairs, in financial years subsequent to 30 June 2011, of the Consolidated Entity.

DIRECTOR'S DECLARATION

In accordance with a resolution of the directors of Equatorial Resources Limited:

1. In the opinion of the directors:

   (a) the attached financial statements, notes and the additional disclosures included in the directors' report designated as audited, are in accordance with the Corporations Act 2001, including:
      (i) section 296 (compliance with accounting standards and Corporations Regulations 2001); and
      (ii) section 297 (gives a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Company and consolidated group); and

   (b) there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable.

2. The attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements.

3. The Directors have been given a declaration required by section 295A of the Corporations Act 2001 for the financial year ended 30 June 2011.

On behalf of the Board

J P Welborn

JOHN WELBORN
Managing Director

Perth, 29 September 2011

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Independent auditor's report to the members of Equatorial Resources Limited

Report on the financial report

We have audited the accompanying financial report of Equatorial Resources Limited ("Equatorial"), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

a. the financial report of Equatorial Resources Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 18 of the directors' report for the year ended 30 June 2011. 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.

Opinion

In our opinion, the Remuneration Report of Equatorial Resources Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

P McIver
Partner
Perth
29 September 2011