

Carpentaria Exploration Limited

ABN 63 095 117 981

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2010

CORPORATE DIRECTORY

Board of Directors

Nick Sheard (Executive Chairman)
Mike Chester (Non-Executive Director)
Bob Hair (Non-Executive Director)
Stan Macdonald (Non-Executive Director)

Company Secretary

Chris Powell

Principal and Registered Office

Level 6
345 Ann Street
Brisbane Qld 4000

PO Box 10919 Adelaide Street
Brisbane QLD 4000

Telephone: +61 7 3220 2022
Facsimile : +61 7 3220 1291
Email: info@capex.net.au
Website: www.carpentariaex.com.au

Auditors

PKF
Level 6, 10 Eagle Street
Brisbane Qld 4000

Telephone: 07 3226 3555
Fax: 07 3226 3500
Website: www.pkf.com.au

Independent Accountants

BDO Kendalls
Level 18, 300 Queen Street
Brisbane Qld 4000

Solicitors

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

Share Registry

Link Market Services Limited
Level 19
324 Queen Street
Brisbane QLD 4000

Telephone: 1300 554 474
Facsimile: 02 9287 0303
Website: www.linkmarketservices.com.au

Investor enquires

- Nick Sheard – Executive Chairman; or
- Chris Powell – Company Secretary
Telephone: 07 3220 2022
Facsimile: 07 3220 1291
e-mail: info@capex.net.au

ASX Code

Shares : CAP

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EXECUTIVE CHAIRMAN'S REPORT

Even though the world was in the grip of a financial crisis for the early part of this financial year, Carpentaria continued with its aggressive exploration strategy. The results have been very encouraging, with three successes of note - the discovery of the Hawsons Iron, the tin at Euriowie, and the coal at the Hughenden Coal Project. All these have the potential to add significant value to Carpentaria and its shareholders.

By maintaining a strong exploration focus on quality projects, we have attracted solid joint venture support and have enhanced our iron, gold and coal portfolios. This support by joint venture partners has provided Carpentaria with a strong balance sheet, whilst also ensuring that significant exploration programs are being undertaken.

The flagship project this year was the Hawsons Iron Project south of Broken Hill. Drilling early this year revealed a significant exploration target¹ of 3.5 - 5.8 billion tonnes at 18% magnetite DTR with a concentrate grade of 69-71% Fe, to a depth of 250 metres over a prospective strike length of 34-51 kilometres. This exciting project resulted in Carpentaria being approached by other companies to consider a joint venture. The Company undertook an \$81 million deal with a Sydney based private company Bonython Metals Group (BMG), which has resulted in the receipt of \$3.0 million to Carpentaria's account at 30 June 2010 and \$2.0M on 15 July 2010, a further \$8.0 million to be spent on the Hawsons exploration program was also received. If successful, your Company could be paid a further \$48 million and be funded for a further \$20 million to be used for a feasibility study, which would leave Carpentaria with a 20% free carried interest to production up to 20 million tonnes per annum (mtpa) of iron concentrate. This is a very significant deal as it delivers cash to Carpentaria, provides funds for the exploration and feasibility work, ensures production of up to 4 mtpa at no cost to shareholders and has not resulted in any dilution to shareholders.

Carpentaria also raised in excess of \$6.0 million in July 2010 through the expiry and exercise of the outstanding share options underwritten by Patersons Securities. Together with the joint venture transactions, this has put your Company in a very strong financial position.

During the year, we sold 80% of our Galilee Basin Hughenden Thermal Coal Project held in FTB (Qld) Pty Ltd, in consideration for cash from The Chairmen 1 Pty. Ltd. ("C1"). C1 added further properties and committed to spend the first \$2.0 million on exploration. The first hole drilled into this project intersected 3 metres of coal at around 300 metres depth, which was proof of concept and added considerable value to the project, with our partners aiming to carry out further drilling and release an inferred resource prior to December 2010.

Elsewhere, Carpentaria farmed out the Glen Isla Gold Project and the Mt Agate Copper / Gold Project to committed explorers, Ramelius Resources and Activex Limited respectively, who have planned significant exploration work this year on these projects.

Carpentaria commenced exploration at its Euriowie Project north of Broken Hill during the year, which led to the discovery of significant surface tin mineralization.

This has been a significant year for your Company and we and our joint venture partners intend to increase the momentum into 2010/11 by delineating our maiden mineral resource at the Hawsons Iron Project and expanding our drilling programs across most of the portfolio of projects including Hawsons, Euriowie, Panama Hat, Combaning and Glen Isla. The Company is focused on continuing to deliver exploration successes to ensure growth.

The achievements during the 2009/10 year have come through the dedicated work of our Directors, staff and our contractors. Their efforts are greatly appreciated.



Nick Sheard
Executive Chairman

¹ The term "Target" should not be misunderstood or misconstrued as an estimate of Mineral Resources and Reserves as defined by the JORC Code (2004), and therefore the terms have not been used in this context. It is uncertain if further exploration or feasibility study will result in the determination of a Mineral Resource or Mining Reserve.

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DIRECTORS' REPORT

Your directors present their report on Carpentaria Exploration Limited for the year ended 30 June 2010.

DIRECTORS

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

Name	Position	Period of directorship
Stuart Nicholas Sheard	Executive Chairman	Appointed March 2007
Stanley Alan Macdonald	Non-Executive Director	Appointed April 2007
Robert William Hair	Non-Executive Director	Appointed August 2007
Michael Peter Chester	Non-Executive Director	Appointed January 2008
Nick Sheard	— Executive Chairman	
Experience	— Nick has over 30 years experience in the industry – most recently Vice President - Exploration for Inco Limited, formerly the world's second largest producer of nickel. Prior to that Nick was the Global Exploration Manager for M.I.M. Holdings Limited, after initially being employed by MIM as Chief Geophysicist. Nick helped develop the novel MIMDAS electrical survey system currently being used commercially as a deep seeking quality EM and IP system. He is a member of ASEG and AIG and is Registered Professional Geoscientist – Mineral Exploration and Geophysics.	
Other current directorships	— Director of Mirabela Nickel Ltd since March 2007 Apart from the above he has not been a director of a listed company for the last 3 years.	
Special Responsibilities	— Company operations, promotion and project acquisition.	
Interest in shares and options	— 2,000,000 Options expiring 26 November 2012 @ A\$0.15c 300,000 Ordinary shares	
Stanley A Macdonald	— Non Executive Director	
Experience	— Stan Macdonald has been associated with the mining and exploration industry for over 20 years.	
Other current directorships	— Executive Director of Giralia Resources NL appointed 12 April 1991. Non-Executive Director of Zinc Co Australia Limited, appointed 26 April 2006 Non Executive Director of U3O8 Limited, appointed 6 October 2005 Non Executive Director of Red Hill Iron Limited, Resigned 11 April 2008 Apart from the above he has not been a director of a listed company for the last 3 years	
Special Responsibilities	— Member of the Audit and Remuneration Committee	
Interest in shares and options	— 500,000 ordinary shares	
Mike Chester	— Non Executive Director	
Experience	— Mike is currently a director of Axiom Advisory Pty Ltd, an independent boutique corporate advisory firm specializing in capital raisings, corporate advisory, IPOs, investor relations and seed capital transactions for small to medium sized companies in the industrial and natural resources sectors. He is also an investment manager with the Lowell Resources Fund and has extensive past experience in investment banking and corporate finance at County NatWest/Salomon Smith Barney and as a mining analyst.	
Other current directorships	— Non Executive director of Black Fire Energy Ltd (appointed 9 September 2009). Apart from this he has not been a director of a listed company for the last 3 years.	
Special Responsibilities	— Chairman of Remuneration Committee and member of Audit Committee	
Interest in shares and options	— 86,401 ordinary shares	

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DIRECTORS (continued)

Bob Hair	—	Non Executive Director
Experience	—	Bob is by background a lawyer with over 20 years' experience in the resources sector. He was previously an in house lawyer, director of subsidiary companies and Commercial Manager and General Manager in the MIM group in Australia, Asia, Europe, North America, South America, and GM Commercial for the ASX listed Highlands Pacific Limited.
Other current directorships	—	Non-executive director of Washington Resources Limited, appointed 7 March 2007, resigned December 2008 and Northern Uranium Limited, appointed 22 June 2006, resigned 2 June 2010. Apart from these he has not been a director of a listed company for the last 3 years.
Special Responsibilities	—	Chairman of CAP Audit Committee, member of the Remuneration Committee and corporate governance
Interest in shares and options	—	30,000 ordinary shares

SENIOR MANAGEMENT

The names and details of the Company's key personnel during the financial year and until the date of this report are as follows.

Doug Brewster *Exploration Manager*

Doug is a career exploration geologist with over 20 years' Australian and international experience and is an East Australian exploration specialist. Doug worked initially at CRA Exploration (now Rio Tinto) and then in a senior role at Delta Gold (now Barrick) where he assisted rebuilding their east Australian exploration effort in the late 1990's. Prior to joining Carpentaria Exploration he operated as a successful independent mineral exploration consultant providing services to a number of major and junior mining companies. He is experienced in gold, base-metal massive sulphide, porphyry copper, iron-oxide copper-gold, uranium, diamond, coal, clay and mineral sand exploration. Doug is a graduate of the University of Sydney and a member of the Geological Society of Australia (GSA), Society of Economic Geologists (SEG), Society of Mining, Metallurgy and Exploration (SME), and the Australian Institute of Geoscientists (AIG).

Chris Powell *Company Secretary*

Chris has had previous experience across a number of industries in similar roles. He has a wealth of administration and financial knowledge gathered through employment in Senior Management roles in New Zealand and Australia. Chris holds a Diploma of Management and is a member of the Australian Institute of Management (FAIM).

CORPORATE INFORMATION

Corporate Structure

Carpentaria is a company limited by shares and incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). Carpentaria has prepared a consolidated financial report encompassing the entities that it controlled or had significant influence over during the financial year:

Carpentaria had the following investments in controlled companies during the financial year:

- Willyama Prospecting Pty Ltd
- FTB (QLD) Pty Ltd¹

¹ On 22 February 2010, Carpentaria Exploration Limited sold 80% the shares in FTB (QLD) Pty Ltd ("FTB") to The Chairman 1 Pty Ltd for \$300,000. Refer to Note 26 for more details.

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NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activity of the Consolidated Entity during the course of the financial year was mineral exploration.

Following listing on ASX on 17 November 2007, the Consolidated Entity has continued exploration activity on its projects in Queensland and New South Wales.

There was no significant change in the nature of the activity of the Consolidated Entity during the year.

CURRENCY

The financial report is presented in Australian dollars and amounts are rounded to the nearest dollar.

OPERATING RESULTS

For the year ended 30 June 2010, the profit for the Consolidated Entity after providing for income tax was \$1,565,849 (2009: loss of \$1,477,436).

REVIEW OF FINANCIAL POSITION

Capital structure

During the financial year ended 30 June 2010, there was an increase in capital as a result of shares issued in respect of the purchase to take Carpentaria up to a 100% of the Euriowie EL 6936 tenement (500,000 shares). Along with the exercise of un-listed options by Contractors, Directors and Employees (4,641,301 shares), these two events increased the Carpentaria Capital by \$1,795,060.

21,180,000 options expiring 30 June 2010 were exercised prior to year end with consideration received by the Consolidated Entity in July 2010. Shares were allotted in July. This transaction will be reflected in the financial year ending 30 June 2011.

Treasury policy

The Board controls the funds which are handled on a day to day basis by the Company Secretary.

Liquidity and funding

Cash includes cash on hand and at call and term deposits with banks readily convertible to cash and is used in the cash management function on a day to day basis.

Dividends

No dividends were paid during the financial year ended 30 June 2010 (2009: nil) and no dividend is recommended for the current year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no matter or circumstance during the financial year that has significantly affected the state of affairs of the Group other than disclosed in this report.

CARPENTARIA EXPLORATION LIMITED ANNUAL REPORT 2010

REVIEW OF OPERATIONS

Summary

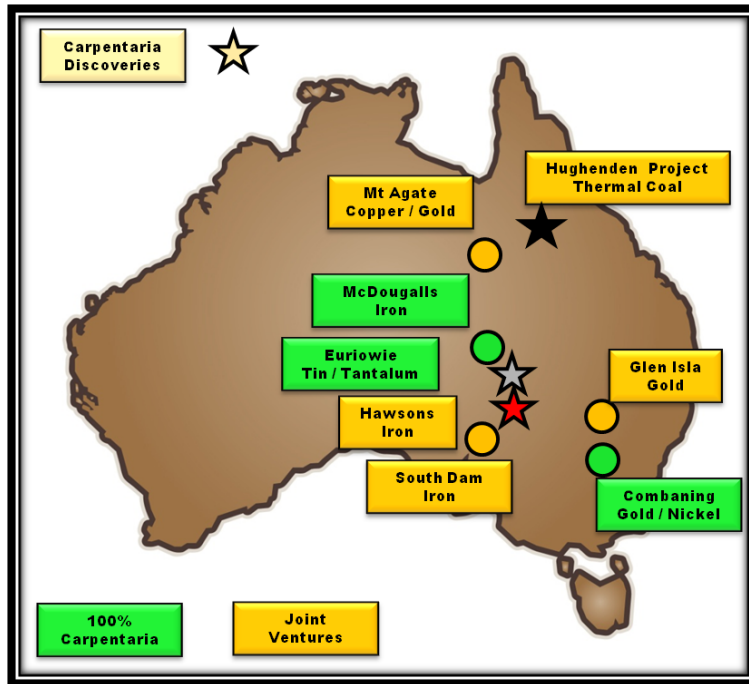


Figure 1 : Carpentaria's project and JV interest areas

Carpentaria has maintained a strong focus on exploring in the eastern part of Australia. This year, to maintain a strong exploration program and reduce our cash commitment, a positive strategy of project farm-outs was adopted, where partners undertake or finance the exploration and Carpentaria maintain an equity interest. Table 1 below summarizes these opportunities.

LEVERAGED OPPORTUNITIES		
<i>Partners spending on Carpentaria projects</i>	<i>Expenditure</i>	<i>Residual (CAP)</i>
Iron : Hawsons (Bonython Metal Group)	\$28.0m + \$53.0m cash	20%
Gold : Glen Isla (Ramelius Res. Ltd.)	\$1.0m + BFS	25%
Iron : South Dam (Bonython Metal Group)	\$1.95m	20%
Coal : Hughenden (Guildford Pty Ltd)	\$2.0m	20%
Copper/Gold : Mt Agate (ActivEx Ltd)	\$0.75m	25%

Table 1 Carpentaria Joint Venture Opportunities

The cornerstone Burta Joint Venture (JV) with the Bonython Metals Group (BMG) to explore the *Hawsons Iron Project* was announced this year. The JV is an \$81 million deal which has resulted in an immediate inflow of cash (\$3.0 m June 2010 and \$2.0 m July 2010) to Carpentaria with a further \$8.0m being spent on the Hawsons exploration program. At the successful completion of the initial exploration program, Carpentaria will be paid \$25m cash, and BMG will sole fund a feasibility study. At the successful completion of the feasibility study, BMG will pay Carpentaria a further \$23m cash and Carpentaria will retain a 20% free carried interest to production of up to 20 m tonnes per annum (mtpa) of iron concentrate. This deal provides great potential for Carpentaria share holders delivering cash to Carpentaria, funds for the exploration and development of the project and could potentially provide Carpentaria with up to 4 mtpa of iron concentrate production, all at no cost to share holders and without dilution of our existing share-holders.

Ongoing drilling at the Hawsons Iron Project has continued to provide positive results indicating the potential for very large tonnages of soft ironstone in the project area.

In the northern *Galilee Basin* Carpentaria had acquired coal exploration applications over a large area via its 100% subsidiary FTB (Qld) Pty Ltd in 2009. This year Carpentaria agreed with Chairmen 1 Pty Ltd to sell 80% of FTB (Qld) Pty Ltd for a consideration of \$300,000 cash, additional coal application tenure and \$2.0m exploration expenditure. Chairmen 1 has taken over management of this project and started drilling in late June with immediate success. Chairmen 1 has subsequently floated its assets and now trades as Guildford Coal Ltd. (Guildford).

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REVIEW OF OPERATIONS (continued)

Field mapping at the *Euriowie Tenement* has resulted in the identification of a 1.4 km long tin bearing pegmatite dyke with ore grades returned from surface rock chip channel samples. Four other tin bearing dykes have also been noted in the tenement. This tenement was purchased from the original owners and is now 100% owned by Carpentaria.

A Joint Venture with Ramelius Resources Ltd (Ramelius) was signed mid-year at *Glen Isla* with Carpentaria managing completion of a three dimensional (3D) Induced Polarization survey aimed at mapping pyrite at depth that may be associated with gold. Two targets were identified for drilling.

The *Mt Agate* tenement near Cloncurry in Queensland was farmed out to ActivEX Ltd who have undertaken soil sampling and mapping, - highlighting a number of areas for further work.

Hawsons Iron Project

The Hawsons Iron Project covers the entire known outcrop in NSW of the Neoproterozoic Braemar Iron Formation, which is highly prospective for bulk magnetite iron mineralization and contains the Hawsons Iron Prospect discovered in 2009. The project has an estimated exploration target¹ of 3.5 to 5.8 billion tonnes at 18% magnetite Davis Tube Recovery (DTR) with a concentrate grade of 69 - 71% Fe with a low level of impurities. This estimate is to a depth of 250 m over a prospective strike length of 34 to 51 km, and rates as one of the largest magnetite exploration targets in Australia.

The project comprises the Redan JV (EL 6979) with Perilya (PEM) and the Burta JV (ELs 7208 and 7504) with Bonython Metals Group Pty Ltd (BMG). Under the Burta JV agreement, Carpentaria manages all exploration and pre-feasibility work.

¹ The potential quantity and grade of the exploration targets is conceptual in nature and there has been insufficient exploration to define a Mineral Resource. It is uncertain if further exploration will result in the determination of a Mineral Resource.

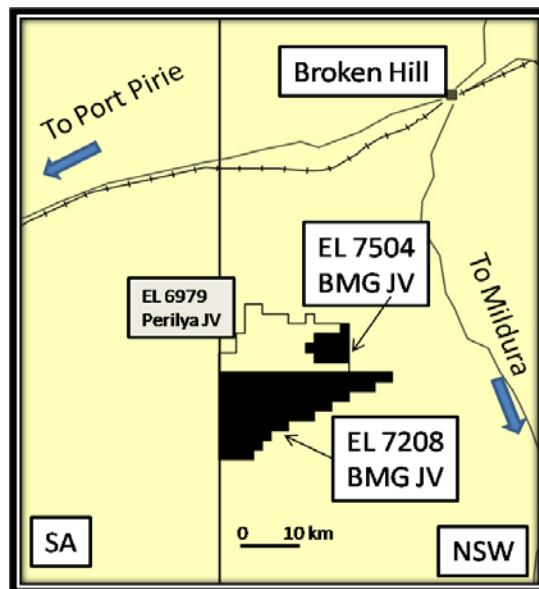


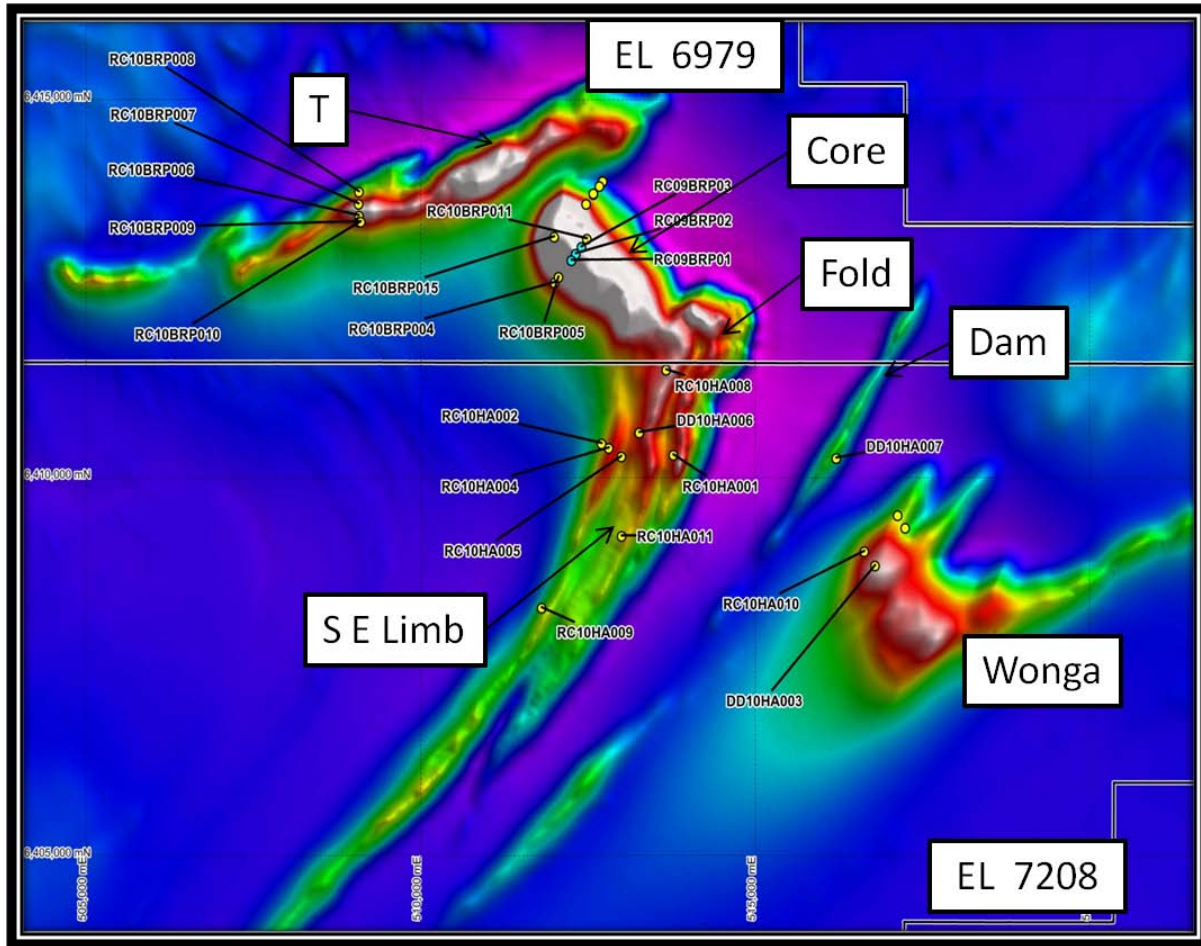
Figure 2. Location of Hawsons Iron Project

Redan JV – EL 6979 (CAP vested 51% earning 75%)

The Redan JV on EL 6979 is located immediately north of the Burta JV tenement EL 7208 (refer Figure 2). Drilling commenced during the June quarter, with Carpentaria completing initial drilling at two prospects in the Redan JV area, the 'Core' and 'T' anomalies (Figure 3). This drilling was designed to test the thickness, depth of cover and extent of magnetite mineralization. Figure 3 shows drill-hole locations plotted on a reduced to pole total intensity magnetic image. Up to the June quarter eight reverse circulation (RC) holes were completed for 1,673m.

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REVIEW OF OPERATIONS (continued)



*Figure 3: Location of current drill program holes over a magnetic image.
Note holes shown in blue are from 2009 drilling.*

Drilling was successful and all holes intersected magnetite mineralization consistent with the magnetic data. Importantly, these results confirm the Company's technical interpretation regarding the exploration target size of the Project.

At the Core Anomaly, very significant thicknesses of magnetite mineralization have been identified. Field measurements of magnetic susceptibility, which relates directly to magnetite content, taken from RC10BRP011 confirms that another magnetic unit (Core Magnetic Unit 2) consists of over 100m combined thickness of magnetite mineralization to the end of hole.

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REVIEW OF OPERATIONS (continued)

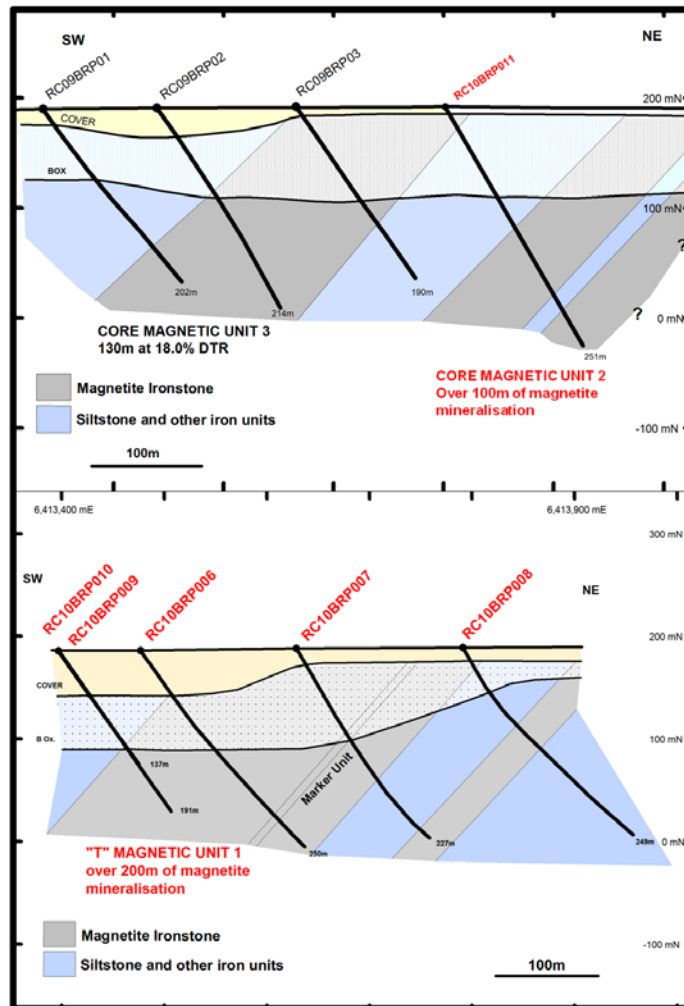


Figure 4: Geological sections drilled over the 'Core' and 'T' anomalies.
Note holes with red numbering were drilled in the June Quarter

Burta JV EL 7208 and 7504 (BMG earning in)

The Burta JV on EL 7208 and EL 7504 is located immediately south and east of EL 6979.

A joint venture agreement was signed with BMG in April 2010, which will assist Carpentaria to fast track the project. The key elements are:

- Stage 1: BMG to pay Carpentaria \$5.0m cash and a further \$8.0m to fund exploration and pre-feasibility work to define up to 1 billion tonnes of JORC inferred resource within two years and thereby earn 40% of the project. These payments have been paid.
- Stage 2: On completion of Stage 1 and a positive Pre-Feasibility Study outcome, BMG to pay Carpentaria \$25.0m and thereby earn 51% in the Joint Venture.
- Stage 3: BMG to fund a Bankable Feasibility Study (estimated cost \$20.0m) to be completed within two years of Stage 2. On completion of this study, BMG's JV interest to reach 80% when a further \$23.0m is paid to Carpentaria.
- Stage 4: When a decision is made to develop the Project, Carpentaria retains a 20% free carried interest up to the targeted production of 20 mtpa of iron ore concentrate.

Under the agreement, Carpentaria will manage the exploration and pre-feasibility work, providing continuity to the program.

Carpentaria received payments due in the June Quarter totaling \$11.0m, with the remaining \$2.0m out of the total of \$13m, received on 15 July 2010. (This was subsequently received in full).

Drilling commenced during the September Quarter at three prospects in the Burta JV, the 'Wonga', 'Dam' and 'Fold' anomalies, and was designed to test the thickness, depth of cover and extent of magnetite mineralization.

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REVIEW OF OPERATIONS (continued)

Ten reverse circulation (RC) holes and one diamond-drill core (DD) hole were completed for 2,155m – drilling is ongoing. Figure 3 shows drill-hole locations plotted on a reduced to pole total intensity magnetic image.

At the 'Wonga' anomaly, visual observation and field susceptibility measurements of drill core from the first hole (DD10HA003) show a 163 m thick down-hole intersection from 137 m to bottom of hole, of magnetite siltstone with an oxidation base at 120m below surface. This is a very positive outcome as these observations confirm the very large concealed Wonga magnetic anomaly is sourced by magnetite mineralization essentially identical to that known from previously drilled holes at the 'Core' anomaly in June 2009.

At the 'SE Limb' anomaly, six RC holes were completed with all holes intersecting magnetite mineralized siltstone units with a generally shallower oxidation base (40-70 m below surface). Field observations and magnetic susceptibility measurements indicate magnetite mineralized intervals of 165 m down-hole from 60 m in RC10HA001 and a 101 m intersection from 112 m in RC10HA008.

At the 'Dam' anomaly, drilling was completed in July and the hole encountered a 42 m down-hole mineralized interval below an oxidation base of 70 m below surface. This is the first hole drilled to test this magnetic anomaly and confirmed its source is magnetite mineralization similar to that known elsewhere in the Hawsons Project area.

Euriowie – EL 6936 (Carpentaria 100%)

The Euriowie, tin and rare metal project, is located 60 km north of Broken Hill, NSW (Figure 5).

Due to the promising tin results obtained in October 2009, Carpentaria made an offer to purchase the previous tenement owners' 1% net smelter royalty and lithium rights. These rights were considered an impediment to Carpentaria shareholders should the project develop to mining. An offer was accepted and the transfer of the tenement to Carpentaria was finalized and granted in early April.

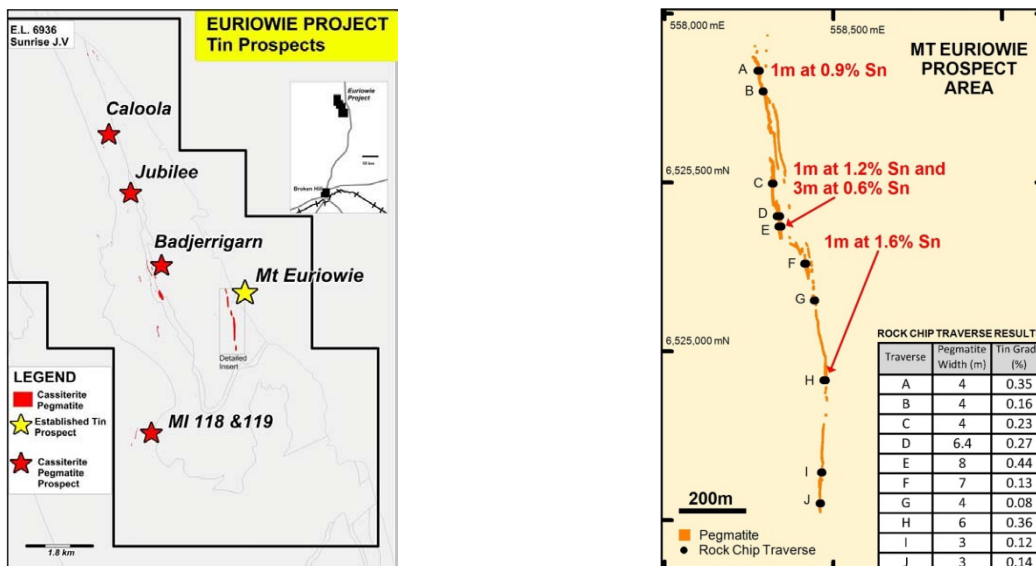


Figure 5 Location of Euriowie Tenement, tin prospects and surface chip traverse results.

1. Assay method – Metaborate Fusion – Wavelength Dispersive XRF (ALSCHEMEX XRF15b)
2. Datum: GDA94 Zone54

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REVIEW OF OPERATIONS (continued)

Glen Isla – EL 6246 (Carpentaria 25%)

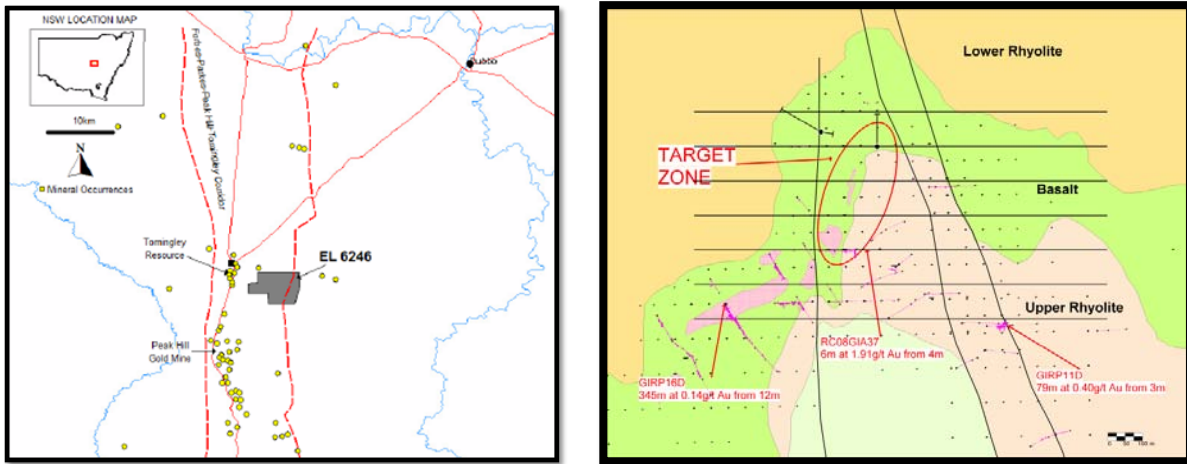


Figure 6 Location of Glen Isla (left) and Prospect map showing IP lines and target zone

In January 2010 Ramelius Resources Ltd farmed in to this project. In the agreement Ramelius needs to spend \$1 million to gain a 51% equity, with a minimum required expenditure of \$100,000. Should exploration at Glen Isla lead to the decision to proceed to a bankable feasibility study (BFS), Ramelius will manage and fund the BFS to earn a 75% interest in the project. On completion of the BFS Carpentaria will have a right to participate and retain a 25% interest in any mining project. Carpentaria is managing the early exploration phase.

A 3D IP geophysics survey was completed at the prospect to search for buried high-grade, bonanza style feeder zones or bulk tonnage lower-grade gold mineralization. Interpretation of the IP data has identified two low amplitude IP anomalies estimated to be 110 m below surface within an area of low resistivity. A three hole RC drill program of approximately 660 m has been designed to test the IP anomalies and is scheduled for completion in the September Quarter.

Combaning Gold Copper Nickel (CAP 100%)

Exploration on the Combaning licence included regional and detailed rock chip sampling at the Mother Shipton and Hibernia prospects. Highlights of the rock chip results include peak gold values of 21.3g/t Au from Hibernia and 6.13g/t Au from Mother Shipton (Figure 7). A total of 21 rock chips were taken, and 6 samples returned greater than 0.50g/t Au with associated elevated copper (Table 2). The Mother Shipton mines produced over 30,000oz of gold from hard rock and alluvial mining in the 1890s.

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REVIEW OF OPERATIONS (continued)

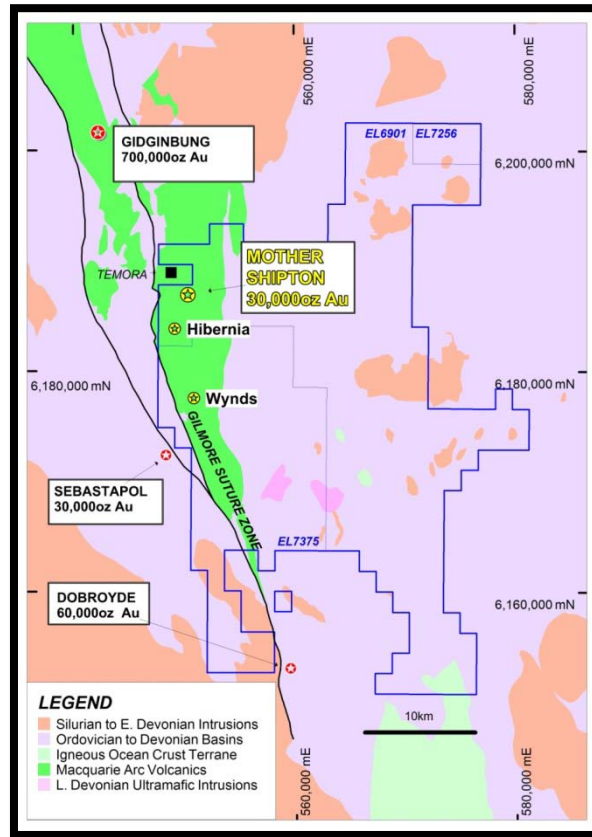


Figure 7 : Location of Gold Prospects and Major Historic Mines and Deposits (GDA94, Zone 55)

Sample No.	GDA East(m)	GDA North (m)	Prospect	Description	Au ppm	Cu ppm
CAP2299	548863	6184274	Hibernia	quartz vein in altered andesite	21.30	63
CAP2300	548863	6184274	Hibernia	altered andesite	4.47	255
CAP2292	550112	6186845	Mother Shipton	altered gabbro	6.13	260
CAP2289	550303	6186880	Mother Shipton	altered, quartz veined gabbro	1.64	229
CAP2290	550250	6186928	Mother Shipton	quartz breccia zone	0.72	281
CAP2291	550252	6186928	Mother Shipton	quartz breccia zone	0.63	256

Table 2 Highlight Rock Chip Results and Locations

Analytical methods : Au - Fire Assay 50g charge, Atomic Absorption Spectroscopy (AAS) finish. Cu - four acid digest, Inductively Coupled Plasma - Atomic Emission Spectroscopy (ICP-AES) finish.

Petrographic observations of rock samples from Mother Shipton identified gold and copper alteration similar to styles observed in many Lachlan Fold Belt gold-copper porphyry systems such as Cadia. The results demonstrate that gold and copper minerals (chalcopyrite ± bornite) are associated with zoned potassic-propylitic-phyllitic alteration of gabbroic rocks with multiple phases of metal deposition offering good potential for follow up exploration and drilling.

At Hibernia, rock chip samples taken from historic workings confirmed high grade gold veins with mineralized halos occur within an albitized, quartz-sericite altered andesite. This result is encouraging, and surface exploration of the Hibernia-Wynd's trend will continue in an attempt to identify the most prospective zone along its 30 km strike length.

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REVIEW OF OPERATIONS (continued)

Hughenden Coal Project (CAP 20%, Guildford Coal 80%)

Under an agreement announced on 22 February 2010, Guildford Coal Ltd (Guildford) (formerly Chairmen 1) is providing an initial \$2.0m of exploration funding for this project, targeting export quality thermal coal within the Galilee and Eromanga Basins. Guildford also contributed additional properties into the Project as shown in Figure 6. The Project now has eight granted tenements: EPC1394, EPC1477, EPC1300, EPC1576, EPC1574, EPC2046; EPC2048; and EPC2049, comprising a total of 6,333 km².

An initial hole, located in the centre of the Hughenden Coal Project (see Figure 8), designed to confirm the stratigraphic and structural interpretation was drilled to a total depth of 500 m in early July and confirmed the presence of coal prone Galilee Basin sediments.

The recent granting of adjacent tenements to the north and north east of EPC1394 will allow drilling to progress in a north-easterly direction targeting shallower coal intersections towards the basin edge.

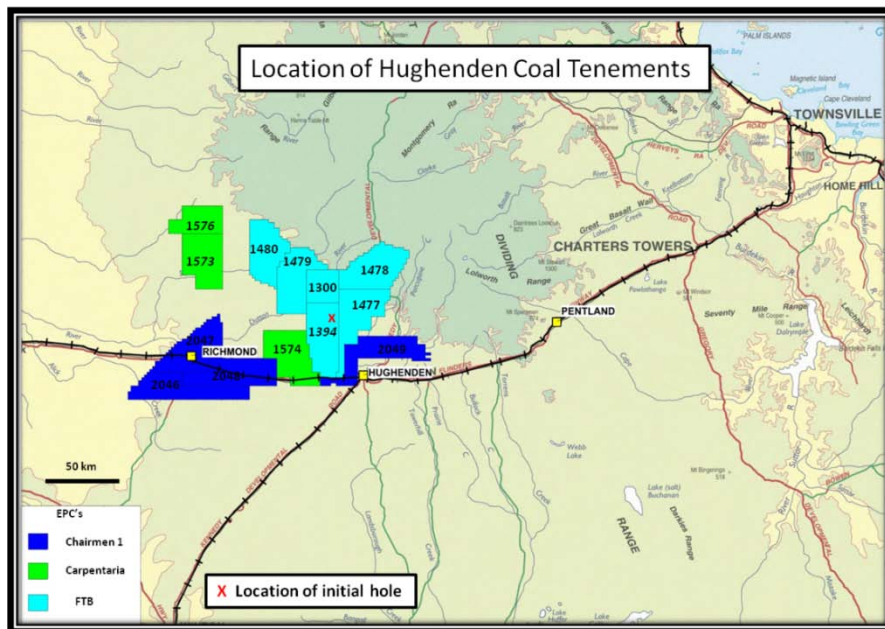


Figure 8. Location of the Hughenden tenements. The location of the initial hole shown.

South Dam Iron Project (100% CAP with BMG earning an initial 49%)

This tenement is located over the Braemar Iron Formation with a 6 km long airborne magnetic anomaly interpreted to represent similar magnetite bearing rocks to those encountered in the Hawsons Iron Project. BMG has designed a detailed airborne magnetic and radiometric survey covering the anomaly.

Mt Agate (ActivEX Ltd. earning 75%)

EPM 14955 currently covers an area of 208 km², principally underlain by Wimberu Granite, volcanics of the Argylla and Marraba Formations and meta-sediments of the Mitakoodi Quartzite and Answer Slate.

The principal prospects in the area are Mt Sheila, QMH Prospect, Sterling, Mt Devoncourt and Saddle Ridge. At the Mt Sheila and QMH significant aeromagnetic anomalies, Carpentaria has carried out ground magnetic and IP geophysics surveys, identifying low priority shallow drill targets with coincident magnetic and IP anomalies defined at both prospects. Other aeromagnetic anomalies in the area are yet to be tested.

ActivEX farmed in to the tenement and must spend a minimum of \$100,000, in the first stage of the deal, ActivEX may earn a 75% interest in the tenement by spending \$750,000 over a five year period. At that stage, Carpentaria may elect to contribute on a pro-rata basis but if Carpentaria elects not to contribute, ActivEX may increase its interest in the tenement to 100% by spending a further \$500,000. At this stage Carpentaria will retain a 1.5% net smelter return royalty interest in respect of any production from the area.

On 25 June 2010, ActivEX announced to the ASX that it had identified and extended a copper-gold target zone and reported new high molybdenum values at the Company's Mt Agate Project near Cloncurry. Soil sampling of this and other targets will be undertaken by ActivEX in the September Quarter.

CARPENTARIA EXPLORATION LIMITED ANNUAL REPORT 2010

REVIEW OF OPERATIONS (continued)

Matters Subsequent to the End of the Financial Year

Hawsons Iron Project

The Phase 1 drilling is nearing completion with the aim of testing for grade, thickness and depth of oxidation so that resource drilling can be undertaken on the most suitable area. Results were promising with all 49 drill holes (for 9,985 metres) encountering magnetite siltstone. Importantly, 26 holes were drilled into a number of prospects identified from airborne magnetics which were previously untested. Only the Core Anomaly had been drilled previously by Carpentaria. Unseasonal rains and delays in assays and analyses have extended the program by approximately three to four weeks.

All holes drilled to date in Phase 1 are shown in Figure 9. The vertical depth of weathering ranges between 40m to 130m as highlighted in Figure 9.

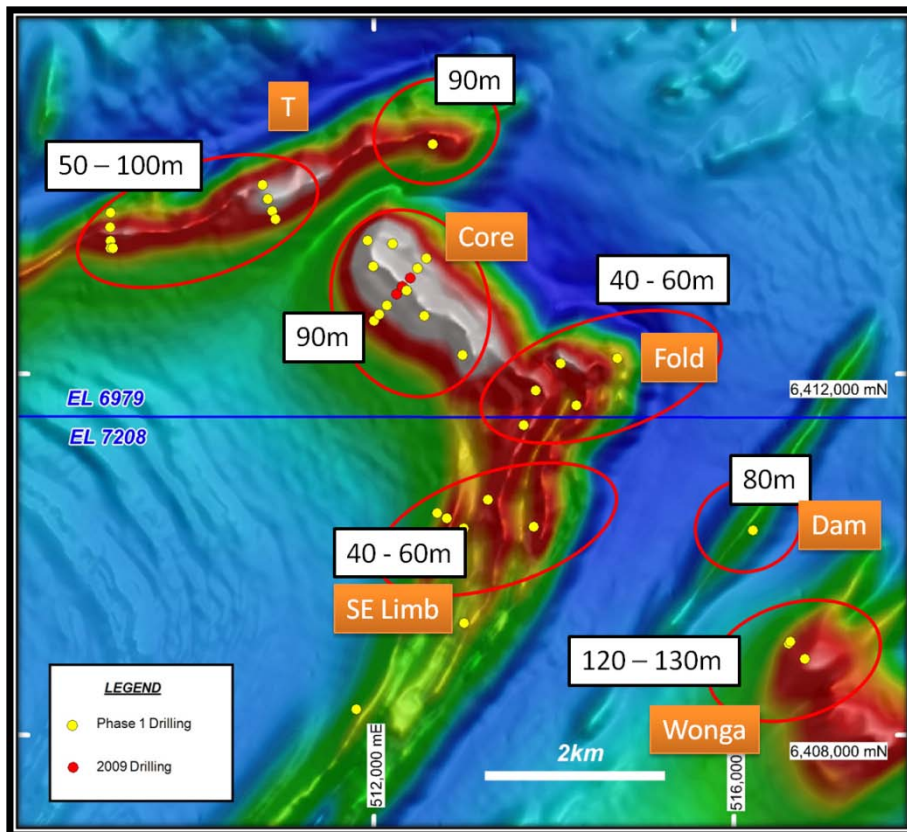


Figure 9: Hawsons Iron Project area with Prospect names. Phase 1 holes in yellow. Vertical depth to fresh magnetite siltstone shown. Image- Colour RTP Aeromagnetic Image with Tilt derivative enhancement

It is very encouraging that all of the magnetic anomalies tested have intersected magnetite siltstone, and also that in the Fold area there is only around 40m to 60m metres of weathering. It is also very encouraging that deeper drilling confirmed that magnetite siltstone extended well beyond 300 metres vertical depth and our magnetic modelling indicates that the magnetite mineralization potentially extends down dip to over a kilometre.

Carpentaria places great emphasis on the DTR results as this ultimately determines the value of any magnetite project. The DTR result provides the quantity of iron able to be recovered and the quality of the concentrate recovered including iron grade and percentage of deleterious material. In each hole DTR data is collected for the entire mineralized intersection at sample lengths of about 10m down hole. This allows estimates of the economic thicknesses of the ironstone units. This style of analysis is complex, time consuming and essential for project evaluation.

A Scoping Study using independent consultants is well underway and will help define a cut-off DTR grade, a preliminary mine plan, a processing flow sheet, transport options and a high level financial model, while an environmental study has also been commenced. Upon receipt of all the data and Scoping Study, anticipated in late September, Carpentaria expects to commence the resource drilling program and Pre-Feasibility Study with the aim of defining up to 1 billion tonnes of Inferred Resource.

CARPENTARIA EXPLORATION LIMITED

ANNUAL REPORT 2010

REVIEW OF OPERATIONS (continued)

Euriowie Tin Project

Exploratory drilling on the Euriowie tin discovery (Carpentaria 100%), located 60km north of Broken Hill, has been completed. Assays are awaited from 13 drill holes, 7 of which intersected tin-bearing pegmatite dyke

Panama Hat Gold Project

Drilling at the Panama Hat JV gold project has been delayed due to rains. The aim is to test the depth extensions of the high grade gold rock chips collected at surface at the Panama Hat and Williams East prospects.

Glen Isla Gold Project

Drilling at the Glen Isla gold project (located in the Lachlan fold belt 60 km south of Dubbo) has been delayed owing to the recent heavy rainfall on the project area.

Issue of Options

Subsequent to balance date, 1,850,000 options were granted as part of the Employee Share Option Plan with an exercise price of \$0.413 and expiring on 27 May 2012.

Capital Raising

21,180,000 options expiring 30 June 2010 were exercised prior to year end with consideration received by the Consolidated Entity in July 2010. Shares were allotted in July. This transaction will be reflected in the financial year ending 30 June 2011.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

It is anticipated that a resource for the Hawsons Iron project of the order of 1 billion tonnes will be announced by the end of the calendar year 2010.

Our partners in the Hughenden coal project also consider that they will have a resource out by year end.

Competent Person Statement: The information in this report that relates to Exploration Results is based on information compiled by Mr Nick Sheard, who is a Fellow of the Australian Institute of Geoscientists and is a Registered Professional Geoscientist -Mineral Exploration and Geophysics. Mr Sheard is a full time employee of Carpentaria Exploration Limited and Mr Sheard has sufficient expertise 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 Sheard consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's operations are subject to environmental regulations in relation to its exploration activities. The directors are not aware of any significant breaches during the period covered by this report.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors and of the Audit and the Remuneration Committees held during the year ended 30 June 2010 and the number of meetings attended by each director.

	Directors' Meetings	Audit	Remuneration
Number of meetings held	4	1	1
Number attended			
Nick Sheard	4	-	1
Bob Hair	3	1	1
Mike Chester	3	1	1
Stan Macdonald	2	1	1

INDEMNIFICATION OF OFFICERS OR AUDITOR

Each of the Directors and the Secretary of the Company have entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company and certain indemnification to those Directors and Secretary.

The Company has insured all of the Directors of Carpentaria Exploration Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. The Corporations Act 2001 does not require disclosure of the information in these circumstances.

CARPENTARIA EXPLORATION LIMITED ANNUAL REPORT 2010

The Company has not indemnified its auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

SHARE OPTIONS

At balance date there were a total of 3,650,000 restricted shares under options:

Number of Options	Exercise Price	Vesting Date	Expiry Date
200,000	\$0.150	1 July 2008	30 June 2011
750,000	\$0.114	20 July 2009	31 July 2012
100,000	\$0.114	1 October 2009	31 July 2012
2,000,000	\$0.150	26 November 2009	26 November 2012
600,000	\$0.250	23 February 2010	16 February 2013

There were also 21,180,000 options expiring 30 June 2010 were exercised prior to year end with consideration received by the Consolidated Entity in July 2010. This transaction will be reflected in the financial year ending 30 June 2011.

Details of options issued, exercised and expired during the financial year are set out below:

Expiry Date	Exercise Price	Movements				30 June 2010
		1 July 2009	Issued	Exercised	Expired	
30 June 2010	0.300	3,400,000	-	(2,400,000)	(500,000)	500,000 ¹
30 June 2010	0.300	300,000	-	(300,000)	-	-
30 June 2010	0.270	500,000	-	(500,000)	-	-
30 June 2010	0.300	21,447,415	-	(591,301)	(176,114)	20,680,000 ¹
30 June 2011	0.150	800,000	-	(600,000)	-	200,000
31 July 2012	0.114	-	1,100,000	(250,000)	-	850,000
26 November 2012	0.150	-	2,000,000	-	-	2,000,000
16 February 2013	0.250	-	600,000	-	-	600,000
		26,447,415	3,700,000	(4,641,301)	(676,114)	24,830,000

¹The remaining 21,180,000 options expiring 30 June 2010 were exercised prior to year end with consideration received by the Consolidated Entity in July 2010. This transaction will be reflected in the financial year ending 30 June 2011.

CARPENTARIA EXPLORATION LIMITED

ANNUAL REPORT 2010

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for the directors and key management personnel of Carpentaria Exploration Limited (the Company).

Remuneration Policy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash, equity and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the Company. Further details on the remuneration of directors and executives are set out in this Remuneration Report.

The Company aims to reward the executive directors and key management personnel with a level and mix of remuneration commensurate with their position and responsibilities within the Company. The Board's policy is to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering long-term incentives.

In accordance with best practice corporate governance, the structure of non-executive director and executive director and key management personnel remuneration is separate and distinct except that non-executive directors, as well as executives, participate in incentives involving the issue to them of securities in the Company.

Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Company's specific policy for determining the nature and amount of emoluments of board members of the Company is as follows:

In accordance with the Constitution, the existing Shareholders of the Company have determined in general meeting the maximum non-executive director remuneration to be \$220,000 per annum.

The Directors have resolved that each non-executive director is entitled to receive fees of \$30,000 with an increase on 1 May 2010 to \$40,000 per annum (plus superannuation) and the Chairman of Directors is entitled to receive \$60,000 per annum (plus superannuation). Payments of fees will be in addition to any payments to directors in any employment capacity. A Director will not be entitled to receive Directors' fees if he or she is employed by the Company in a full-time executive capacity.

A Director may also be paid fees or other amounts as the Directors determine if a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

During this current financial period a performance Cash Bonus of \$10,000 for each of the non-executive directors was paid as recommended by the remuneration committee.

The remuneration of non-executive directors for the year ending 30 June 2010 is detailed in Table 1 of this Remuneration Report.

Executive Chairman and Key Management Personnel Remuneration

The Company aims to reward the executive directors and key management personnel with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Executive Chairman and key management personnel for the period ending 30 June 2010 is detailed in Tables 1 and 2 and details of options issued are set out in Table 3.

CARPENTARIA EXPLORATION LIMITED

ANNUAL REPORT 2010

REMUNERATION REPORT (continued)

Employment Contracts

Agreement with Executive Chairman

On 17 August 2007, the Company and Mr Nick Sheard entered into an agreement containing the terms and conditions under which he will provide his services as chief executive officer of the Company. The agreement came into effect upon the Company's listing on the Australian Securities Exchange, which occurred on 14 November 2007.

The agreement:

- has a term of three years;
- involves the payment to Mr Sheard of an annual salary of \$220,000 (increased to \$230,000 as from 1 May 2010) plus superannuation payments as required by the Governments Superannuation Guarantee Levy, currently 9% (increasing by reference to the consumer price index each year) and reimbursement of all reasonable business expenses;
- has provision for three months' notice for termination. The Company may terminate this employment agreement by providing 12 months written notice or providing payment in lieu of the notice period (being \$230,000, based on the fixed component of Mr Sheard's remuneration); and
- otherwise contains standard terms relating to confidentiality, conflicts of interest and representations and warranties.

Agreement with Company Secretary

On 1 June 2007, the Company and Mr. Chris Powell entered into an agreement containing the terms and conditions under which the services of Company Secretary are provided to the Company. The agreement came into effect upon the Company's listing on the Australian Securities Exchange, which occurred on 14 November 2007.

The agreement:

- has a term of three years;
- involves the payment to Mr. Powell an annual salary of \$141,750 (increased to \$151,750 as from 1 May 2010) plus superannuation payments as required by the Governments Superannuation Guarantee Levy, currently 9% (increasing by reference to the consumer price index each year) and reimbursement of all reasonable business expenses;
- has provision for two months' notice for termination; and
- otherwise contains standard terms relating to leave, confidentiality, conflicts of interest and representations and warranties.

Agreement with Exploration Manager

On 9 August 2007, the Company and Mr Doug Brewster entered into an agreement containing the terms and conditions under which the services of Exploration Manager are provided to the Company. The agreement came into effect upon the Company's listing on the Australian Securities Exchange, which occurred on 14 November 2007.

The agreement:

- has a term of three years;
- involves the payment to the Mr Brewster an annual salary of \$202,125 (increased to \$212,125 as from 1 May 2010) plus superannuation payments as required by the Governments Superannuation Guarantee Levy, currently 9% (increasing by reference to the consumer price index each year) and reimbursement of all reasonable business expenses;
- has provision for one months notice for termination. The Company may terminate this employment agreement by providing one month's written notice and providing payment in lieu of the notice period (being \$53,031, three months' salary based on the fixed component of Mr Brewster's remuneration); and
- otherwise contains standard terms relating to confidentiality, conflicts of interest and representations and warranties.

CARPENTARIA EXPLORATION LIMITED

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REMUNERATION REPORT (continued)

Details of Directors and Key Management Personnel

Directors

Name	Position	Detail
Stuart Nicholas Sheard	Executive Chairman	Appointed March 2007
Stanley Alan Macdonald	Non-Executive Director	Appointed April 2007
Robert William Hair	Non-Executive Director	Appointed August 2007
Michael Peter Chester	Non-Executive Director	Appointed January 2008

Key Management Personnel

Name	Position	Detail
Stuart Nicholas Sheard	Executive Chairman	Commenced 14 November 2007
Doug Brewster	Exploration Manager	Commenced 14 November 2007
Chris Powell	Company Secretary	Commenced 14 November 2007

Key management personnel are those directly accountable and responsible for the operational management and strategic direction of the company and the consolidated entity.

Table 1: Director Remuneration

2010	Short-term benefits				Post employment benefits	Share based payments	Total	Performance Related %
	Salary Fees	Consultancy Agreement	Cash Bonus	Non-Cash Benefits	Superannuation Contribution	Options		
Directors	\$	\$	\$	\$	\$	\$	\$	
Nick Sheard	199,667	-	20,000	-	21,600	152,400	393,667	43.7%
Stan Macdonald	31,667	-	10,000	-	3,750	-	45,417	22.0%
Robert Hair	31,667	-	10,000	-	3,750	-	45,417	22.0%
Mike Chester	31,667	-	10,000	-	3,750	-	45,417	22.0%
	294,668	-	50,000	-	32,850	152,400	529,918	38.2%

2009	Short-term benefits				Post employment benefits	Share based payments	Total	Performance Related %
	Salary Fees	Consultancy Agreement	Cash Bonus	Non-Cash Benefits	Superannuation Contribution	Options ¹		
Directors	\$	\$	\$	\$	\$	\$	\$	
Nick Sheard	200,813	-	-	-	19,853	(46,041) ²	174,625	0.0% ²
Stan Macdonald	30,000	-	-	-	2,700	-	32,700	0.0%
Robert Hair	30,000	-	-	-	2,700	-	32,700	0.0%
Mike Chester	30,000	-	-	-	2,700	-	32,700	0.0%
	290,813	-	-	-	27,953	(46,041)	272,725	-

¹ The value of options treated as an expense is the proportionate cost incurred in the current year in accordance with AASB2 Share Based Payments.

² Due to the current economic climate options that were granted to Mr N Sheard in the 2008 year (and that were subject to shareholder approval) were not voted on at the Annual General Meeting and were therefore not approved. The value of these options previously expensed (\$46,041) on a provisional basis has now been written back to the Share Based Payment Reserve. Refer Note 19 for details.

Directors and officers' liability insurance forms part of remuneration, but has not been included in the remuneration of directors or key management personnel on the basis that it is impracticable to accurately allocate to each director and key management personnel.

CARPENTARIA EXPLORATION LIMITED

ANNUAL REPORT 2010

REMUNERATION REPORT (continued)

Table 2: Remuneration of key management personnel

2010 Key Management Personnel	Short-term benefits				Post employment benefits	Share based payments	Total	Performance Related %
	Salary Fees	Consultancy Agreement	Cash Bonus	Non-Cash Benefits	Superannuation Contribution	Options ¹		
	\$	\$	\$	\$	\$	\$	\$	
Doug Brewster	201,171	-	10,000	-	19,005	7,925	238,101	7.53%
Chris Powell	141,963	-	10,000	-	13,677	7,925	173,565	10.32%
	343,134	-	20,000	-	32,682	15,850	411,666	8.70 %

2009 Key Management Personnel	Short-term benefits				Post employment benefits	Share based payments	Total	Performance Related %
	Salary Fees	Consultancy Agreement	Cash Bonus	Non-Cash Benefits	Superannuation Contribution	Options ¹		
	\$	\$	\$	\$	\$	\$	\$	
Doug Brewster	194,313	-	-	-	17,488	7,540	219,341	3.4%
Chris Powell	130,558	-	-	-	11,750	7,540	149,848	5.0%
	324,871	-	-	-	29,238	15,080	369,189	4.1%

¹ The value of options treated as an expense is the proportionate cost incurred in the current year in accordance with AASB2 Share Based Payments.

Table 3: Options issued as part of remuneration for the year ended 30 June 2010

All options are issued by Carpentaria Exploration Limited for nil consideration. All options vest on issue and therefore hold no vesting conditions. The number and terms of the options issued are as follows:

Director/Key Management Personnel	Tranche	Grant date	Options Granted	Fair value per option at grant date	Exercise price per option	Expiry date	Options Vested
				\$	\$		
Doug Brewster	8	20/07/2009	250,000	0.0317	0.114	31/07/2012	250,000
Chris Powell	8	20/07/2009	250,000	0.0317	0.114	31/07/2012	250,000
Nick Sheard	10	26/11/2009	2,000,000	0.0762	0.150	26/11/2012	2,000,000

The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period. The model takes into account the following factors:

Inputs into pricing model	Tranche	
	8	10
Grant date	20 Jul 2009	26 Nov 2009
Vesting date	20 Jul 2009	26 Nov 2009
Exercise price	\$0.114	\$0.15
Share price at grant date	\$0.08	\$0.15
Life of the options	3 years	3 years
Underlying share price volatility	77%	77%
Expected dividends	Nil	Nil
Risk free interest rate	4.00%	3.25%

CARPENTARIA EXPLORATION LIMITED

ANNUAL REPORT 2010

REMUNERATION REPORT (continued)

Table 3: Options issued as part of remuneration for the year ended 30 June 2009

All options are issued by Carpentaria Exploration Limited for nil consideration. All options vest on issue and therefore hold no vesting conditions. The number and terms of the options issued are as follows:

Director/Key Management Personnel	Tranche	Grant date	Options Granted	Fair value per option at grant date	Exercise price per option	Expiry date	Options Vested
				\$	\$		
Doug Brewster	7	01/07/2008	200,000	0.0377	0.15	30/06/2011	200,000
Chris Powell	7	01/07/2008	200,000	0.0377	0.15	30/06/2011	200,000

The value of options granted in the year is the fair value of the options calculated at grant date using a Black-Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period. The model takes into account the following factors:

	Tranche
Inputs into pricing model	7
Grant date	01/07/08
Vesting date	01/07/08
Exercise price	\$0.15
Share price at grant date	\$0.11
Life of the options	3 yrs
Underlying share price volatility	65.00%
Expected dividends	Nil
Risk free interest rate	6.50%

Table 4: Options granted as part of remuneration

2010	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Total value of options granted, exercised and lapsed during the year \$	% of remuneration consisting of options for the year
Directors					
Nick Sheard	152,400	109,500	-	261,900	38.71%
Stan Macdonald	-	-	-	-	-
Robert Hair	-	54,750	-	54,750	-
Mike Chester	-	-	-	-	-
Key Management Personnel					
Doug Brewster	7,925	76,650	-	84,575	3.32%
Chris Powell	7,925	34,915	-	42,840	4.56%
	168,250	275,815	-	444,065	20.89%

CARPENTARIA EXPLORATION LIMITED

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REMUNERATION REPORT (continued)

2009	Value of options granted during the year \$	Value of options exercised during the year \$	Value of options lapsed during the year \$	Total value of options granted, exercised and lapsed during the year \$	% of remuneration consisting of options for the year
Directors					
Nick Sheard	(46,041)	-	-	(46,041)	-
Stan Macdonald	-	-	-	-	-
Robert Hair	-	-	-	-	-
Mike Chester	-	-	-	-	-
Key Management Personnel					
Doug Brewster	7,540	-	-	7,540	3.4%
Chris Powell	7,540	-	-	7,540	5.0%
Bruce Acutt	-	-	-	-	-
	(30,961)	-	-	(30,961)	(4.8%)

Relationship between remuneration and Company performance

During the period under review, the Company has generated a profit because of income received in respect of 80% sale of FTB (QLD) Ltd, and the execution payment received of \$3,000,000 for the Hawsons Iron Project. Unlike previous years as we were involved solely in exploration and not production, we had made trading losses which was also the situation which applied in the three previous financial years (trading commenced on listing on ASX on 14 November 2007)

Given that the remuneration is commercially reasonable, the link between remuneration, Company performance and shareholder wealth generation is tenuous, particularly in the exploration and development stage of a minerals company. Share prices are subject to the influence of international metal prices and market sentiment towards the sector and increases or decreases may occur independently of executive performance or remuneration. The Company may issue options to provide an incentive for key management personnel which, it is believed, is in line with industry standards and practice and is also believed to align the interests of key management personnel with those of the Company's shareholders.

Options issued as part of remuneration

Options are issued to directors and executives as part of their remuneration. The options are not issued solely on performance criteria, but are also issued to all directors and executives of Carpentaria Exploration Limited to increase executive retention and goal congruence between executives, directors and shareholders.

End of Remuneration Report.

CARPENTARIA EXPLORATION LIMITED

ANNUAL REPORT 2010

Auditor Independence Declaration under Section 307c of the Corporations Act 2001

The Auditor's Independence Declaration is attached and forms part of the Directors' Report for the year ended 30 June 2010.

Non-Audit Services

There were no non-audit services provided by the entity's auditor, PKF East Coast Practice.

Corporate Governance

In recognizing the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in a separate section of this report.

Signed in accordance with a resolution of the Board of Directors



S N Sheard
Executive Chairman
Dated this 30th day of September 2010



Chartered Accountants
& Business Advisers

AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of Carpentaria Exploration Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Carpentaria Exploration Limited and the entities it controlled during the year.

PKF

Albert Loots
Partner

Dated in Brisbane this 30th day of September 2010.

Tel: 61 7 3226 3555 | Fax: 61 7 3226 3500 | www.pkf.com.au
PKF | ABN 83 236 985 726
Level 6, 10 Eagle Street | Brisbane | Queensland 4000 | Australia
GPO Box 1078 | Brisbane | Queensland 4001

The PKF East Coast Practice is a member of the PKF International Limited network of legally independent member firms. The PKF East Coast Practice is also a member of the PKF Australia Limited national network of legally independent firms each trading as PKF. PKF East Coast Practice has offices in NSW, Victoria and Brisbane. PKF East Coast Practice does not accept responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Liability limited by a scheme approved under Professional Standards Legislation.

SHAREHOLDER INFORMATION

DISTRIBUTION OF NUMBER OF HOLDERS OF EACH CLASS OF SECURITIES AS AT 30 JUNE 2010

Number of Securities Held	Ordinary shares fully paid	Listed Option Exercisable @\$0.30 30/06/2010
	No. of holders	No. of holders
1 to 1,000	900	304
1,001 to 5,000	769	190
5,001 to 10,000	426	142
10,001 to 100,000	836	182
100,001 and over	79	37
	3,010	855
Number of shareholders holding less than a marketable parcel of shares	1,079	-

TWENTY LARGEST HOLDERS OF EACH QUOTED SECURITY

Security: CAP - ORDINARY SHARES

Rank	Name	BALANCE	% ISSUED CAPITAL
1	AUSTRALIA CONGLIN INTERNATIONAL INVESTMENT GROUP PTY LTD	10,479,000	14.43%
2	GIRALIA RESOURCES NL	6,788,220	9.34%
3	HSBC CUSTODY NOMINEES	2,587,394	3.56%
4	GREY WILLOW PTY LTD	988,446	1.36%
5	MR JOHN BEVAN TILBROOK	969,129	1.33%
6	MR IAN JOHN POTTER	850,000	1.17%
7	MR QUENTIN SIMON HILL	700,000	0.96%
8	MR STEVE WHITE	700,000	0.96%
9	DYSPO PTY LTD	684,300	0.94%
10	NATIONAL NOMINEES LIMITED	544,562	0.75%
11	MR ZHUANG FEI ZHOU	520,000	0.72%
12	MR JOHN BEVAN TILBROOK & MRS PAULINE TILBROOK & MR JOHN EDWIN TILBROOK	511,796	0.70%
13	MRS YUNFEN GE	500,000	0.69%
14	FORBAR CUSTODIANS LIMITED	480,634	0.66%
15	CRESCENT NOMINEES LIMITED	448,646	0.62%
16	MR NICK KAROPOULOS	435,111	0.60%
17	CUSTODIAL SERVICES LIMITED	415,993	0.57%
18	BERNE NO 132 NOMINEES PTY LTD	393,054	0.54%
19	MR DAVID BAY	377,170	0.52%
20	MR KENNETH SHEARD	375,000	0.52%
	TOTAL	29,748,455	40.95%
	Balance of Register	42,892,846	59.05%
	GRAND TOTAL	72,641,301	100.00%

**Security: CAPO - LISTED OPTION EXERCISABLE @ \$0.30 EXP
30/06/2010**

Rank	Name	BALANCE	% ISSUED CAPITAL
1	GIRALIA RESOURCES NL	1,780,000	8.53%
2	SYDNEY EQUITIES PTY LIMITED	1,337,716	6.41%
3	MISS ZOE MARION SMITH	600,000	2.88%
4	MR LING SHEN	591,246	2.83%
5	MR STANLEY LI	500,000	2.40%
6	IERACE PTY LTD	450,000	2.16%
7	HSBC CUSTODY NOMINEES	447,961	2.15%
8	ASB NOMINEES LIMITED	400,000	1.92%
9	HEADLAND CAPITAL PTY LIMITED	390,000	1.87%
10	MR MARK ANTHONY MCKEE & MRS MARGARET MCKEE	377,692	1.81%
11	MR TONY POWELL	371,000	1.78%
12	MR ALAN GEOFFREY AUSTIN	355,000	1.70%
13	MR NEAL JOHN WORTHINGTON	350,000	1.68%
14	MR TONY TANTIS	320,000	1.53%
15	MR TIAN SHAN JIANG & MRS MIAO QIONG LEI	300,000	1.44%
16	MR CHIN FUAN BOEY	280,000	1.34%
17	GLOBAL BEAT PTY LIMITED	275,699	1.32%
18	MR STEPHEN ROBERT RICKETTS	269,322	1.29%
19	WYLIGHT PTY LIMITED	250,000	1.20%
20	MRS KARYN CAMILLE KING	230,882	1.11%
	TOTAL	9,876,518	47.36%
	Balance of Register	10,979,596	52.64%
	GRAND TOTAL	20,856,114	100.00%

VOTING RIGHTS

All ordinary shares carry one vote per share without restriction.

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as shown in substantial shareholder notices received by the Company at 23 September 2010 are:

Name of Shareholder	Ordinary Shares
AUSTRALIA CONGLIN INTERNATIONAL INVESTMENT GROUP PTY LTD	10,479,000
GIRALIA RESOURCES NL	6,788,220

INTERESTS IN MINING TENEMENTS

Exploration Permits for Minerals. All tenements are held by Carpentaria Exploration Limited as the principal and sole holder with 100% unencumbered share, apart from those marked accordingly in the table below:

Queensland Tenements

Title No	Name	Date of Grant	Date of Expiry	Sub Blocks	Area Km ²
EL 14955 ¹	Mt Agate	29 June 2006	28 June 2011	70	252.8

New South Wales Tenements

Title No	Name	Date of Grant	Date of Expiry	Sub Blocks	Area Km ²
EL 7208 ^{2/6}	Burta	22 September 2009	22 September 2010	100	289.7
EL 6901	Combaning	8 October 2007	8 October 2011	184	520.6
EL 6936 ⁵	Euriowie	7 November 2007	7 November 2011	31	90.9
EL 6246 ^{1/6}	Glen Isla	24 May 2004	24 May 2010	12	33.9
EL 7256	Kallara	2 December 2008	2 December 2010	8	22.7
EL 6857 ⁵	Laings Lode	8 August 2009	8 August 2011	8	23.4
EL 6556 ^{3/6}	Panama Hat	11 April 2006	10 April 2010	38	110.5
EL 6979 ⁴	Redan JV	11 December 2007	11 December 2011	62	179.8
EL 7504	Little Peak	8 April 2010	8 April 2012	14	40.56
EL 7375	Dirnaseer	3 July 2009	3 July 2011	108	305.3
EL 7475	Apollyon	16 March 2010	16 March 2012	11	31.87
EL 7476	Hillston	16 March 2010	16 March 2012	38	110.4
EL 4395 ²	South Dam	24 July 2009	9 October 2010	-	86.0

- 1- JV to earn potential Interest of 25%
- 2- JV to earn potential Interest of 20%
- 3- JV to earn potential Interest of 100%
- 4- JV to earn potential Interest of 51%
- 5- 100 % Willyama Prospecting Pty Ltd (wholly owned subsidiary of Carpentaria)
- 6- Under Renewal Process

CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Carpentaria Exploration Limited (CAP) on behalf of the shareholders by whom they are elected and to whom they are accountable.

In fulfilling its obligations and responsibilities to its various stakeholders, the Board of Directors ("Board") of CAP is a strong advocate of corporate governance. This statement outlines the principal corporate governance procedures of CAP. The Board supports a system of corporate governance to ensure that the management of CAP is conducted to maximize shareholder wealth in a proper and ethical manner. This statement has been placed on the Company's website www.capex.net.au

The Company's Corporate Governance Statement is structured with reference to the Recommendations, which are as follows:

Principle 1. Lay solid foundations for management and oversight

Principle 2. Structure the board to add value

Principle 3. Promote ethical and responsible decision making

Principle 4. Safeguard integrity in financial reporting

Principle 5. Make timely and balanced disclosure

Principle 6. Respect the rights of shareholders

Principle 7. Recognize and manage risk

Principle 8. Remunerate fairly and responsibly

Given the size of the Company and the number of Board members the Company is not in a position to be fully compliant with the Recommendations. The Company's current policies do not meet the set out recommended practices in the following areas:

ASX Principle 2.1 and 2.2 requires that the majority of the board should be independent directors including the Chairman. The Company does not have a majority of independent directors including the Chairman. The Board considers that the Company is not currently of a size, nor are its affairs of such a complexity, to justify the expense of independent non executive directors. The Board believes that the individuals on the Board can make, and do make, quality independent judgments in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board meeting before commencement of discussion of that topic. The Company's Chairman, Mr Nick Sheard, is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director. However, the Board believes that the Chairman is able to and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman. ASX Principle 2.3 requires that the roles of a chairman and chief executive officer (or the like) should not be exercised by the same person. Mr Nick Sheard is the Chairman and Chief Executive Officer of the Company. While the Board recognizes the importance of the need for the division of responsibilities between the chairman and the managing director, it considers the existing structure provides unified leadership important to a newly incorporated company with early stage exploration projects. Mr Sheard's dual role makes him responsible

(along with the whole Board) for determining strategic direction of the Company, as well as having primary responsibility for day to day management. At present this dual role assists the Company to run in a cost effective and efficient manner. The Board intends to re-consider the duality of Mr Sheard's role and the merits of appointing a new managing director as the Company evolves and increases its operations.

ASX Principle 2.4 requires listed entities to establish a nomination committee. The Company does not have a separately established nomination committee. Given the current size of the Board, the Board considers that this function is efficiently achieved with full Board support, in accordance with the guidelines set out in the Board's charter (available on the Company's website).

ASX Principle 2.6 The Board will undertake an annual review of the performance of the Board and the individual directors and examine the appropriate mix of skills to ensure maximum effectiveness and contribution to the results of the company business.

The evaluation for this financial period was conducted at the Board meeting held 11 April 2010. The process of the review included:

- discussions as to the expertise and experience of the current Board members
- having regard to the present and future needs of the Company whether the number of Directors is adequate

It was concluded unanimously that the present Board would be maintained to cover the Company's current activities as it met all the principles required as set out in the Board Charter under "*Roles of the Board and Management*" (Board Charter available on Company's website.)

The Audit and Remuneration committees performance was also discussed and were re-constituted as set out in the Directors Report.

ASX Principles 3.1 and 3.2 require the Company to make available a summary of the Company's Code of Conduct and its Share Trading Policy and suggest that these should be posted on the Company's website. These policies have been posted on the Company's website. In relation to the Share Trading Policy there are internal review processes requiring advice to be made when there is trading in the Company's securities by directors and senior executives. This is coupled with an "alert" offered by the registry in the event of any trading.

ASX Principle 2.5 requires that there should be in place an induction and education procedure for directors. This process, in the event of a new appointment would be carried out by a current serving board member.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment. The Company also takes into account the criteria for independence set out in the Recommendations.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively material on the following basis - balance sheet items are material if they have a value of more than 5% of pro-forma net assets and profit and loss items are material if they will have an impact on the current year operating result of 10% or more. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the Company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of the Company are considered to be independent:

<u>Name</u>	<u>Position</u>
Mr Bob Hair	Non-Executive Director
Mr Mike Chester	Non-Executive Director

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of the Company are not considered to be independent:

- Mr Nick Sheard, Executive Chairman. Holds position of Chief Executive Officer (CEO).
- Mr Stan Macdonald, Non-Executive Director. Is an Officer of a substantial shareholder

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

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

<u>Name</u>	<u>Term in Office</u>
Mr Nick Sheard	51 Months
Mr Stan Macdonald	50 Months
Mr Bob Hair	46 Months
Mr Mike Chester	52 Months

It is the whole Board's responsibility in respect of appointing and removing the Company Secretary.

All directors have unlimited access to all company information to discharge their responsibilities, if required.

Policies for reporting unethical practices and legal obligations are contained in the Company's Corporate Governance Charter available on the website.

Functions of the Board and Senior Management are set out in the Board Charter under "*Roles of the Board and Management*" (Board Charter available on Company's website.)

Performance

The performance of the Board and executives is reviewed against both measurable and qualitative indicators. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of the Company. Directors whose performance is consistently unsatisfactory may be sanctioned.

Details of the criteria used in these evaluations are included in the Remuneration Report.

During the period formal evaluation of all senior executives was carried out by the Executive Chairman on 1 May 2010

Remuneration Committee

The Board has established a Remuneration committee to ensure that the Board continues to operate within the established guidelines. The committee comprises three directors namely M Chester (Chairman), R Hair and S Macdonald.

Role

The role of the committee is to review and make recommendations as to remuneration packages for directors and senior executives including employee incentive and equity-based plans.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee links the nature and amount of executive directors' and executives' emoluments to the Company's financial and operational performance. Each executive's remuneration is reviewed annually based upon individual and Company performance. The expected outcomes of the remuneration structure are the retention and motivation of executives, the attraction of quality management to the company and performance incentives which allow executives to share the rewards of the success of the Company.

For details on the amount of remuneration and all monetary and non-monetary components for each of the key management personnel during the year and for all directors, refer to the Remuneration Report in the Director's Report.

In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors. The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team.

A copy of the 'Remuneration Policy' is available on the Company's website.

Audit Committee

The Audit Committee operates under a charter (available on the Company's website) approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company that is specific to the material business risks that the Company faces. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control, risk management and ethical standards for the management of the Company to the Audit Committee. The Audit Committee meets as required to ensure that it can undertake its role effectively. Minutes of the audit committee meetings are recorded and provided to the board in the next full board meeting.

The committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. The members of the audit committee during the year were Bob Hair (Chairman), Stan Macdonald and Mike Chester.

Audit Process

As part of the Company's commitment to safeguarding integrity in financial reporting, Carpentaria Exploration's accounts are subject to annual audit by an independent, professional auditor, who also reviews the half-yearly accounts. The Auditor attends and is available to answer questions at, the Company's annual general meetings.

Auditor Independence

The Company has implemented procedures to monitor the independence and competence of the Company's external auditors.

Details of the amounts paid for both work and non-audit services are set out in each annual report. The Board requires that adequate handovers occur in the year prior to rotation of an audit partner to ensure an efficient and effective audit under the new partner.

For additional details of directors' attendance at Audit and Risk Management Committee meetings and to review the qualifications of the members of the Audit and Risk Management Committee, please refer to the Directors' Report.

Continuous Disclosure

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Securities Exchange, prevention of selective or inadvertent disclosure, conduct of investor and analysts briefings, media communications,

commenting on expected earnings, communications black-out periods and review of briefings and communications. The policy is reviewed periodically and updated as required. The Company Secretary has responsibility for overseeing and coordinating disclosure of information to the Australian Securities Exchange. The Company Secretary also liaises with the Executive Chairman in relation to continuous disclosure matters. The Executive Chairman is responsible for overseeing and coordinating disclosure of information to analysts, brokers and shareholders. The Company's continuous disclosure policy may be viewed on the Company's website.

Communications with Shareholders

The Board aims to ensure that shareholders are kept informed of all major developments affecting CAP. Information is communicated to shareholders through the distribution of annual reports; and presentation to shareholders at the Annual General Meeting, which they are encouraged to attend. The Company's Communications Policy has been placed on the website. In addition, all reports, including quarterly reports and releases made by CAP throughout the year with respect to its activities are distributed widely via the Australian Securities Exchange and are posted on the Company's website.

Risk Management

CAP has developed a framework for a risk management policy and internal compliance and control system which covers organizational, financial and operational aspects of the Company's affairs. This framework has been designed to specifically address the material business risks faced by the Company. The Executive Chairman is responsible for ensuring maintenance of, and compliance with appropriate systems.

Oversight of the risk management system

The Board monitors and receives advice on areas of operational and financial risk, and considers strategies for appropriate risk management arrangements.

Operational, financial reporting and regulatory compliance risks are continually assessed, monitored and managed at management level, and any specific areas of significant risk are dealt with at Board level.

Whilst the Board acknowledges that it is responsible for the overall internal control framework, it is also cognisant that no cost-effective internal control system will preclude all errors and irregularities.

To manage the Company's risk profile, the Board has established an internal control framework comprising:

- for financial reporting accuracy and compliance with the financial reporting regulatory framework:
 - there is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly financial results are reported against budget and revised forecasts for the remainder of the year are prepared when necessary;
 - cash flow statements are also prepared and included within a package of information reported to The Executive Chairman weekly and Directors on a monthly basis;
 - half-yearly and annual statutory reports which are reviewed and audited respectively by the Company's external auditors and reported to the ASX;
- risk exposures relating to interest rate fluctuations are managed in accordance with the Boards Policy;
 - in that the interest rate risk is exposed to the Australian market the risk is acceptable and in accordance with the Policy. The Risk Management Committee comprising all Board members which meets regularly to determine, with the assistance of external treasury advisers where appropriate define appropriate interest rate hedging strategies to manage these risks and ensure that such activities are conducted in compliance with the Company's Policy;
- all business transactions of a material nature are properly authorized and executed; and
- the recruitment and retention of personnel with due experience, commitment and integrity.

The financial reporting risk management framework and associated internal controls have been assessed by management and found to be operating effectively and efficiently. The operational risk management procedures are reviewed on an ongoing basis to ensure they appropriately support corporate objectives.

Financial

The Company's financial situation is not complex. Weekly cash flow reports and monthly management accounts are prepared and circulated to Directors for review and consideration. All major project expenditure must be approved by the Board. Carpentaria Exploration maintains appropriate insurance cover. This includes cover in respect of:

- workers' compensation;
- public liability; and
- property insurance.

The Company may obtain cover for directors' and officers' liability, to the extent permitted by the Corporations Act 2001. The Company implements appropriate data backup of its financial and other electronic information, this includes an off-site back-up of this information. Physical records are held within the Company's office and are contained, where appropriate, in a fire-proof safe.

Risk Factors

The risk factors associated with the Company and its business were set out in its prospectus dated September 2007 and lodged with the Australian Securities and Investments Commission in that month. These risk factors

are still considered by Carpentaria Exploration's Board to be relevant to the Company and are appended to this policy.

Other risks faced by the Company and disclosed in the Financial Report are:

- Credit risk;
- Market risk – Interest rate risk; and
- Liquidity risk.

A copy of the Carpentaria's Risk Management Policy can be obtained from the Company's website.

Prior to signing the Group's annual financial statements, Carpentaria's Executive Chairman and Company Secretary report in writing to the Board that:

- the statement given in accordance with recommendation 7.2 and 7.3 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in relation to financial risks.

Chief Executive Officer and Company Secretary certification

In accordance with section 295A of the Corporations Act, the Chief Executive Officer and Company Secretary have provided a written statement to the board that:

- The assurance provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board
- The Company's risk management and internal compliance and control system is operating effectively in all material respects in relation to financial risks.

For further information on corporate governance policies adopted by the Company, refer to our website: www.capex.net.au or contact the Company Secretary.

**Statement of Comprehensive Income
For the year ended 30 June 2010**

	Note	2010 \$	2009 \$
Revenue	2	168,457	310,705
Other income	2	2,824,707	-
Employment benefit expenses		(592,127)	(303,695)
Depreciation and amortization expense		(24,939)	(26,414)
Finance costs		-	-
Impairment of exploration expenditure		(151,740)	(751,537)
Rental and other lease expenditure		(123,499)	(86,204)
Other expenses		(535,010)	(620,291)
Profit before income tax		<u>1,565,849</u>	<u>(1,477,436)</u>
Income tax expense	3	-	-
Profit/(loss) after income tax expense		<u>1,565,849</u>	<u>(1,477,436)</u>
Other comprehensive income		-	-
Total comprehensive income		<u>1,565,849</u>	<u>(1,477,436)</u>
		Cents	Cents
Earnings per share			
Basic earnings/(loss) per share	6	2.30	(2.21)
Diluted earnings/(loss) per share	6	2.30	(2.21)

The Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

Balance Sheet
As at 30 June 2010

	Note	2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents	7	5,106,175	3,296,795
Other receivables	8	779,316	36,236
Other current assets	9	158,242	191,419
TOTAL CURRENT ASSETS		<u>6,043,733</u>	<u>3,524,450</u>
NON-CURRENT ASSETS			
Plant and equipment	10	55,930	45,422
Exploration expenditure	12	4,573,758	3,133,937
Intangible assets	11	6,207	204,426
Equity accounted investments	13	75,000	-
TOTAL NON-CURRENT ASSETS		<u>4,710,895</u>	<u>3,383,785</u>
TOTAL ASSETS		<u>10,754,628</u>	<u>6,908,235</u>
CURRENT LIABILITIES			
Trade and other payables	14	772,421	87,072
Provisions	15	89,627	49,074
TOTAL CURRENT LIABILITIES		<u>862,048</u>	<u>136,146</u>
TOTAL LIABILITIES		<u>862,048</u>	<u>136,146</u>
NET ASSETS		<u>9,892,580</u>	<u>6,772,089</u>
EQUITY			
Share capital	16	10,408,009	8,612,949
Reserves	17	234,092	474,510
Accumulated losses		(749,521)	(2,315,370)
TOTAL EQUITY		<u>9,892,580</u>	<u>6,772,089</u>

The Balance Sheet should be read in conjunction with the Notes to the Financial Statements.

**Statements of Changes in Equity
For the year ended 30 June 2010**

Consolidated Entity	Share Capital	Reserves	Accumulated Losses	Total
	\$	\$	\$	\$
Balance at 1 July 2008	8,499,789	490,390	(837,934)	8,152,245
Transactions with owners in their capacity as owners				
Issue of share capital	110,000	-	-	110,000
Issue of options	3,160	-	-	3,160
Share-based payment expense	-	(15,880)	-	(15,880)
Comprehensive income				
Loss after income tax	-	-	(1,477,436)	(1,477,436)
Other comprehensive income	-	-	-	-
Balance at 30 June 2009	<u>8,612,949</u>	<u>474,510</u>	<u>(2,315,370)</u>	<u>6,772,089</u>
Balance at 1 July 2009	8,612,949	474,510	(2,315,370)	6,772,089
Transactions with owners in their capacity as owners				
Issue of share capital	1,361,802	-	-	1,361,802
Share issue costs	-	-	-	-
Share-based payment expense	-	192,840	-	192,840
Transfers	433,258	(433,258)	-	-
Comprehensive income				
Profit after income tax	-	-	1,565,849	1,565,849
Other comprehensive income	-	-	-	-
Balance at 30 June 2010	<u>10,408,009</u>	<u>234,092</u>	<u>(749,521)</u>	<u>9,892,580</u>

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Cash Flow Statement
For the year ended 30 June 2010

	Note	2010 \$	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		37,028	-
Payments to suppliers and employees		(1,042,788)	(1,100,151)
Interest received		90,911	445,466
Interest paid		-	-
Net cash used in operating activities	18	<u>(914,849)</u>	<u>(654,685)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant & equipment		(26,161)	(24,496)
Payments for intangible assets		(7,758)	-
Acquisition of subsidiary, net of cash acquired	26	-	(86,692)
Proceeds from sale of 80% interest in subsidiary	26	300,000	-
Proceeds on sale of interest in exploration tenement		3,013,961	-
Payments for exploration and evaluation		<u>(1,827,615)</u>	<u>(1,370,053)</u>
Net cash (used in)/ provided by investing activities		<u>1,452,427</u>	<u>(1,481,241)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		1,271,802	3,160
Capital raising expenses		-	-
Net cash provided by financing activities		<u>1,271,802</u>	<u>3,160</u>
Net increase/(decrease) in cash and cash equivalents		1,809,380	(2,132,766)
Cash and cash equivalents at the beginning of the financial year		<u>3,296,795</u>	<u>5,429,561</u>
Cash and cash equivalents at the end of the financial year	7	<u><u>5,106,175</u></u>	<u><u>3,296,795</u></u>

The Cash Flow Statement should be read in conjunction with the Notes to the Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

This financial report covers the Company of Carpentaria Exploration Limited and its controlled entities ('consolidated entity'). Carpentaria Exploration Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Carpentaria Exploration Limited was incorporated as Sunmustard Pty Ltd, a proprietary company on 17 November 2000. On 20 April 2007 the Company changed its name to Carpentaria Exploration Limited and changed its status to a public company.

Operations and principal activities

Principal activities comprise of mineral exploration.

Currency

The financial report is presented in Australian dollars and rounded to the nearest one dollar.

Authorization of financial report

The financial report was authorized for issue on 30 September 2010 in accordance with a resolution of the Board of Directors.

Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, and the Corporations Act 2001.

Compliance with IFRS

Compliance with Australian Accounting Standards ensures that the Financial Statements comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Consolidated Entity. These estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision effects only that period, or in the period and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required estimates and/or judgements.

Key estimates – impairment

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

Key judgements – exploration & evaluation expenditure

The Consolidated Entity performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. These reviews are based on detailed surveys and analysis of drilling results performed to balance date.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting policies

(a) Principles of consolidation

A controlled entity is any entity Carpentaria Exploration Limited has the power to control the financial and operating policies so as to obtain benefits from its activities. A list of controlled entities is contained in Note 25 to the financial statements. All controlled entities have a June financial year-end. The financial statements of controlled entities are included in the consolidated financial statements from the date that control exists to the date that control ceases. The accounting policies of controlled entities have been changed when necessary to align them with the policies adopted by the Consolidated Entity. All inter-company balances and transactions between entities in the Consolidated Entity, including any unrealized profits or losses, have been eliminated on consolidation.

(b) Income Tax

The charge for current income tax expense is based on the profit/(loss) for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognized from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

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

Deferred income tax assets are recognized to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilized. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realization of the benefit.

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

(c) Plant and Equipment

Plant and equipment is measured at cost less accumulated depreciation and any impairment losses.

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

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

Depreciation

The depreciable amount of all fixed assets is depreciated over their useful life to the Consolidated Entity on a straight line basis commencing from the time the asset is held ready for use.

The depreciation rates used for each class of asset is:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
Office equipment	20%
Computers equipment	33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposal are determined by comparing proceeds with the carrying amount of the asset at the time of disposal. These gains or losses are included in the statement of comprehensive income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Exploration Evaluation and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or sale of the respective area of interest and where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

When production commences, the accumulated costs for the relevant area of interest are amortized over the life of the area according to the rate of depletion of the economically recoverable reserves. Accumulated cost in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

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

Restoration and rehabilitation

Costs of site restoration and environmental clean up costs, are provided for in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but the legal ownership is not transferred to the Consolidated Entity, are classified as finance leases. Finance leases are capitalized by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period. Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

(f) Financial instruments

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition trade and other receivables and trade and other payables are measured at amortized cost. The Consolidated Entity's financial instruments consist mainly of deposits with banks, and accounts receivable and payable.

(g) Impairment of assets

At each reporting date, the Consolidated Entity reviews the carrying values of its assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income. Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Employee benefits

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

Share-based payments

Transactions with employees and other providing similar service are measured by reference to the fair value at grant date of the equity instrument granted.

(i) Provisions

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

(j) 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 three months or less, and bank overdrafts.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Revenue

Interest revenue is recognized on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

Management fees are recognized when the consolidated entity has performed the associated services to which the management fees relate.

(l) Goods & Services Tax

Revenues, expenses and assets are recognized net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances GST is recognized as part of the acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

(m) Joint Ventures

Joint ventures are those entities over whose activities the Consolidated Entity has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions. Joint ventures are accounted for using the equity method. The consolidated financial statements include the Consolidated Entity's share of the income and expenses of joint ventures from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Consolidated Entity's share of losses exceeds its interest in a joint venture, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Consolidated Entity has an obligation or has made payments on behalf of the joint venture. In the Consolidated Entity's financial statements, investments in joint venture entities are carried at cost.

(n) Foreign currency

Transactions in foreign currencies are translated at exchange rates at the dates of the transactions.

(o) Contributed Equity

Issued and paid up capital is recognized at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognized directly in equity as a reduction of the share proceeds received.

(p) Earnings per share

The Consolidated Entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(q) Payables and Accruals

A liability is recorded for goods and services received prior to balance date, whether invoiced to the Consolidated Entity or not. Trade payables are normally settled within 30 days.

(r) Comparative figures

When required by accounting standards comparative figures have been adjusted to conform to changes in presentation for the current financial year. Comparative figures have also been changed where classifications of income and expenditure items have been altered from the prior year as a result of a review by directors. The new classifications have been made to reflect a more accurate view of the Consolidated Entity's operations.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) New Accounting Standards and Interpretations

When the adoption of the Standard or Interpretation is deemed to have a material impact on the financial statements or performance of the Consolidated Entity, its impact is described below:

AASB 3 'Business Combinations (revised 2008)' and AASB 127 'Consolidated and Separate Financial Statements (revised 2008)'

AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period when an acquisition occurs and future reported results.

AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.

AASB 101 'Presentation of Financial Statements'

The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Consolidated Entity has elected to present one statement.

AASB 123 'Borrowing Costs'

The revised AASB 123 requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The revised standard does not affect the Consolidated Entity as all borrowings costs are capitalized with regard to qualifying assets.

AASB 2008-7 'Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate'

The amendments delete the reference to the "cost method" making the distinction between pre and post acquisition profits no longer relevant. All dividends received are now recognized in profit or loss rather than having to be split between a reduction in the investment and profit and loss. However the receipt of such dividends requires an entity to consider whether there is an indicator of impairment of the investment in that subsidiary.

The amendments further clarify cases or reorganizations where a new parent is inserted above an existing parent of the Consolidated Entity. It states that the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. The adoption of these amendments did not have any impact on the financial position or the performance of the Consolidated Entity.

(t) New Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project. Amendments are made to AASB 5, 8, 101, 107, 117, 118, 136 & 139.' These standards are applicable to annual reporting periods beginning on or after 1 January 2010. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

AASB 2009-8 'Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions'. This standard is applicable to annual reporting periods beginning on or after 1 January 2010. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by the amendments. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) New Standards and Interpretations Not Yet Adopted

AASB 9 'Financial Instruments'. This standard is applicable to annual reporting periods beginning on or after 1 January 2013. Simplifies the classifications into two categories; those carried at amortized cost, and those carried at fair value. This standard simplifies requirements related to embedded derivatives that exist in financial assets that are carried at amortized cost, such that there is no longer a requirement to account for the embedded derivative separately. The standard also removes the tainting rules associated with held-to-maturity asset. Investments in equity instruments that are not held for trade can be designated at fair value through other comprehensive income, with only dividends being recognized in profit and loss. Investments in unquoted equity instruments (and contracts on those investments that must be settled by delivery of the unquoted equity instrument) must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

AASB 2009-10 'Amendments to Australian Accounting Standards - Classification of Rights Issues'. This standard is applicable to annual reporting periods beginning on or after 1 February 2010. Clarifies that rights options or warrants to acquire a fixed number of an entities own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]'. This standard is applicable to annual reporting periods beginning on or after 1 January 2013. This standard gives effect to the consequential changes arising from the issuance of AASB 9: Financial Instruments. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

Revised AASB 124: Related Party Disclosures (December 2009): Related Party Disclosures (December 2009). This standard is applicable to annual reporting periods beginning on or after 1 January 2011. Simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition of a related party. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

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]. AASB 2009-12 makes amendments to a number of Standards and Interpretations. These standards are applicable to annual reporting periods beginning on or after 1 January 2011. 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 IFRSs by the IASB. The Consolidated Entity has yet to determine the potential effect of these standards.

Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments. This standard is applicable to annual reporting periods beginning on or after 1 July 2010. Requires the extinguishment of a financial liability by the issue of equity instruments to be measured at fair value (preferably using the fair value of the equity instrument issued) with the difference between the fair value of the instrument and the carrying value of the liability extinguished being recognized in profit or loss. The Interpretation does not apply where the conversion terms were included in the original contract (such as in the case of a convertible debt) or to common control transactions. Future adoption of this standard is not expected to materially affect the Consolidated Entity.

The Consolidated Entity has no plans to adopt accounting policy options with effect from 1 July 2009. Application of the amending standards will not affect any of the amounts recognized in the Financial Statements and is expected to only impact disclosures contained within the Financial Report.

	2010 \$	2009 \$
NOTE 2 REVENUE & OTHER INCOME		
Revenue		
Consulting and management fee revenue	37,028	-
Bank interest received	131,429	310,705
	<u>168,457</u>	<u>310,705</u>
Other Income		
Gain on sale of 80% interest in subsidiary	136,800	-
Gain on sale of interest in exploration tenement	2,687,907	-
	<u>2,824,707</u>	<u>-</u>

NOTE 3 INCOME TAX EXPENSE

A reconciliation of income tax expense (benefit) applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Consolidated Entity's effective income tax rate for the years ended 30 June 2010 and 2009 is as follows:

Accounting profit /(loss) before income tax	1,565,849	(1,477,436)
Tax at the Australian tax rate of 30%	469,755	(443,231)
Other assessable income	97,816	-
Non-deductible expenses	59,384	710
Non-assessable income items	-	33,764
Deductible amounts recognized in equity	(31,298)	(31,298)
Deferred tax assets not brought to account	-	440,055
Unrecognized tax losses utilized	(180,205)	-
Unrecognized other temporary difference utilized	(415,452)	-
Income tax expense	<u>-</u>	<u>-</u>
Unrecognized temporary differences and tax losses		
Net deferred tax assets not brought to account	<u>74,263</u>	<u>701,218</u>

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated Entity can utilize these benefits.

NOTE 4 AUDITORS' REMUNERATION

Remuneration paid to PKF East Coast Practice - auditing and reviewing the financial report	39,000	45,058
	<u>39,000</u>	<u>45,058</u>

NOTE 5 DIVIDENDS & FRANKING CREDITS

There were no dividends paid or recommended during the financial year. There are no franking credits available to the shareholders of the Company.

	2010 \$	2009 \$
NOTE 6 EARNINGS PER SHARE		
Earnings used to calculate basic and dilutive EPS	<u>1,565,849</u>	<u>(1,477,436)</u>
	2010 #	2009 #
Weighted average number of ordinary shares outstanding during the year	68,119,209	66,732,877
Weighted average number of dilutive options outstanding	-	-
Weighted average number of ordinary shares outstanding during the year used in calculating EPS and dilutive EPS	<u>68,119,209</u>	<u>66,732,877</u>
Weighted average number of anti-dilutive options outstanding excluded from dilutive EPS	28,375,603	28,375,603

	2010 \$	2009 \$
NOTE 7 CASH & CASH EQUIVALENTS		
Cash on hand and at bank	3,194,630	105,767
Cash on deposit	1,911,545	3,191,028
	<u>5,106,175</u>	<u>3,296,795</u>

NOTE 8 TRADE & OTHER RECEIVABLES

Other receivables	721,525	18,963
Interest receivables	57,791	17,273
	<u>779,316</u>	<u>36,236</u>

NOTE 9 OTHER CURRENT ASSETS

Prepayments	59,912	4,666
Bonds and deposits	98,330	186,753
	<u>158,242</u>	<u>191,419</u>

NOTE 10 PLANT & EQUIPMENT

Plant and equipment

At cost	88,371	62,210
Accumulated depreciation	(32,441)	(16,788)
	<u>55,930</u>	<u>45,422</u>

Movements

Opening balance	45,422	31,873
Additions	26,161	24,496
Depreciation	(15,653)	(10,947)
Closing balance	<u>55,930</u>	<u>45,422</u>

NOTE 11 INTANGIBLE ASSETS

Software – at cost	46,426	38,668
Accumulated amortization	(40,219)	(30,934)
Licence costs	-	196,692
	<u>6,207</u>	<u>204,426</u>

Movements

Opening balance	204,426	23,201
Additions	7,758	-
Additions – business combinations	-	196,692
Disposals – business combinations	(196,692)	-
Amortization	(9,285)	(15,467)
Closing balance	<u>6,207</u>	<u>204,426</u>

NOTE 12 EXPLORATION EXPENDITURE

Exploration expenditure capitalized

	2010 \$	2009 \$
Opening balance	3,133,937	2,515,421
Net current year expenditure	1,917,615	1,370,053
Disposals	(326,054)	-
Impairment of exploration expenditure	(151,740)	(751,537)
	<u>4,573,758</u>	<u>3,133,937</u>

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

	2010 \$	2009 \$
NOTE 13 EQUITY ACCOUNTED INVESTMENTS		
Investment in associates	75,000	-
Movements		
Opening balance	-	-
Additions – business combinations (refer Note 26)	47,672	-
Fair value adjustment recognized on deconsolidation	27,328	-
Closing balance	75,000	-

The Consolidated Entity has a 20% interest (2009: 100%) in FTB (Qld) Pty Ltd. On 22 February 2010, the Consolidated Entity sold an 80% stake in FTB (Qld) Pty Ltd to The Chairmen 1 Pty Ltd for \$300,000.

Summarized Financial Information of FTB (Qld) Pty Ltd

	Assets \$	Liabilities \$	Revenue \$	Profit \$
2010	207,832	9,497	-	-

There was no expenditure commitments contracted for at balance payable but not provided for and payable by the associate. There are no known contingent liabilities.

	2010 \$	2009 \$
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NOTE 14 TRADE & OTHER PAYABLES

Other payables and accrued expenses	772,421	87,072
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NOTE 15 PROVISIONS

Employee benefits	89,627	49,074
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NOTE 16 SHARE CAPITAL

Fully paid ordinary shares	10,408,009	8,612,949
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Ordinary Shares

	2010 \$	2009 \$	2010 #	2009 #
At the beginning of the year	8,612,949	8,499,789	67,500,000	65,000,000
Share placement ¹	90,000	110,000	500,000	2,500,000
Share issue expenses	-	-	-	-
Exercise of options ²	1,271,802	-	4,641,301	-
Issue of options	-	3,160	-	-
Transfer from reserves ³	433,258	-	-	-
At reporting date	10,408,009	8,612,949	72,641,301	67,500,000

¹ 2010: 500,000 ordinary fully paid shares issued in consideration for tenement EL 6936.
2009: 2,500,000 ordinary fully paid shares issued to Ian John Potter and Steve White to purchase FTB (QLD) Pty Ltd.

² 2010: 4,641,301 options were exercised during the period for consideration of \$1,271,802. Exercise prices ranged between \$0.114 and \$0.30 per share. Refer to the table below for further detail.

³ 2010: During the year \$433,258 was transferred out of the options reserve into share capital. This transaction had no impact on cashflows or total equity.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Subsequent to year end, an additional 21,180,000 fully paid ordinary shares were issued as a result of the exercise of options prior to 30 June 2010. This resulted in an increase in equity of \$6,353,000 before transaction costs of \$290,200.

NOTE 16 SHARE CAPITAL (continued)

Options

Expiry Date	Exercise Price	Movements				
		1 July 2009	Issued	Exercised	Expired	30 June 2010
30 June 2010	0.30	3,400,000	-	(2,400,000)	(500,000)	500,000 ¹
30 June 2010	0.30	300,000	-	(300,000)	-	-
30 June 2010	0.27	500,000	-	(500,000)	-	-
30 June 2010	0.30	21,447,415	-	(591,301)	(176,114)	20,680,000 ¹
30 June 2010	0.15	800,000	-	(600,000)	-	200,000
31 July 2012	0.114	-	1,100,000	(250,000)	-	850,000
26 November 2012	0.15	-	2,000,000	-	-	2,000,000
16 February 2013	0.25	-	600,000	-	-	600,000
		26,447,415	3,700,000	(4,641,301)	(676,114)	24,830,000

¹The remaining 21,180,000 options expiring 30 June 2010 were exercised prior to year end with consideration received by the Consolidated Entity in July 2010. This transaction was reflected in the financial year ending 30 June 2011.

	2010 \$	2009 \$
NOTE 17 RESERVES		
Share based payment reserve	234,092	474,510
Share based payment reserve movements during the year		
Opening balance	474,510	490,390
Share based payments	192,840	30,161
Option expense reversal – Executive Chairman ¹	-	(46,041)
Transfer to share capital	(433,258)	
Closing balance	234,092	474,510

¹ Due to economic conditions, options that were granted to Mr N Sheard were not voted on at the Annual General Meeting and were therefore not approved. The value of these options previously expensed (\$46,041) on a provisional basis was written back to the Share Based Payment Reserve.

Share based payment reserve

The share based payments reserve is used to record the value of share based payments provided to directors and employees as part of their remuneration.

NOTE 18 CASH FLOW INFORMATION

Reconciliation of cash flows used in operations with profit/ (loss) after income tax

Profit/(loss) after income tax	1,565,849	(1,477,436)
<i>Non-cash items in profit/(loss) after income tax</i>		
Depreciation and amortization	24,939	26,414
Share based payments expense	192,840	(15,880)
Impairment of exploration expenditure	151,740	751,537
Gain on sale of 80% interest in subsidiary	(136,800)	-
Gain on sale of interest in exploration tenement	(2,687,907)	-
<i>Movements in assets and liabilities</i>		
Receivables	(743,080)	-
Other assets	(8,333)	66,141
Trade payables and accruals	685,347	(20,490)
Provisions	40,556	15,029
Cash flow from operations	(914,849)	(654,685)

Non-cash transactions

2010: 500,000 ordinary fully paid shares at \$0.18 per share (\$90,000) were issued in consideration for tenement EL 6936.

2009: 2,500,000 fully paid ordinary shares were issued for the purchase of FTB (QLD) Pty Ltd.

NOTE 19 SHARE BASED PAYMENTS

Equity based instruments - Options

The Company has granted options over ordinary shares to directors, employees and consultants as part of their remuneration packages. The options were granted for nil consideration and are not quoted on the ASX. Information with respect to the number of options granted is as follows:

2010

Tranche	Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted in year	Exercised in year	Lapsed during year	Balance at end of year	Exercisable at end of year
1	27 Aug 2007	30 Jun 2010	\$0.30	3,400,000	-	(2,400,000)	(500,000)	500,000	500,000 ¹
2	14 Nov 2007	30 Jun 2010	\$0.30	300,000	-	(300,000)	-	-	-
3	7 Jan 2008	30 Jun 2010	\$0.27	500,000	-	(500,000)	-	-	-
7	1 July 2008	30 Jun 2011	\$0.15	800,000	-	(600,000)	-	200,000	200,000
8	20 July 2009	31 July 2012	\$0.114	-	1,000,000	(250,000)	-	750,000	750,000
9	1 Oct 2009	31 July 2012	\$0.114	-	100,000	-	-	100,000	100,000
10	26 Nov 2009	26 Nov 2012	\$0.15	-	2,000,000	-	-	2,000,000	2,000,000
11	16 Feb 2010	16 Feb 2013	\$0.25	-	600,000	-	-	600,000	600,000
				5,000,000	3,700,000	(4,050,000)	(500,000)	4,150,000	4,150,000
Weighted average exercise price				0.27	0.16	0.26	0.30	0.18	0.18

¹The remaining 500,000 options expiring 30 June 2010 were exercised prior to year end with consideration received by the Consolidated Entity in July 2010. This transaction was reflected in the financial year ending 30 June 2011.

2009

Tranche	Grant Date	Expiry Date	Exercise Price	Balance at start of year	Granted in year	Exercised in year	Cancelled in year	Balance at end of year	Exercisable at end of year
1	27 Aug 2007	30 Jun 2010	\$0.30	3,400,000	-	-	-	3,400,000	3,400,000
2	14 Nov 2007	30 Jun 2010	\$0.30	300,000	-	-	-	300,000	300,000
3	7 Jan 2008	30 Jun 2010	\$0.27	500,000	-	-	-	500,000	500,000
4	14 Nov 2007	14 Nov 2008	\$0.40	1,000,000	-	-	1,000,000	-	-
5	14 Nov 2007	14 Nov 2009	\$0.50	1,000,000	-	-	1,000,000	-	-
6	14 Nov 2007	14 Nov 2010	\$0.60	1,000,000	-	-	1,000,000	-	-
7	1 July 2008	30 Jun 2011	\$0.15	-	800,000	-	-	800,000	800,000
				7,200,000	800,000	-	3,000,000	5,000,000	5,000,000
Weighted average exercise price				0.38	0.15	-	0.50	0.27	0.27

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.79 years. (2009: 1.16 years).

Fair value of options granted

The assessed fair value at the date of grant of options issued is determined using a Black-Scholes option pricing model that takes into account the exercise price, the underlying share price at the time of issue, the term of the option, the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument.

The value of the options was calculated by using the Black-Scholes pricing model applying the inputs shown below:

Inputs into pricing model	Tranche		
	8	9	10
Grant date	20 Jul 2009	1 Oct 2009	26 Nov 2009
Vesting date	20 Jul 2009	1 Oct 2009	26 Nov 2009
Exercise price	\$0.114	\$0.114	\$0.15
Share price at grant date	\$0.08	\$0.15	\$0.15
Life of the options	3 years	2.8 years	3 years
Underlying share price volatility	77%	77%	77%
Expected dividends	Nil	Nil	Nil
Risk free interest rate	4.00%	4.00%	3.25%

Tranche 11 options were issued in relation to the acquisition of FTB (QLD) Pty Ltd and were deemed to have nil value at the date of acquisition.

NOTE 19 SHARE BASED PAYMENTS (continued)

Equity based instruments – Ordinary Shares

During the year the Company issued 500,000 ordinary fully paid shares at \$0.18 per share (\$90,000) in consideration for tenement EL 6936. The fair value of the tenement was deemed to equal the value of the shares issued. The value of the shares was determined by reference to the Company's trading price on the ASX at the date of acquisition.

NOTE 20 RELATED PARTY and KEY MANAGEMENT PERSONNEL

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

Key management personnel compensation

Key management personnel comprise directors and other persons having authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity.

	2010	2009
	\$	\$
<u>Summary</u>		
Short-term employee benefits	707,802	615,684
Post-employment benefits	65,532	57,191
Share-based payments	168,250	(30,961)
	<u>941,584</u>	<u>641,914</u>

Director/Key Management Personnel shareholdings (number of shares)

2010	Opening Balance	Granted as remuneration	On Exercise of Options	Net Change Other	Closing Balance
Directors					
Nick Sheard	230,000	-	1,000,000	(930,000)	300,000
Bob Hair	20,000	-	510,000	(500,000)	30,000
Mike Chester	86,401	-	-	-	86,401
Stan Macdonald	1,424,669	-	713,335	(2,138,004)	-
Key Management Personnel					
Doug Brewster	34,289	-	715,000	(349,289)	400,000
Chris Powell	21,000	-	460,500	(450,000)	31,500
Total	<u>1,816,359</u>	<u>-</u>	<u>3,398,835</u>	<u>(4,367,293)</u>	<u>847,901</u>

2009	Opening Balance	Granted as remuneration	On Exercise of Options	Net Change Other	Closing Balance
Directors					
Nick Sheard	-	-	-	230,000	230,000
Bob Hair	20,000	-	-	-	20,000
Mike Chester	86,401	-	-	-	86,401
Stan Macdonald	1,424,669	-	-	-	1,424,669
Key Management Personnel					
Doug Brewster	30,000	-	-	4,289	34,289
Chris Powell	21,000	-	-	-	21,000
Bruce Acutt ¹	389,603	-	-	(389,603)	-
Total	<u>1,971,673</u>	<u>-</u>	<u>-</u>	<u>(155,314)</u>	<u>1,816,359</u>

¹ Bruce Acutt resigned as Joint Company Secretary of Carpentaria Exploration Limited on 21 July 2008.

NOTE 20 RELATED PARTY and KEY MANAGEMENT PERSONNEL (continued)

Director/Key Management Personnel option holdings (number of options)

2010	Opening Balance	Granted as remuneration	Options Exercised	Options Lapsed/Sold	Closing Balance
Directors					
Nick Sheard	1,000,000	2,000,000	(1,000,000)	-	2,000,000
Bob Hair	510,000	-	(510,000)	-	-
Mike Chester	43,201	-	-	(43,201)	-
Stan Macdonald	1,212,335	-	(712,335)	-	500,000 ¹
Key Management Personnel					
Doug Brewster	915,000	250,000	(715,000)	-	450,000
Chris Powell	460,500	250,000	(460,500)	-	250,000
Total	4,141,036	2,500,000	(3,397,835)	(43,201)	3, 200,000

¹The remaining 500,000 options expiring 30 June 2010 were exercised prior to year end with consideration received by the Consolidated Entity in July 2010. This transaction will be reflected in the financial year ending 30 June 2011.

2009	Opening Balance	Granted as remuneration	Options Exercised	Net Change Other	Closing Balance
Directors					
Nick Sheard	1,000,000	-	-	-	1,000,000
Bob Hair	510,000	-	-	-	510,000
Mike Chester	43,201	-	-	-	43,201
Stan Macdonald	1,212,335	-	-	-	1,212,335
Key Management Personnel					
Doug Brewster	715,000	200,000	-	-	915,000
Chris Powell	260,500	200,000	-	-	460,500
Bruce Acutt ¹	339,021	-	-	(339,021)	-
Total	4,080,057	400,000	-	(339,021)	4,141,036

¹ Bruce Acutt resigned as Joint Company Secretary of Carpentaria Exploration Limited on 21 July 2008.

Amounts Owed to Key Management Personnel and Other Related Parties

There were no amounts payable to Directors, key management personnel or other related parties at 30 June 2010 (2009: nil).

Transactions With Related Parties

There were no other transactions between the Consolidated Entity and its related parties during the year (2009: nil).

NOTE 21 FINANCIAL RISK MANAGEMENT

The Consolidated Entity's financial instruments consist mainly of deposits with banks and accounts receivable and payable. The main risk arising from the financial instruments is cash flow interest rate risk.

There have been no substantive changes in the Consolidated Entity's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board is responsible for managing the consolidated entity's identification and control of financial risks and for evaluating treasury management strategies in the context of the most recent economic conditions and forecasts. For the period under review, it has been the entity's policy not to trade in financial instruments.

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

NOTE 21 FINANCIAL RISK MANAGEMENT (continued)

(a) Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Consolidated Entity incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Consolidated Entity.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognized financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There is no collateral held as security at 30 June 2010.

Credit risk is reviewed regularly by the Board. It arises from exposure to customers as well as through deposits with financial institutions. The Consolidated Entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Consolidated Entity.

Maximum exposure to credit risk

	2010	2009
	\$	\$
Non-trade receivables	779,316	36,236
Cash and cash equivalents	5,106,175	3,296,795
	<u>5,885,491</u>	<u>3,333,031</u>

Ageing of receivables

Not past due	779,316	36,236
Past due 0-90 days	-	-
Past due >90 days	-	-
Impaired	-	-
	<u>779,316</u>	<u>36,236</u>

None of the past due receivables at 30 June 2010 were impaired because it is expected that these amounts will be received in full in the normal course of business.

Credit risk - Cash and cash equivalents

The credit quality of financial assets that are neither past due nor impaired is considered strong. The counterparty to these financial assets are large financial institutions with strong credit ratings.

(b) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity may encounter difficulties raising funds to meet financial obligations as they fall due.

Liquidity risk is reviewed regularly by the Board. The Consolidated Entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources are maintained. The Consolidated Entity did not have any financing facilities available at balance date.

The table below reflects the contractual maturity of fixed and floating rate financial liabilities. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010. The amounts disclosed represent undiscounted cash flows.

The remaining contractual maturities of the financial liabilities are:

	2010	2009
	\$	\$
Less than one year	772,421	87,072
One to five years	-	-
Greater than five years	-	-
	<u>772,421</u>	<u>87,072</u>

Terms and conditions relating to the above financial instruments:

- Trade creditors are unsecured, non-interest bearing and are normally settled on 30 day terms
- Other creditors are unsecured, non interest bearing
- Due to the short term nature of the current payables the carrying value is assumed to approximate their fair value.

NOTE 21 FINANCIAL RISK MANAGEMENT (continued)

(c) Market Risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

Interest rate risk

Interest rate risk is managed by constant monitoring of interest rates. The Consolidated Entity's interest rate exposure is limited to its cash and cash equivalents assets.

Interest rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the interest rates at reporting date had been 100 basis points higher or lower, with all other variables held constant. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At 30 June 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	2010 \$	2009 \$	2010 \$	2009 \$
+1.00% (100 basis points)	51,062	32,968	51,062	32,968
-1.00% (100 basis points)	(51,062)	(32,968)	(51,062)	(32,968)

(d) Capital Risk Management

Management controls the capital of the consolidated entity in order to provide capital growth to shareholders and ensure the consolidated entity can fund its operations and continue as a going concern. The consolidated entity's capital includes ordinary share capital. Further detail on the value share capital can be found in Note 16. There are no externally imposed capital requirements. Management effectively manages the consolidated entity's capital by assessing the consolidated entity's financial risks and adjusting its capital structure in response to changes in these risks and the market. These responses include the management share issues.

There have been no changes in the strategy adopted by management to control the capital of the consolidated entity since the prior year.

(e) Net Fair Values

The net fair values of financial assets and liabilities approximate their carrying value. No financial assets or liabilities are readily traded on organized markets in standardized form.

The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the balance sheet and in the notes to the financial statements.

NOTE 22 SEGMENT REPORTING

Reportable Segments

The Company operates in one segment, being the exploration, development, and production of minerals. All of the Company's areas of operation are currently located in Australia.

Operating segments are identified on the basis of internal reports that are regularly reviewed by the chief decision maker in order to allocate resources to the segment and assess its performance.

	2010 \$	2009 \$
NOTE 23 COMMITMENTS		
Operating leases		
<i>Minimum lease payments:</i>		
Payable within one year	24,180	102,922
Payable within one year and five years	1,140	108,685
Total contracted at balance date	<u>25,320</u>	<u>211,607</u>

Future exploration

The Consolidated Entity has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Consolidated Entity.

Exploration obligations to be undertaken:

Payable within one year	530,500	439,836
Payable between one year and five years	685,000	309,585
	<u>1,215,500</u>	<u>749,421</u>

To keep tenements in good standing, work programs should meet certain minimum expenditure requirements. If the minimum expenditure requirements are not met, the Company has the option to negotiate new terms or relinquish the tenements or to meet expenditure requirements by joint venture or farm in agreements.

NOTE 24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets at 30 June 2010 that require disclosure in the financial report.

NOTE 25 PARENT ENTITY INFORMATION

The Parent Entity of the Consolidated Entity is Carpentaria Exploration Limited.

	2010	2009
	\$	\$
<u>Parent Entity Financial Information</u>		
Current assets	6,003,733	3,453,074
Non-current assets	4,762,108	3,622,579
Total assets	<u>10,765,841</u>	<u>7,075,653</u>
Current liabilities	862,052	136,146
Non-current liabilities	-	-
Total liabilities	<u>862,052</u>	<u>136,146</u>
Net assets	<u>9,903,789</u>	<u>6,939,507</u>
Issued capital	10,408,009	8,612,949
Share based payment reserve	234,092	474,510
Accumulated losses	(738,312)	(2,147,952)
Total equity	<u>9,903,789</u>	<u>6,939,507</u>
Loss after income tax	(1,409,640)	(1,310,570)
Other comprehensive income	-	-
Total comprehensive income	<u>(1,409,640)</u>	<u>(1,310,570)</u>

Controlled Entities of the Parent Entity

	Percentage Owned		Parent Entity Investment	
	2010	2009	2010	2009
	%	%	\$	\$
Wilyama Prospecting Pty Ltd	100%	100%	1	1
FTB (QLD) Pty Ltd ¹	20%	100%	-	196,692

¹ Refer Note 26 for details of sale of 80% of FTB (QLD) Pty Ltd

NOTE 26 BUSINESS COMBINATIONS

2010:

On 22 February 2010, Carpentaria Exploration Limited sold 80% the shares in FTB (QLD) Pty Ltd ("FTB") to The Chairman 1 Pty Ltd for \$300,000. The Chairman 1 Pty Ltd will manage and fund exploration through to definition of an Inferred Resource, for a maximum expenditure of up to \$2,000,000.

The disposal had the following effect on the consolidated entities assets and liabilities on sale date:

	\$
Cash consideration received	300,000
<i>Assets and liabilities disposed</i>	
Other assets	(41,508)
Intangible assets	(196,692)
20% investment retained	75,000
Gain on disposal	<u>136,800</u>

In the 7 months to February 2010, FTB did not contribute any revenue or profit to the Consolidated Entity.

The Consolidated Entity's remaining 20% is accounted for as equity accounted investment.

2009:

On 23 October 2008, Carpentaria Exploration Limited acquired all of the shares in FTB (QLD) Pty Ltd ("FTB") through the issue of 2,500,000 shares and payment of \$86,692 (including \$31,692 in acquisition costs). FTB holds applications for six tenements located in within the Galilee Basin. In the 7 months to 30 June 2009 FTB contributed \$166,865 to the loss of the Consolidated Entity and made no contribution to revenue of the Consolidated Entity. If the acquisition occurred on 1 July 2008 there would have been no further effect on the reported consolidated revenue or consolidated profit. The consideration paid is summarized below.

Consideration	\$
Cash consideration	55,000
Cash consideration - acquisition costs	31,692
Equity component (2,500,000 shares at \$0.044) ¹	<u>110,000</u>
Total Consideration	<u>196,692</u>
Net cash outflow	86,692

¹ The fair value of shares issued was based on the published price of Carpentaria Exploration Limited's shares as shown on the Australian Stock Exchange on the date of purchase.

The acquisition had the following effect on the consolidated entities assets and liabilities on acquisition date:

	Pre-acquisition carrying amounts	Fair value adjustments	Recognized values on acquisition
Cash and cash equivalents	-	-	-
Other current assets	-	-	-
Intangible assets	332	196,360	196,692
Net identifiable assets and liabilities	<u>332</u>	<u>196,360</u>	<u>196,692</u>
Purchase consideration			196,692

Pre-acquisition carrying amounts were based on the applicable AASBs immediately before the acquisition. The value of assets, liabilities and contingent liabilities recognized on acquisition are their estimated fair values.

NOTE 27 EVENTS AFTER BALANCE SHEET DATE

Subsequent to year end, an additional 21,180,000 fully paid ordinary shares were issued as a result of the exercise of options.

Subsequent to balance date, 1,850,000 options were granted as part of the Employee Share Option Plan with an exercise price of \$0.413 and vesting on 27 May 2012.

DIRECTORS' DECLARATION

The directors of Carpentaria Exploration Limited declare that:

- (a) In the Directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on pages 33 to 54, are 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 2010 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in note 1; and
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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



Director

Brisbane
30 September 2010

INDEPENDENT AUDITOR'S REPORT

To the owners of Carpentaria Exploration Limited

Report on the Financial Report

We have audited the accompanying financial report of Carpentaria Exploration Limited, which comprises the balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of Carpentaria Exploration Limited and its controlled entities ('the consolidated entity'). The Consolidated Entity comprises Carpentaria Exploration Limited 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 Carpentaria Exploration Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Tel: 61 7 3226 3555 | Fax: 61 7 3226 3500 | www.pkf.com.au
PKF | ABN 83 236 985 726
Level 6, 10 Eagle Street | Brisbane | Queensland 4000 | Australia
GPO Box 1078 | Brisbane | Queensland 4001

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Independence

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Carpentaria Exploration 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 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 18 to 23 of the directors' Report for the year ended 30 June 2010. The directors of Carpentaria Exploration Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Carpentaria Exploration Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Acts 2001*.



PKF



Albert Loots
Partner

Dated at Brisbane this 30th day of September 2010