ANNUAL REPORT 2010

FAR LIMITED
ABN 41 009 117 293

(formerly First Australian Resources Limited)

ANNUAL REPORT 2010

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Chairman's Review

2010 will be remembered as the year in which FAR achieved a number of key milestones in its quest to become a leading West African oil explorer, namely:

- An agreement was reached with Ophir Energy on October 2010 which will see FAR participate in Senegal's and Guinea Bissau's first ever deepwater well during April 2011.
- A capital raising of $34 million was finalised in November 2010 placing FAR in its strongest financial position since incorporation.
- FAR experienced a re-emergence of institutional investors during the capital raising and subsequent on market trading with a move away from individual day traders.
- Moving into 2011, FAR achieved a market capitalisation of $200 million for the first time in its history and our shareholders experienced a significant uplift in the value of their shares.

Currently FAR has the largest footprint of any exploration company along the Central Atlantic Margin south of Mauritania and north of Guinea, inclusive of companies that have significantly larger market capitalisations. This leaves FAR highly leveraged to exploration success in a frontier that is experiencing a significant increase in exploration activity.

One need only look at the impact the recent Venus well has had in Sierra Leone and Liberia to find a situation analogous to that which FAR might experience should planned 2011 exploration prove successful along FAR's portion of the Central Atlantic Margin of West Africa.

Whilst the immediate focus is on the high profile Kora well, FAR has, along with its partner Svenska, advanced exploration on three promising blocks offshore Guinea Bissau. A new 3D seismic program comprising 1,640 square kilometres was acquired across the existing Sinapa oil discovery and several other large prospects and leads. Subject to the outcome of that program it is likely that up to two wells will be drilled in Guinea Bissau during 2012. Sinapa lies in only 30 metres of water.

Another recent event of significance to FAR was the announcement by the Beibu Gulf venturers that their development offshore China was proceeding. Subject to certain approvals and production hurdles this will trigger future payments to FAR of US$6 million.

In relation to Senegal, the Venus discovery reported late 2009 by Woodside and Anadarko, offshore Sierra Leone, adds to recent discoveries offshore Ghana providing further evidence that potential remains to be exploited along the thinly explored northwest African Margin. The Venus-1 wildcat extended the Jubilee style of play several hundred kilometres to the northwest.

Following these discoveries, the Atlantic Margin play has gained momentum and the quest for acreage along trend has accelerated and provided a boost to FAR's current marketing effort to secure a drilling partner. FAR has provided data packages to several large international exploration and production companies and detailed technical reviews are ongoing.

FAR has long recognised the potential that exists along the Margin and has an early mover advantage is this exploration play. Recent bid rounds to the south in offshore Liberia were hotly contested and large valuations have been attributed to blocks with potential analogous to FAR.

The challenge lies ahead for FAR in West Africa and there are no guarantees of success in this high risk high reward exploration game. Our shareholders have mandated that we continue this pathway which offers substantial leverage and we take heart from this and the fact that we have a successful track record of bringing in partners. We also enjoy strong support from our co-venturers including Petrosen, the National Oil Company of Senegal, for which we express our gratitude.

FAR continues to be a full member of the Africa Industry Forum in Houston. FAR also sponsored papers at the 2010 AAPG Meeting in New Orleans during April on Evolving Plays within the Senegal portion of the Central Atlantic Margin. The paper was a close collaboration between FAR, Petrosen and Hunt Oil geologists and was delivered by Dr Igor Effimoff representing FAR. Participation in this activity gains FAR greater exposure to industry for both new and existing opportunities.

Following the takeover of Hardman Resources by Tullow Oil PLC in January 2007 the exposure of ASX listed entities to West African oil exploration has diminished and yet the story along the Margin edge is growing in stature with FAR occupying the best current exposure to this exciting region among ASX junior oil explorers. Recognising this significant shift from our roots in Australasia and the Gulf of Mexico, "FAR", as it is internationally known, changed its name during 2010 from "First Australian Resources" to "FAR" which corresponds to our ASX code.

FAR recorded a loss of $6,786,801 during the year as the company wrote down part of its non core portfolio to focus on its key West African licences.

FAR continues to manage assets already built up in North America and Australia, however new capital is not being invested in these regions.

Oil and gas sales revenues in 2010 were $1,023,070 versus $1,293,123 in 2009 reflecting continued weakness in North American natural gas prices and natural decline in production as FAR continued to focus capital in West Africa.

Details of our forward program are contained in the Operations Review section of the Annual Report and in presentation material that has been lodged with the ASX and is available on our website.

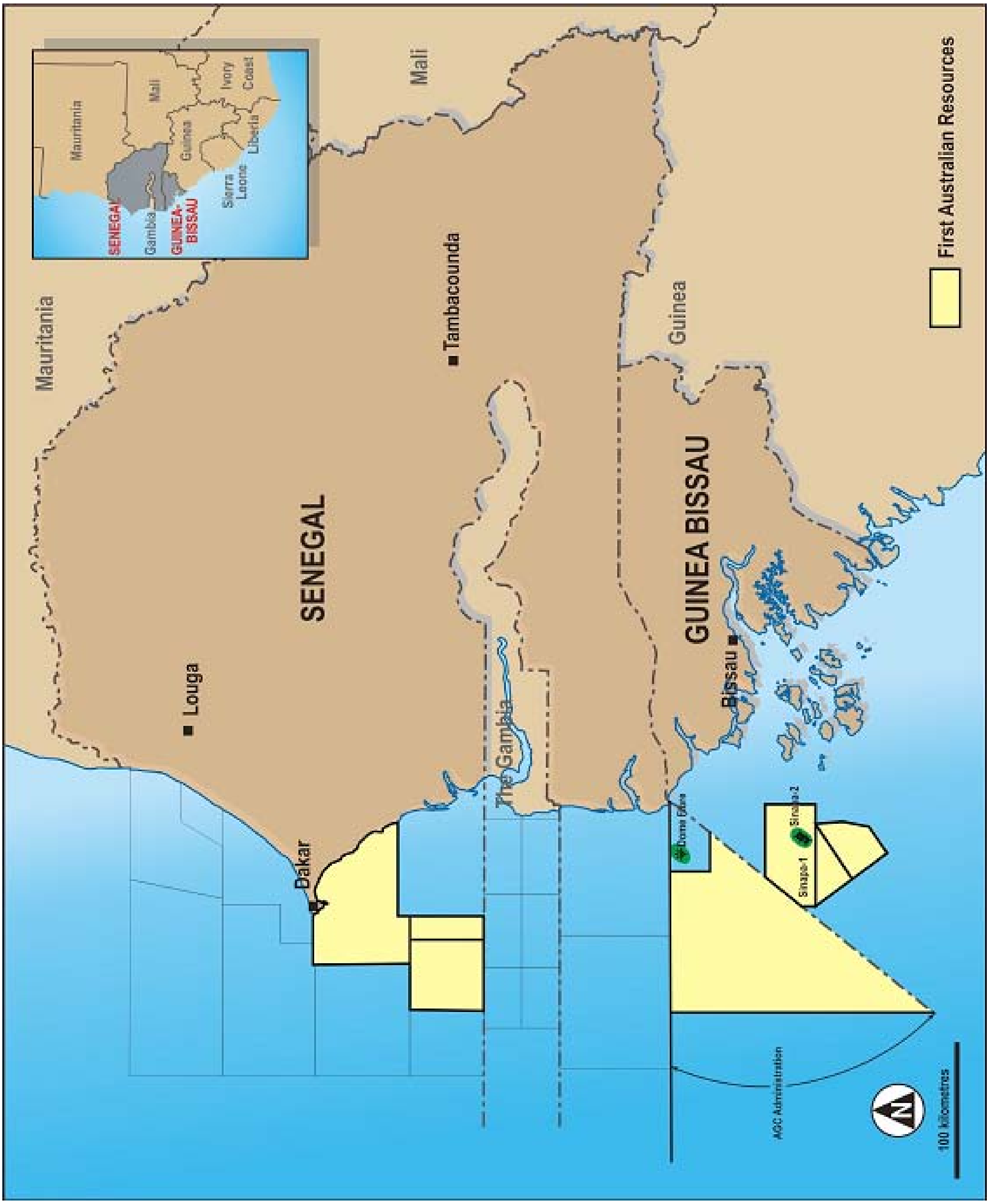
The Directors, staff and consultants both in Australia and overseas continue to work diligently and I thank them for their efforts.

Finally, on behalf of the company, I would very much like to welcome our new shareholders and to thank those existing shareholders who continue to offer their support. With you, I look forward to the challenge that West Africa presents and remain optimistic that we will experience success in our 2011 program and beyond.

Michael Evans
Chairman

Operations Review

OFFSHORE WEST AFRICA



Offshore West African Concessions

Operations Review

AGC

AGC PROFOND (FAR 10% paying interest)

OPERATOR: OPHIR ENERGY PLC

During the year FAR entered into a Heads of Agreement (Agreement) with Ophir Energy plc (Ophir) to participate in the drilling of the Kora prospect via the acquisition of a 10 percent interest in the AGC Profond PSC, in the offshore area jointly administered by Senegal and Guinea Bissau.

The Kora well is targeting a prospect with mean prospective oil resources of 453 million barrels (Ophir estimate). The well, which will be drilled by the semi-submersible rig Maersk Deliverer, is scheduled to spud in early April 2011.

Maersk Deliverer

Under the terms of the Agreement FAR will pay 15% of the well cost. The total well cost is currently estimated at US$32 million with a consequent cost to FAR of US$4.8m. Should the well cost exceed this amount FAR will be liable for its share of over-expenditure on an equity basis (ie 10%).

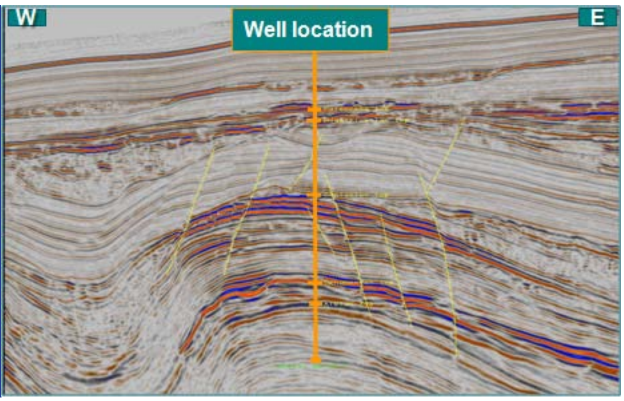
The Agreement to participate in the Kora Prospect will not only see FAR participate in this landmark AGC Profond well but also expands its Offshore West African Licence position to become the largest holder of licences between Guinea in the south and Mauritania to the north.

The agreement is subject to a number of conditions including regulatory approval by the relevant authorities.

AGC Exploration Opportunity

According to data published by Rocksource Norway, a partner in the AGC Profond Block, the PSC contains several commercially viable, low risk prospects.

Kora Prospect



To date, 16 prospects have been mapped and these represent a total un-risked resource potential estimated at approximately 1.7 billion barrels of oil equivalents (Bboe).

Several prospects have been evaluated through the acquisition of CSEM data with encouraging results leading to a decision by the Joint Venture to drill the Kora Prospect in the northern part of the AGC Profond area.

"Kora" is the largest exploration target in the AGC Profond Block lying in 2600 metres of water. It is a large toe-thrust structure and interpreted to contain a series of stacked deep-water reservoir targets.

The CSEM data from two lines that cross the prospect show a strong positive anomaly that conforms to the mapped structure. After the processing of the CSEM data the prospect chance of success is considered by Rocksource to be approximately 50 per cent.

AGC Profond PSC Details

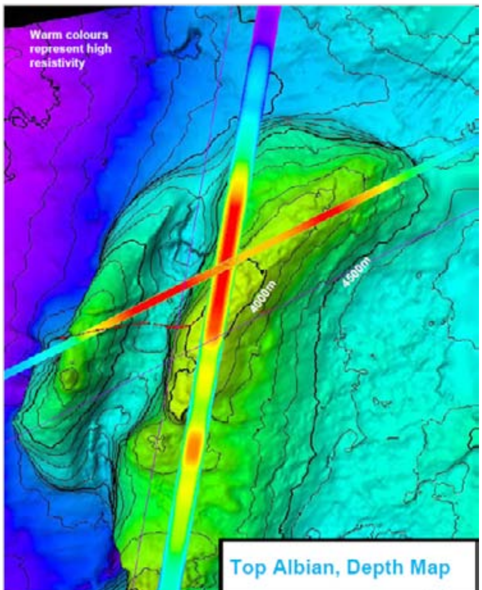
AGC (Agence de Gestion et de Coopération entre le Sénégal et la Guinée-Bissau) is a joint commission set up by the governments of Guinea-Bissau and Senegal to administer the maritime zone between the two countries.

The AGC Profond block consists of the deepwater portions of two blocks previously known as Cheval Marin and Croix du Sud. The block covers an area of 9,838 sq km and is located in water depths ranging from approximately 50 to 3,500m.

The PSC is currently in the first renewal period which runs until 19 September 2011 and carries a single well commitment. A second renewal of a further two years is possible which will incur a commitment to drill another exploration well.

Under the terms of the Agreement FAR will acquire a 10% paying interest in the PSC which is subject to the carried interest of l'Enterprise AGC S.A. (currently 12% with the option to increase by a further 5%).

Under the Agreement, Ophir has the right to acquire a 25 percent interest in FAR's Senegal licence areas within 60 days of drilling the Kora Prospect.



Kora CSEM

Operations Review

SENEGAL

RUFISQUE, SANGOMAR AND SANGOMAR DEEP OFFSHORE BLOCKS (FAR 100% paying interest)

OPERATOR: FAR

FAR is Operator of the Rufisque, Sangomar and Sangomar Deep Blocks offshore Senegal.

During the year, the Company gave notice under the terms of the Production Sharing Contract (PSC) to the Minister for Energy for the Republic of Senegal of its intention to enter the next exploration phase (second renewal period) which commenced on 23 November 2010.

The PSC terms currently specify the requirement to drill a well within 2 years of entering the renewal period backed by a surety of US$5 million that is forfeitable in the event of non performance. FAR's renewal request is for a term of 3 years.

FAR's renewal under the PSC is subject to Ministerial approval and requires a Presidential Decree. The request is supported by Petrosen, the National Oil Company of Senegal.

Recent changes within various Ministries, including that of Energy, have resulted in delays in the processing of Decrees concerning both offshore and onshore PSC's within Senegal.

Late 2010, a delegation comprising two directors and FAR's country manager held meetings with Petrosen and the newly appointed Minister for Energy for the Republic of Senegal concerning the application. FAR's delegation was warmly received by the new Minister and assurances were given that the issuance of a Decree concerning FAR's PSC would be made in due course.

FAR considers there is a compelling case for going forward into the drilling phase for the following reasons:

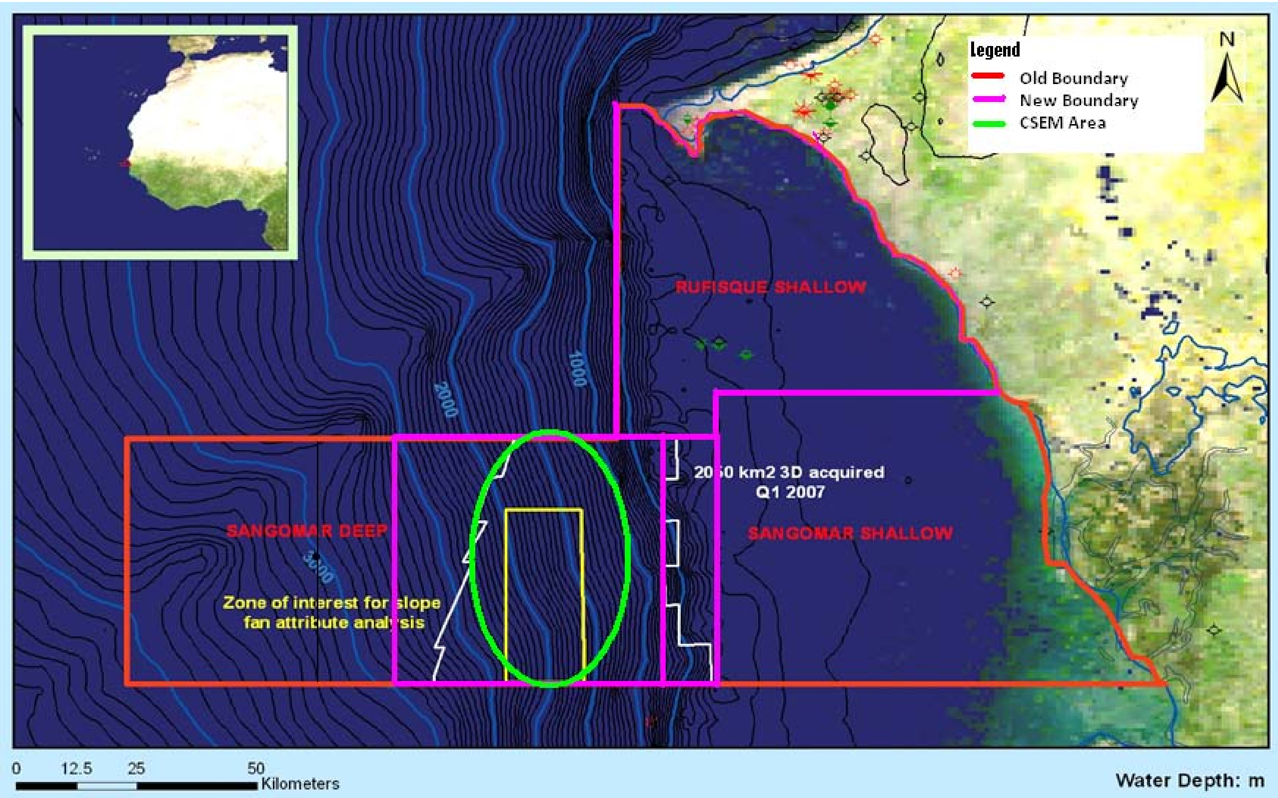
- The Licence renewal would provide more certainty to potential farminees.
- FAR would seek recovery of the US$5m surety in any farmout.
- The renewal would provide additional time to procure a drilling partner. A number of potential partners are currently studying the data.
- The first deepwater well ever drilled in the region is scheduled to be drilled by Ophir, and its joint venture partners including FAR, in April 2011. A successful outcome would impact FAR's Senegal licences; stimulate regional activity and provide more certainty on drilling costs.
- 2011 is shaping up to be a landmark year for deepwater exploration generally along the Central Atlantic Margin with wells earmarked for drilling by Ophir and FAR (AGC), Anadarko (Sierra Leone/Liberia), Dana (Guinea) and African Petroleum (Liberia).
- Recent transactions in Liberia and Gambia (abutting FAR's Senegal licence area) by NSX listed African Petroleum provide strong independent evidence supporting the underlying value of FAR's Licences.

Farmout Marketing Continues

During the year, FAR continued farmout discussions with a number of potential farmin partners with the objective of securing a commitment to drill an exploration well.

FAR has provided data packages to several large international exploration and production companies, including companies with existing operations and/or production in West Africa's deep water play. Detailed technical reviews are ongoing.

FAR is seeking cost recovery and a free carry through the drilling of one exploratory well.



Senegal Blocks

Operations Review

Agreement Reached With Ophir

As noted in the AGC section above, the Heads of Agreement with Ophir gives Ophir the ability to acquire a 25 percent interest in FAR's Senegal blocks within 60 days of drilling the Kora Prospect and, in the event Ophir exercises its option, it will be appointed Operator. Should Ophir elect to continue in the Senegal Blocks subsequent to drilling a Senegal well Ophir has agreed to pay an equivalent reciprocal well promote (1.5 times well cost) to FAR.

Senegal Prospect Background

The Sangomar-Rufisque offshore licences cover an area of approximately 7,490 sq km over the shelf, slope, and basin floor of the Senegalese portion of the productive Mauritania-Senegal-Guinea Bissau Basin.

During 2007 the seismic vessel MV Symphony acquired 2,086 square kilometres of 3D seismic data offshore Senegal in what was the largest 3D survey then undertaken in that part of the West African coastline.

Late 2007 the 3D data was processed and interpreted. Several fans and a giant buried hills play have been identified lying adjacent to the Turonian source rock kitchen. A range of probabilistic oil in place (OOIP) estimates for a very large shelf edge closure (up to 178 km^2) and multiple fan systems were derived by the previous Operator.

Particular focus has been drawn to analogue fields including Cantarell, recognized as a super giant accumulation being Mexico's and perhaps North America's largest. In pre-rift time Senegal was considered to be adjacent to Mexico before the African and American continents pulled apart

The following table illustrates that the 3D defined Aptian shelf edge Prospect falls within the giant category with mean potential exceeding a billion barrels of oil in place.

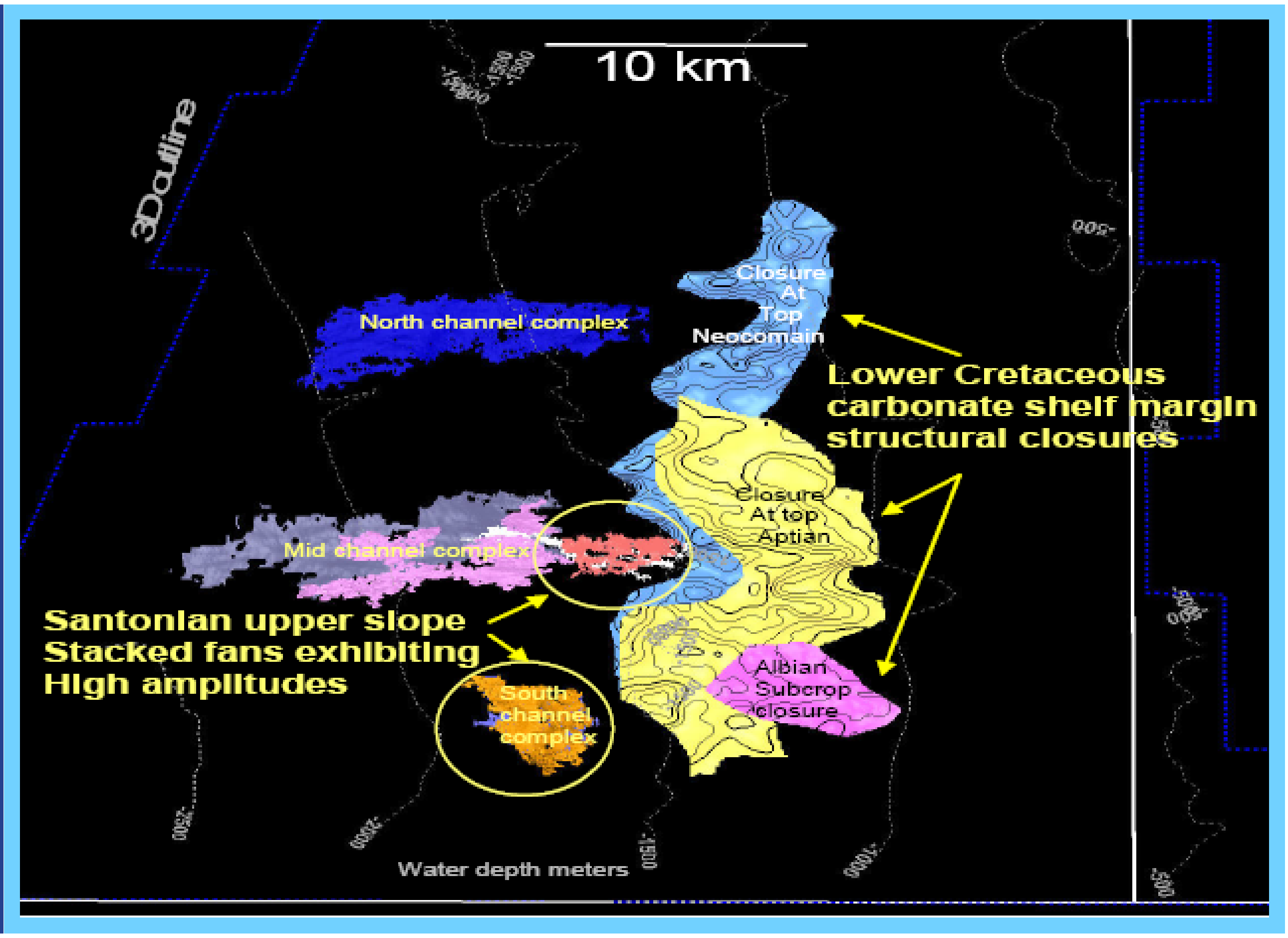
Shelf Edge Closure – Potential

	OOIP MMBO	AREA ACRES	NET PAY FT	Ø %	K mD
P90	40	4,000	16	3.6	50
Mean	**1128**	**22,925**	**172**	**7**	**1,000**
P10	3,082	54,550	452	10	10,000

The next table depicts one single fan with a single reservoir. 3D Mapping shows the southernmost fan complex comprises multiple stacked potential.

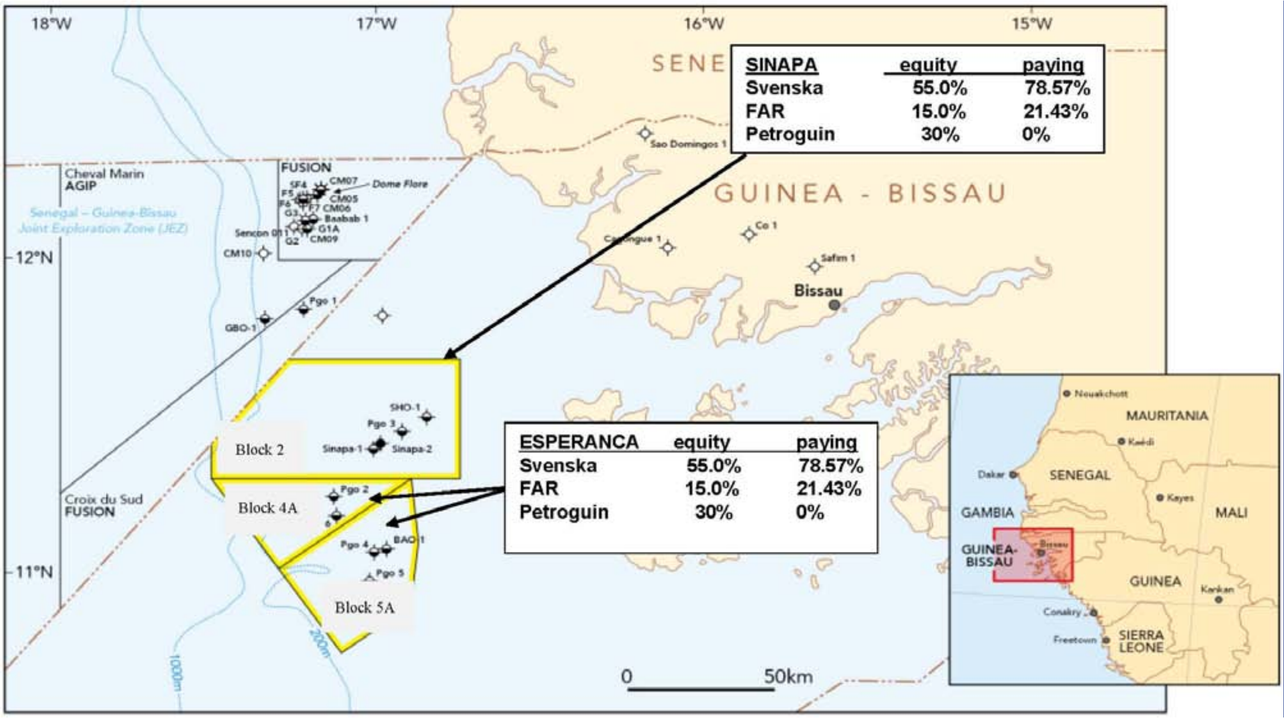
Santonian Age Fan – Single Fan/Single Reservoir Potential

	OOIP MMBO	AREA ACRES	NET PAY FT	Ø %	K mD
P90	5	400	15	8	50
Mean	**183**	**3,855**	**102**	**17**	**200**
P10	516	10,000	225	25	1,000



Operations Review

GUINEA BISSAU



Guinea Bissau Blocks

OFFSHORE BLOCKS SINAPA (BLOCK 2) AND ESPERANCA (BLOCKS 4A & 5A)

(FAR 21.43% paying interest)

OPERATOR: SVENSKA

The Sinapa (Block 2) and Esperanca (Blocks 4A and 5A) offshore licences, as illustrated in the above map, cover an area of approximately 5,832 sq km and lie in water depths ranging from 10 metres to in excess of 1,000 metres. Immediately to the north lies the billion barrel Dome Flore discovery.

The Licences include the Sinapa oil discovery in 30 meters of water depth estimated to have a P50 STOOIP of 240 million barrels and several large untested prospects including the Sardinha prospect estimated to have unrisked P50 STOOIP of 219 million barrels.

The Licences are currently in Phase 1 of the exploration term, which has been extended by presidential decree for two years to 25 November 2012. A further optional four year Phase 2 exploration period has a work commitment that includes a single exploration well.

During the year, the Joint Venture completed a substantial data acquisition program consisting of some 1,200 km^2 of high resolution ARKeX Gravity Gradiometry data and some 1,640 km^2 of 3D seismic PGS Geostreamer data.

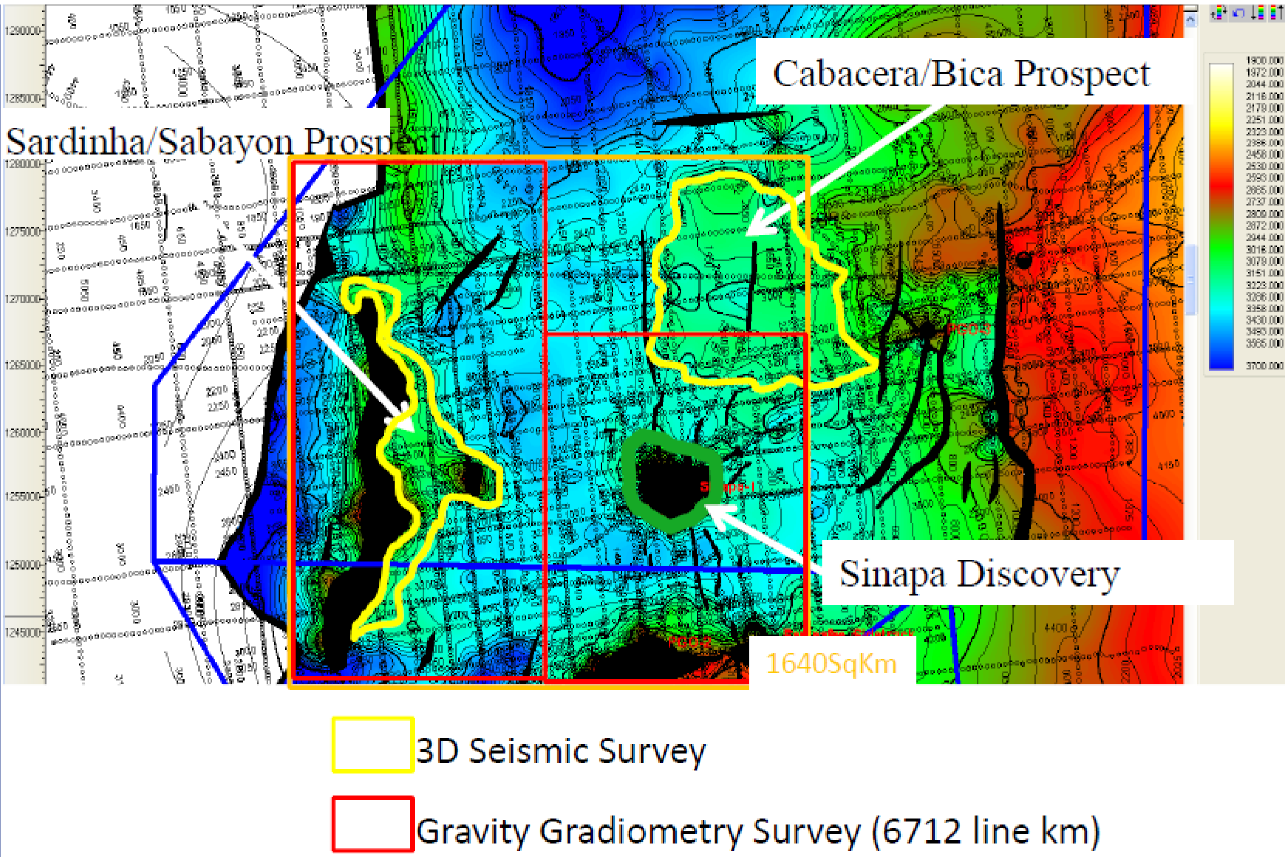
This data has been acquired in order to better define the existing Sinapa discovery and several other large prospects and leads at various stratigraphic intervals on the licenses.

Initial results of both the surveys are encouraging with both Gravity Gradiometry data and Geostreamer seismic data being both detailed and noise free.

The processing of these datasets and their interpretation has continued into 2011 and, subject to the results thereof, may lead to the drilling of up to 2 wells in the Licenses during 2012. Results from the seismic are expected during the second quarter 2011.

3D Seismic Program

Guinea Bissau Leads and Prospects



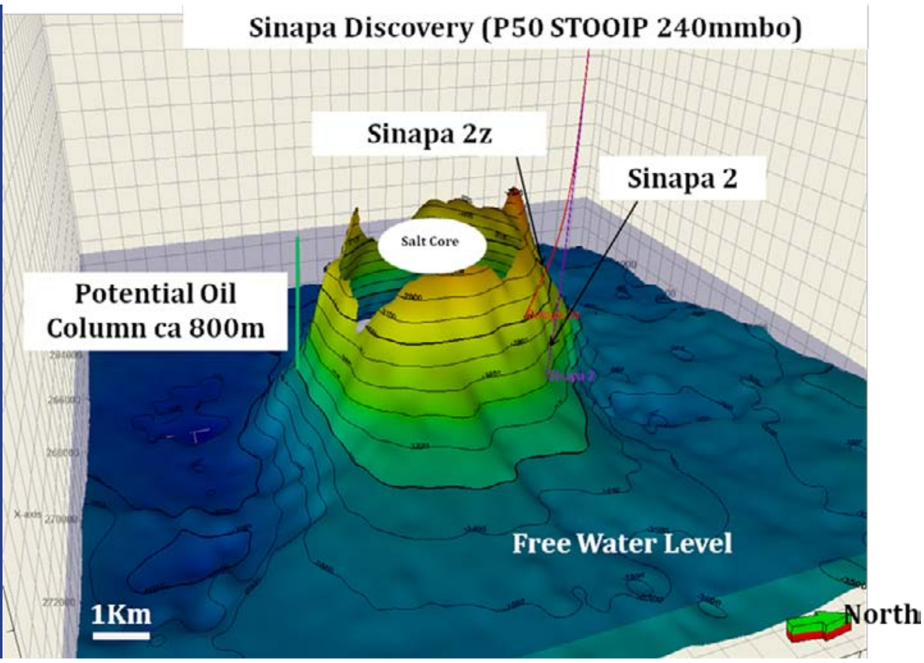
Sinapa Oil Discovery

The Sinapa-2 and 2ST wells drilled by Premier oil in 2004 confirmed the Sinapa Oil Discovery, defining a potential oil column in excess of 500 metres within steeply dipping beds flanking the Sinapa salt diapir; however reservoir quality and structuring issues will need to be thoroughly appraised and understood utilising further seismic and later drilling before any declaration of commerciality can be made.

The recent 3D seismic program discussed above may lead to appraisal drilling of the Sinapa discovery in 2012.

Svenska has conducted an assessment of various low cost development options for the Sinapa oil discovery in 30 meters of water depth. Utilizing basic design data, a series of well management, gas handling and product export options have been considered leading to consideration of the use of Mobile Offshore Production Units (MOPU) or Dry Trees with fixed platform topsides processing tied back to an FPSO. Several of these development options appear attractive.

Sinapa Discovery



Operations Review

CHINA

BEIBU GULF BLOCK 22/12

OPERATOR: ROC

In the prior year, FAR executed a Sale Agreement in respect of its 5% interest in the Beibu Gulf Block 22/12 Joint Venture.

Under the terms of the Agreement, the sale price of US$8 million is payable in three tranches

1. US$2 million was received during April 2009.
2. US$3 million upon approval of an Oilfield Development Program ("ODP") or if commercial development of the project proceeds
3. US$3 million once the project has produced 1 million barrels of oil (gross).

Subsequent to the year end, the remaining Joint Venturers have advised that, following internal and external expert reviews, CNOOC Limited, as the delegated authority, has internally approved the Project Investment and Overall Development Plan ("ODP").

Following receipt of this approval by the Joint Venture, FAR expects to receive the US$3million second tranche payment from the sale of its interest in the project on satisfaction of certain regulatory matters.

NORTH AMERICA

During the year FAR has continued with its strategy of limiting expenditures in North America to the maintenance of current production to allow capital to be focussed on its core assets in West Africa.

The 2010 year saw continued weakness in North American natural gas prices while FAR's share of production fell as a result of natural decline.

Oil sales during the year were 6,210 barrels (2009 – 9,015 barrels) for an average of 17 barrels per day at an average price of US$77.18 per barrel (2009 - US$58.01 per barrel) before production taxes. Gas sales during the year were 98.7million cubic feet (2009 – 120.3 million cubic feet) or an average of 270 thousand cubic feet per day at an average price of US$4.67 per thousand cubic feet (2009 - US$4.09 per thousand cubic feet) before production taxes.

AUSTRALIA

As a result of FAR's increased focus on its West African exploration, activity in Australia has been kept to a minimum in the current year and there is no intention to invest new capital in the area in the foreseeable future.

EP 104/R1 - CANNING BASIN (FAR 8%)

OPERATOR: BURU ENERGY LTD

During the year, further testing of the Stokes Bay-1 well originally drilled in 2007 was undertaken by the participating parties of the R1 Joint Venture. The testing provided no indication of hydrocarbons and the well was suspended.

L15 – CANNING BASIN (FAR 12%)

OPERATOR: BURU ENERGY LTD

During the year the Minister for Mines and Petroleum advised that the L15 production licence (previously referred to as the West Kora application) had been granted for a term of 21 years.

The potential for oil in this area is demonstrated by the West Kora Oilfield located within Application for a Production Licence L98-1. West Kora-1 is a completed oil well, which has the potential to be placed back on production to the existing West Kora-1 Tank Farm. West Kora-1 in particular, emphasises the potential for further oil discoveries along the Pinnacle Fault Trend.

WA-254-P - OFFSHORE CARNARVON BASIN (FAR 10.71%)

OPERATOR: APACHE

WA-254-P comprises 4 graticular blocks and covers 324 square kilometres within the highly prospective offshore Carnarvon Basin on Australia's North West Shelf. The Apache Energy ("Apache") operated Legendre Oilfield lies in close proximity to the north of the permit and the proposed Reindeer Gas Project lies to the south.

The permit has been covered by a multi-client 3-D survey conducted by PGS Exploration in the Dampier Sub Basin, offshore Western Australia.

During the year FAR, together with other minority partners, continued an equity divestment program designed to market a significant interest (29.8 percent) in the Sage Oilfield.

During the year applications were approved to suspend the condition requiring the completion of the year 4 work program to 11 May 2011 and to extend the exploration permit expiry date to 11 May 2012.

T/18P BASS BASIN (FAR 0.09375% OVERRIDING ROYALTY)

OPERATOR: ORIGIN

The Company holds an overriding royalty on the T/18P exploration permit located offshore Tasmania in the Bass Basin. The Bass Basin is located to the east of the Gippsland Basin, historically the largest producing oil and gas area in Australia.

As a royalty holder, FAR does not receive information on activities within the block and relies on public domain information.

FAR has notified each of the current participants of the royalty interest and is awaiting confirmation of acknowledgement. FAR is in receipt of correspondence from SAGASCO (now Origin Energy Resources Limited, Operator of the T18P joint venture) accepting liability in respect of its obligation under the Deed.

Operations Review

RESERVE SUMMARY

An assessment of estimated recoverable reserves effective 31 December 2010 based on existing discoveries provided by various sources is set out below. Coutret and Associates are independent USA based petroleum engineers. Other estimates are those published by Operators, Joint Venture participants or industry analysts.

COUNTRY		OIL (Barrels)	GAS (Billion cubic feet)	SOURCE OF DATA
USA	Gross	457 921	11.02	Coutret and Associates
Multiple Properties	Net (various)	31 372	0.54	
AUSTRALIA				
(Sage Oilfield)	Gross	3 000 000 - 5 000 000		Internal JV papers
	Net (11.25%)	337 500 - 562 500		
(Trefoil/White Ibis)	Gross	23 000 000	300.0	Strachan Corporate Pty Ltd
	Net (0.09375% ORRI)	64 686	0.84	(note: ORRI converted to rule of thumb working interest on 3:1 basis)
GUINEA BISSAU				
Sinapa	Gross	40 000 000 - 59 000 000		Based on operator estimate of potential recovery from 240 MMBO STOOIP and subject to further appraisal drilling
	Net (15%)	6 000 000 - 8 850 000		
TOTAL	Gross	66 457 921 - 87 457 921	311.02	
	Net	6 433 558 - 9 508 558	1.38	

Notes:

The table of potential recoverable reserves is based on oil and gas discoveries made on leases in which FAR has an interest and excludes any potential recoverable reserves attributable to significant undrilled prospects in the AGC, Senegal, Guinea Bissau and elsewhere.

Gross figures are the totals for all interest holders whereas net figures show only those interests attributable to FAR.

Figures shown for the USA are in the proven category according to the accepted definitions of the Society of Petroleum Engineers in that country and basically conform to the definitions used by the United States Securities and Exchange Commission. Wells making up the Company's USA reserves are concentrated in lower risk mature basins in Louisiana and Texas.

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Permit Listing

Permit/Well/Lease	County/Basin	Area Gross Acres	FAR Interest % Working	FAR Interest % Net Revenue	
United States Of America					
Texas					
Loveless Langford 3HT	Hardeman	80	18.25	13.0416	
Bligh Loveless E #1	Hardeman	80	16.25	12.1875	
	Hardeman	80	Royalty	0.3021	
Bligh Loveless F	Hardeman	80	11.375	8.8547	
Bligh Loveless G	Hardeman	80	15.2917	SWD	
Trio Loveless I #1	Hardeman	125	20.00	15.00	undeveloped
JD McClellan #1,2	Hardeman	165	20.8203	16.1194	
Corda Joe McClellan #1	Hardeman	40	4.7694	3.6584	BPO
			7.0413	5.401	APO
Mulkey A #1-B	Hardeman	40	12.7969	9.5977	
Trio Parker #1	Hardeman	80	16.7677	12.8158	
Trio-Crawford Drieschner	Wilbarger	80	24.7509	18.3075	
Trio-Crawford Drieschner	Wilbarger	80	Royalty	0.5455	
Thompson-Sawyer Library	Hardeman	80	25.9103	19.6918	
Bligh Wofford Unit	Hardeman	60	15.75	11.8125	
Sitta "A"	Hardeman	40	5.5173	4.2069	
Phillips Grange D-1	Hardeman	40	11.25	8.6906	
Pursley Grange #1	Hardeman	40	2.10	1.6328	
BB Thrash #3	Hardeman	80	5.1383	3.751	
Barnes #2	Lipscomb	646	20.00	16.00	
Lindsey Trust 109 A-1	Dawson	440	4.64	3.5726	
Talkington #1	Dawson	160	6.6667	5.1339	
Rainosek #3	Lavacca	640	20.00	15.00	
Bujnoch #1	Lavacca	640	20.00	15.20	
NE Waller	Waller	11 905	34.00	25.50	undeveloped
Louisiana					
Pecan Lake Field					
Miami Corp. #2	Cameron	1 280	Royalty	0.7089	
Miami Corp. #2D	Cameron	1 280	Royalty	0.7089	
Miami Corp. #3	Cameron	1 280	Royalty	0.4431	
Miami Corp. #3D (Cutler)	Cameron	1 280	Royalty	0.4431	
Miami Corp #5	Cameron	1 280	Royalty	0.0071	undeveloped
Miami Corp #6	Cameron	1 280	5.3167	4.0472	undeveloped
Ada Field					
Youngblood #1D	Bienville		6.75	4.9894	
Johnson #1 Alt	Bienville	160	10.41	7.7625	
Hooks #1Alt	Bienville	160	5.8524	4.4806	
Canterbury #1Alt	Bienville	160	12.00	9.1873	
Clear Branch					
Terry Ewing No 1	Jackson	425	9.375	0.69375	
Ivan Field					
Gray RA SUN:USA	Bossier	720	1.65	APO	
Kitchens #1	Bossier	720	11.125	7.8242	
			Royalty	0.1953	
Placid #1	Bossier		12.2587	8.7476	
S. Lake Raccourci					
SL 3258 #1	Lafourche	3 200	5.2238	4.3056	

Permit Listing

Permit/Well/Lease	County/Basin	Area Gross Acres	FAR Interest % Working	FAR Interest % Net Revenue	
Lake Long					
SL 328 well No.10	Lafourche	1 325	7.1663	5.0372	
SL 328 well No.6	Lafourche	1 325	31.375	23.2173	
SL 328 well No.7	Lafourche	1 325	16.375	12.408	
SL 328 well No.2ST	Lafourche	1 325	12.625	9.4496	
SL 328 well No.27	Lafourche	1 325	1.375	1.1246	
SL 328 well No.30	Lafourche	1 325	1.375	1.1246	
SL 328 well No.28	Lafourche	1 325	1.375	1.136	
SL 328 well No.8	Lafourche	1 325	1.375	1.1246	
SL 328 well No.9	Lafourche	1 325	10.1875	7.2941	
Isle St. Jean Charles					
Dupont 38 #1	Terrebone	364	5.4072	4.1958	
Dupont 38 #1D	Terrebone	364	5.4072	4.174	
South Grosse Tete					
California					
Eagle	Kings	4 360	15.00	11.7	undeveloped
Wyoming/Montana					
Lund #1 /Plentywood	Sheridan	10 800	2.08		undeveloped
Indian Tree Unit-Lois	Campbell	600	Royalty	0.0615	
Indian Tree Unit 6A	Campbell	600	0.4591	0.4027	
Canada					
Clear Hills	Alberta	1 900	15.00	completion	AMI
Wild River	Alberta	640	30.00	earning	undeveloped
Australia					
WA-254-P	Offshore Carnarvon	80 028	10.7143		
EP 104/R1/L15	Canning Basin	1 160 406	8.00 - 12.00		
T/18 P	Bass Basin	967 000	0.0938	Royalty	
Senegal					
Sangomar-Rufisque	MSGB Basin	1 851 059	100.00		
Guinea Bissau					
Sinapa/ Esperanca	MSGBC Basin	1 441 119	21.43		
AGC					
AGC Profond	MSGBC Basin	2 431 019	10.00		

Notes:

(I) The complexity of lease holdings in the United States of America is such that it is simplistic to reduce holdings to a tabular form. The summary presented is a reasonable tabulation of leases at the reporting date. Actual lease and well holdings are subject to "Before and After Payout variations", various farmout terms, provisions of operating agreements and may be subject to depth restrictions.

(II) AMI means an area of mutual interest applies to additional acreage

(III) Permits and concessions held in countries other than the USA are subject to various royalties, Government impositions and participation agreements.

(IV) The acquisition of AGC is subject to regulatory approval.

(V) The interests disclosed for FAR's West African permits represents paying interests and are subject to carried interests under the terms of the individual Production Sharing Agreements.

CORPORATE GOVERNANCE STATEMENT

Australian Securities Exchange Listing Rule 4.10.3 requires companies to disclose the extent to which they have complied with the best practice recommendations of the ASX Corporate Governance Council.

This statement summarises the corporate governance practices adopted by the Board of Directors and their compliance with the Corporate Governance Principles and Recommendations. Where a best practice recommendation has not been followed, the non-compliance has been noted and a justification provided.

FAR Limited's ("FAR") objective is to achieve the best practice in corporate governance commensurate with the Company's size, its operations and the industry within which it participates.

The Company and its controlled entities together are referred to as FAR in this statement.

Principle 1

Lay solid foundations for management and oversight.

The Board operates in accordance with the broad principles set out below.

Role of the Board

The Board is responsible for corporate strategy, implementation of business plans, allocation of resources, approval of budgets and capital expenditure, and the adherence to Company policies. The Board is also responsible for compliance with the Code of Conduct, overseeing risk management and internal controls, and the assessment, appointment and removal of senior executives and the company secretary.

Evaluation of Executive Performance

A review of executive performance is conducted by the CEO on an annual basis and a report made to the full Board.

Principle 2

Structure the Board to add value.

Board Composition

The Board comprises two independent non executive Directors and one executive Director acting in the capacity as both Chairman and Chief Executive Officer. This approach does not follow ASX Best Practice Recommendations 2.2 and 2.3 as Mr. Evans is both Chairman and Chief Executive Officer.

The FAR Board's preference is that notwithstanding the Recommendation the status quo is retained because;

- Mr. Evans status within FAR has been a key component to establishing deal flow and the quality of projects being offered.
- There is an inherent acceptance by investors that Mr. Evans was responsible for founding the Company and driving its global exploration portfolio.

Given that it is the view of ASX Corporate Governance Council that an executive chairman is not able to provide an independent review of the performance of management, the Board has:

- Established clear protocols for handling conflicts of interest.
- Provided the opportunity for the non executive Directors to meet without any executive present on an annual basis on the day of the AGM and encouraged discussion between non executive directors at any other time as required.
- Established an undertaking to review this position annually.

CORPORATE GOVERNANCE STATEMENT (continued)

Director's Independence

The Board has based its determination of a Director's independence on the criteria specified in the ASX Best Practice Recommendations. The Board considers that the non-executive directors, Charles Cavness and Albert Brindal, satisfy the criteria in that they:

- Are not substantial shareholders of the Company.
- Have not been employed in an executive capacity within the last three years, with the exception of Mr Brindal who has served as Joint Company Secretary during this period. Given that Mr Brindal has performed this role as an external contractor rather than as an employee, and prior to being appointed to the Board had never been involved in any decision making in respect of FAR's strategy or operations, the Board believes that this has not impaired his independence.
- Have not been a principal of a material professional advisor within the last three years.
- Are not a material supplier or customer of the Company.
- Do not have a material contractual relationship with the Company. In this context, fees paid to Mr. Cavness for professional legal services from time to time as disclosed in the financial statements are not considered to be of a level or nature that would impair independent judgement.
- Have no other interests or business relationships likely to materially interfere with the Director's ability to act in the best interests of the Company.

In addition, to facilitate independent decision making, each Director of the Company has the right to seek independent professional advice in the furtherance of their duties as Directors at the Company's expense provided they notify the Company beforehand.

The constitution of the Company provides that Directors shall not retain office for more than three calendar years or beyond the third annual general meeting following election without submitting to re-election by shareholders.

Details of the members of the Board, their skills, experience, expertise, qualifications and length of service are set out in the Directors' Report.

Meetings

The Board aims to hold at least 4 formal meetings in each calendar year corresponding where practical with the release to the ASX of the Quarterly Activity Reports. The number of meetings held is disclosed separately in the Directors' Report.

Board Committees

During the current year the Board established an Audit Committee for the purposes of setting Executive Director remuneration. This is discussed further under principal 8 below.

The Board does not have separately established committees dealing with audit, nomination, risk management and disclosure functions. This constitutes a departure from the ASX Best Practice Recommendations and is dealt with more fully below.

Nomination Committee

The Board does not have a separate nomination committee. ASX Best Practice Recommendation 2.4 provides that the Board should establish a nomination committee notwithstanding recognition that for smaller Boards, the same efficiencies may not be apparent from a formal committee.

In the absence of a nomination committee the Board has the following processes in place

- The full Board of FAR undertakes an annual review of its size and composition to ensure an appropriate mix of expertise and experience. The current Board has significant experience within the resources sector. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.

Performance Evaluation

A performance review is conducted by the full Board on an annual basis.

Principle 3
Promote Ethical and responsible decision making

The Company has a corporate code of conduct ("code") that has been fully endorsed by the Board and applies to all Directors and employees. The code is evolving with the Company and is updated as necessary to ensure it reflects an appropriate standard of behaviour and professionalism to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies.

The Company's policy in relation to dealings in the Company's securities applies to Directors, employees and consultants. Any intended market transactions must be notified to the Chairman in advance to ensure that the market remains fully informed at all times prior to any contemplated transaction. The code and the Company's share trading policy are discussed with new employees.

CORPORATE GOVERNANCE STATEMENT (continued)

Principle 4
Safeguard integrity in financial reporting

Audit Committee

Recommendation 4.1 provides that the Board should establish an audit committee. The Board of FAR has not formed an audit committee. As presently constituted, the full Board of FAR consists of only three Directors and has formed the view that it is more efficient for the Board as a whole to deal with matters that would otherwise be dealt with by an audit committee. The Board has, however, taken the following steps to safeguard the integrity of financial information.

- The Chief Financial Officer is required to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operating results and are in accordance with relevant accounting standards.
- The Chief Financial Officer is formally qualified in the field of financial reporting and is a member of the Institute of Chartered Accountants of Scotland.
- Personnel responsible for generating financial reports within the group must hold appropriate tertiary qualifications in the field of accounting and finance and are required to undertake continuing professional education.
- The Board has established and undertaking to review the need for an Audit Committee on an annual basis.

Principle 5
Make timely and balanced disclosure

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

During the drilling of a well the Company's policy is to report progress at least weekly and where possible to provide immediate release of any significant well data.

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

ASX releases are posted on the Company's website as soon as practical after receiving ASX acknowledgement of release to the market.

Principle 6
Respect the rights of shareholders

All shareholders who request one receive a copy of the annual report. In addition electronic communication is readily accessible to shareholders who may register their email address via a mechanism on the Company's website.

In addition to the Annual Report, information is communicated to shareholders through:

- Continuous disclosure in the form of public announcements to the ASX
- Quarterly reports announced to the ASX
- Investor briefings and presentations
- Notices of all meetings of shareholders and explanatory notes as applicable to resolutions
- Publication of the above material on the FAR website

Shareholders are invited to ask questions at the Annual General Meetings.

CORPORATE GOVERNANCE STATEMENT (continued)

Principle 7
Recognise and manage risk

The board defines risk to be any event that, if it occurs, will have a material impact on the ability of the Company to achieve its objectives. Risk is considered across the financial, operational and organisational aspects of the Company's affairs. As a practical matter active projects and drilling and completion reports are discussed between Board members on a regular basis.

Where exploration and associated financial risk is assessed as high, FAR has an established policy of farming out risk to other industry participants. In certain instances risk is contained at the front end by requiring exploration wells to be based on turnkey contracts, particularly where deep targets or over pressured environments are present.

Given its early stage of development, the financial and organisational risks are considered moderate as there are simple financial and organisational structures in place. Success of the Company is dependent upon exploration success and continued funding of exploration activities.

The Company has tenements in foreign jurisdictions including North America and West Africa. There are risks that arise in relation to the conduct of exploration activities in these foreign jurisdictions which the Company has identified and for which it has internal policies and procedures. The Company, in accordance with its corporate code of conduct, complies with all legal requirements of any jurisdiction in which it operates.

With the exception of the Senegal project, on which the Company has been appointed operator during the farm-out negotiations, the Company does not operate and as part of its environmental risk identification, ensures that it is aligned with experienced operators in each segment in which it conducts business. In addition to "Operator Insurance" covering such events as well blow-outs, FAR carries additional insurance cover across all wells in which it has an interest within the United States of America.

FAR is a junior resource entity at the exploration and early growth stage. Exploration for oil and gas is a high risk undertaking. Accordingly, the investment risk profile of FAR is high and investment in FAR is considered to be speculative.

ASX Best Practice Recommendation 7.1 provides that the Board should establish policies on risk oversight and management.

The Company does not have formal written policies on risk oversight and management. However, as a matter of practice, the board is responsible for risk oversight and management. Day to day responsibility is delegated to the Chief Executive Officer who is responsible for:

- Identification of risk;
- Monitoring risk;
- Communication of risk events to the board; and
- Responding to risk events, with board authority.

Prior to the directors making the directors' declaration in the financial report, the Chief Executive Officer and Chief Financial Officer are required to state to the Board in writing that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects in relation to financial reporting risks.

CORPORATE GOVERNANCE STATEMENT (continued)

Principle 8
Remunerate fairly and responsibly

Remuneration Policy

FAR's remuneration policy is disclosed in the Remuneration Report included in the Directors' Report.

The broad policy calls for executives to be remunerated on terms that are competitive with those offered by entities of a similar size within the same industry. Executive and staff remuneration packages are reviewed annually by the Executive Chairman and allowance is made as a minimum for CPI adjustment to maintain purchasing power. Executive Director remuneration is determined by the Remuneration Committee. See below for further details.

As an exploration Entity, performance outcomes are uncertain, notwithstanding endeavour. As such remuneration packages are not linked to profit performance. Present policy is to reward successful performance via incentive options that are priced on market conditions at the time of issue.

Disclosure of Remuneration

FAR follows the practice of disclosing the amount of remuneration and all monetary and non-monetary components for each Director and executive during the reporting period.

Remuneration Committee

Recommendation 8.1 provides that the Board should establish a Remuneration Committee.

During the current year the Board established a Remuneration Committee for the purpose of reviewing and establishing Executive Director remuneration. Recommendation 8.1 suggests that the Remuneration Committee should be responsible for setting all senior executive remuneration and incentives. At this stage it has been agreed by the Board that the Executive Chairman remains best placed to determine remuneration levels for executives and staff and as such these are excluded from the scope of the Remuneration Committee at the current time. The Board has established an undertaking to review the responsibilities of the Remuneration Committee on an annual basis.

Recommendation 8.2 provides that the remuneration committee should be structured so that it consists of a majority of independent directors; is chaired by an independent chair; and has at least three members.

The Remuneration Committee members are the non-executive directors Albert Brindal and Charles Cavness. Mr Brindal is the Chairman of the committee. Given the current size of the full Board it is not practical to have three directors on the Remuneration Committee.

DIRECTORS' REPORT

The directors of FAR Limited submit herewith the Annual Financial Report for the year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The directors of the Company in office during or since the end of the financial year are:

Michael John Evans – Chairman and Chief Executive Officer
Mr Evans was the founding Chairman of the Company and primarily responsible for its public flotation in 1985. He is a Chartered Accountant holding two business degrees and has been involved in the natural resources sector since 1981. He has considerable experience in Australian public companies particularly in relation to financing in Australia, the United Kingdom and North America.

Charles Lee Cavness – Non-Executive Director
Mr Cavness resides in Denver, Colorado, United States of America, and is an Attorney at Law admitted to practice before the Supreme Courts of the States of Texas, Alaska, and Colorado. Mr Cavness has served in the legal departments of two large American oil companies, Pennzoil Corporation and Arco. Mr Cavness has spent his entire career in the oil industry, and consequently has experience in the US, Latin America, Europe and the Middle East. Mr Cavness has been a director of the Company since 1994.

Albert Edward Brindal – Non-Executive Director
Mr Brindal holds an MBA, a Bachelor of Commerce Degree and is a Fellow Member of the Certified Practicing Accountants in Australia. Mr Brindal has been a director of the Company since 2007 and served as the Company Secretary since 2000.

All directors held office during and since the end of the financial year unless otherwise stated.

None of the directors held directorships of other listed companies in the 3 years immediately before the end of the financial year.

Company Secretaries

Colin John Harper
Mr Harper is a member of the Institute of Chartered Accountants of Scotland, an Associate of the Institute of Chartered Secretaries Australia and holds a BA(Hons) degree in Accounting and Finance. Mr Harper also serves as the Chief Financial Officer of the Consolidated Entity.

Albert Edward Brindal
See above for details.

Principal Activities

The principal activities of the Company and of the Consolidated Entity are:

- exploring for and producing oil and gas; and
- the acquisition and sale of oil exploration and production interests.

Operating Results

The loss of the Consolidated Entity for the year ended 31 December 2010 after income tax was $6,786,801 (2009: profit $2,142,343).

Dividends

The directors recommend that no dividend be paid for the year ended 31 December 2010 nor have any amounts been paid or declared by way of dividend during the year.

Review of Operations

A review of the oil and gas operations of the Company and the Consolidated Entity is set out in the Operations Review section of this Annual Report.

Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the Consolidated Entity.

Subsequent Events

Since the end of the financial year the directors are not aware of any matter or circumstance not disclosed elsewhere in the financial statements or notes thereto that has significantly, or may significantly, affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity in subsequent financial years.

Future Developments

The Consolidated Entity intends to continue its present range of activities during the forthcoming year. In accordance with its objectives, the Consolidated Entity may participate in exploration and appraisal wells and new projects, and may grow its exploration effort and production base by farmin or new lease acquisitions. Certain information concerning future activity is set out in the Operations Review Section. Other information on likely developments and the expected results of operations have not been included in this report, because, in the opinion of the directors, it would prejudice the interests of the Consolidated Entity.

DIRECTORS' REPORT (continued)

Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors and company secretary against a liability incurred as such a director or company secretary to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any of the related body corporate against a liability incurred as such an officer or auditor.

Environmental Regulations

The Consolidated Entity is subject to significant environmental regulation in respect of drilling for and production of oil and gas. Approvals, licences, hearings and other regulatory requirements are performed by the operators of each permit or lease on behalf of joint ventures in which the Consolidated Entity participates. Compliance by operators with environmental regulations is governed by the terms of respective joint operating agreements. The Consolidated Entity does not operate any of its producing assets.

The Consolidated Entity is potentially liable for any environmental damage from its activities, the extent of which cannot presently be quantified and would in any event be reduced by insurance carried by the Entity or operator. As at the date of this report, the Company has not been notified of any breach.

Proceedings on Behalf of the Company

At the date of this report, the Directors are not aware of any proceedings on behalf of the Company or Consolidated Entity.

Remuneration Report – Audited

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of FAR Limited's directors and its senior management for the year ended 31 December 2010.

The directors of the Company during the year were:

- Michael John Evans (Chairman and Chief Executive Officer)
- Charles Lee Cavness (Non-Executive Director)
- Albert Edward Brindal (Non-Executive Director)

The term "senior management" is used in this Remuneration Report to refer to the following persons. The named persons have held their current position for the whole of the financial year and since the end of the financial year:

- Colin John Harper (Chief Financial Officer / Company Secretary)
- June Ann Atling (Administration Manager Australia)
- Roseann Adessa (Administration Manager USA)

Remuneration Policy

The policy calls for executives to be remunerated on terms that are competitive with those offered by entities of a similar size within the same industry. Packages are reviewed annually by the Executive Chairman.

As an exploration entity, performance outcomes are uncertain, notwithstanding endeavour. As such, remuneration packages are not linked to profit performance. Present policy is to reward successful performance via incentive options that are priced on market conditions at the time of issue. The number of options granted is at the full discretion of the board.

The Consolidated Entity has established a remuneration committee for the purpose of setting Executive Director remuneration. Remuneration of other executives is set by the Executive Chairman.

DIRECTORS' REPORT (continued)

Relationship Between the Remuneration Policy and Company Performance

As noted above, remuneration packages are not linked to profit performance.

The tables below set out summary information about the Consolidated Entity's earnings and movements in shareholder wealth for the five years to 31 December 2010:

	31 December 2006 $	31 December 2007 $	31 December 2008 $	31 December 2009 $	31 December 2010 $
Revenue	3 861 149	2 679 260	3 086 217	1 496 168	1 475 106
Net (loss)/profit before tax	(4 382 426)	(3 713 500)	(9 665 758)	2 142 343	(6 786 801)
Net (loss)/profit after tax	(4 382 426)	(3 713 500)	(9 665 758)	2 142 343	(6 786 801)

	31 December 2006 cents	31 December 2007 cents	31 December 2008 cents	31 December 2009 cents	31 December 2010 cents
Share price at start of year	12.0	14.0	12.0	2.8	6.2
Share price at end of year	14.0	12.0	2.8	6.2	8.2
Dividend	-	-	-	-	-
Basic (loss)/earnings per share	(1.18)	(0.82)	(1.90)	0.34	(0.93)
Diluted (loss)/earnings per share	(1.18)	(0.82)	(1.90)	0.34	(0.93)

Director and Executive Remuneration

Remuneration packages contain the following key elements:

- Short-term employee benefits – salary/fees and non monetary benefits including provision of motor vehicles and health benefits.
- Post employment benefits – superannuation.
- Share based payments – share options granted as disclosed in note 30 of the financial statements.
- Other benefits.

The directors and the identified Consolidated Entity executives received the following amounts as compensation for their services as directors and executives of the Company and Consolidated Entity during the year:

2010	Short-term employee benefits		Post-employment	Share-based payment	Total	
Name	Salary and Fees $	Other $	Super $	Options $	$	% consisting of options
Directors						
M J Evans	345 148	27 390	34 515	-	407 053	-
C L Cavness (i)	39 075	-	-	-	39 075	-
A E Brindal	33 000	-	-	-	33 000	-
Executives						
C J Harper	138 600	17 740	15 360	-	171 700	-
J A Atling	129 780	15 000	14 478	-	159 258	-
R Adessa	79 461	8 870	-	-	88 331	-
Total	765 064	69 000	64 353	-	898 417	

(i) Remuneration includes professional advisory fees of US$6,000 disclosed further in note 32.

DIRECTORS' REPORT (continued)

2009	Short-term employee benefits		Post-employment	Share-based payment	Total	
Name	Salary and Fees $	Other $	Super $	Options $	$	% consisting of options
Directors						
M J Evans	321 927	25 793	32 193	343 000	722 913	47.45
C L Cavness	33 000	-	-	-	33 000	-
A E Brindal	33 000	-	-	-	33 000	-
Executives						
C J Harper	126 000	10 000	13 600	54 000	203 600	26.52
J A Atling	107 754	-	10 775	-	118 529	-
R Adessa	87 044	8 494	-	-	95 538	-
Total	708 725	44 287	56 568	397 000	1 206 580	

Options Granted to Directors and Executives

Whilst the Consolidated Entity does not have a formal ownership-based compensation scheme for employees (including directors) of the company, certain share options may be granted to directors and employees as part of their remuneration from time to time. All options issued to directors are granted in accordance with a resolution of shareholders. Options granted to employees are at the discretion of the Board. Each executive share option converts into one ordinary share of the Company on exercise. No amounts have been paid or are payable by the recipient upon receipt of the options. The options neither carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

During the financial year no options were granted to directors and executives.

At the end of the financial year the following share options granted to key management personnel were in existence:

	2010 No:	2009 No:
Exercisable at 15 cents on or before 31 July 2010	-	9 500 000
Exercisable at 7 cents on or before 30 June 2012	7 800 000	7 800 000

All options vested on grant date. There are no further service or performance criteria that need to be met in relation to these options.

Bonus Payments

During the year, a one off bonus payment of $15,000 was made to Mr Harper and Mrs Atling. This bonus payment was made at the discretion of the Board.

Employment Contracts

There are no written contracts in place between directors and executives and the Consolidated Entity with the exception of Mr Harper who is employed under a standard employment contract with a four week notice period.

Termination Benefits

The company has a termination policy in place under which each Australian based executive is entitled to a payment of one month's salary for every full year worked at the date of termination of employment. The calculation of the payment is based on the final salary earned by the executive and is payable in the event that the executive's employment with the Company is terminated by either the Company or the executive. No termination payment is payable in the event of termination by the Company as a result of misconduct.

Directors' Shareholdings

The following table sets out each director's relevant interest in shares and options over shares of the Company at the date of this report:

	Fully Paid Ordinary Shares	Options Over Ordinary Shares
M J Evans	6 371 250	6 000 000
C L Cavness	1 150 000	-
A E Brindal	126 200	-

DIRECTORS' REPORT (continued)

Directors' Meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director:

	Board of Directors Meetings		Remuneration Committee Meetings	
	Held	Attended	Held	Attended
M J Evans	4	4	-	-
C L Cavness	4	4	1	1
A E Brindal	4	3	1	1

Share Options

Details of share options over ordinary shares issued by the Company during the period together with details of options converted during the period and on issue at 31 December 2010 are set out in note 19 to the financial statements and form part of this report.

Non-Audit Services

Details of amounts paid or payable to the auditor for audit services provided during the year by the auditor are outlined in note 34 to the financial statements.

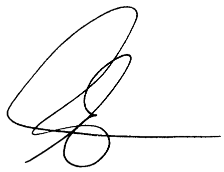
As there were no non-audit services during the year, the directors are satisfied that the provision of non-audit services by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 24 of the annual report.

Signed in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

On behalf of the directors



M. J. Evans

Director

Perth, 14 March 2011.

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
FAR Limited
Suite B1, Tempo Offices
431 Roberts Road
SUBIACO WA 6008

14 March 2011

Dear Board Members

FAR Limited (formerly First Australian Resources Limited)

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of FAR Limited.

As lead audit partner for the audit of the financial statements of FAR Limited for the financial year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Smith

Neil Smith
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the members of FAR Limited (formerly First Australian Resources Limited)

Report on the Financial Report

We have audited the accompanying financial report of FAR Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 27 to 65.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 of the financial report that gives a true and fair view, 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.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of FAR Limited on 14 March 2011 would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of FAR 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 31 December 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 22 of the directors' report for the year ended 31 December 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of FAR Limited for the year ended 31 December 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Neil Smith
Partner
Chartered Accountants
Perth, 14 March 2011

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 3 to the financial statements;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Consolidated Entity; and

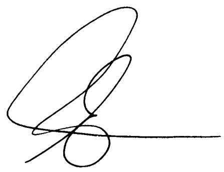
(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the Companies to which the ASIC Class Order applies, as detailed in note 27 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the directors



M. J. Evans

Director

Perth, 14 March 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended 31 December 2010

	Note	2010 $	2009 $
Revenue	6	1 475 106	1 496 168
Other income	7	-	7 967 251
Direct operating costs		(443 338)	(578 668)
Depreciation and amortisation expense	8	(629 480)	(622 845)
Exploration expense		(3 577 400)	(798 792)
Abandonment expense		(9 084)	(22 326)
Finance costs	9	(600 929)	(580 878)
Administration expenses		(389 587)	(438 072)
Employee benefits expense	8	(1 040 707)	(1 811 903)
Consulting expense		(529 789)	(691 905)
Foreign exchange loss		(828 200)	(1 661 344)
Other expenses		(213 393)	(114 343)
(Loss) / profit before income tax		(6 786 801)	2 142 343
Income tax expense	10(a)	-	-
(Loss) / profit attributable to members of FAR Limited	21	(6 786 801)	2 142 343
Other comprehensive income			
Exchange differences arising on translation of foreign operations	20	(242 413)	(1 723 174)
Total comprehensive income for the period attributable to members of FAR Limited		(7 029 214)	419 169
Earnings per share:			
Basic (loss)/earnings (cents per share)	22	(0.93)	0.34
Diluted (loss)/earnings (cents per share)	22	(0.93)	0.34

Notes to the financial statements are included on pages 32 to 65.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2010

	Notes	2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	28(a)	38 092 132	11 710 120
Trade and other receivables	11	3 483 500	3 532 223
Other financial assets	12	-	1 974
Other	13	174 834	89 033
Total Current Assets		41 750 466	15 333 350
NON CURRENT ASSETS			
Other financial assets	12	23 215	21 473
Property, plant and equipment	14	217 493	328 312
Oil and gas properties	15	18 003 786	18 839 901
Total Non-Current Assets		18 244 494	19 189 686
TOTAL ASSETS		59 994 960	34 523 036
CURRENT LIABILITIES			
Trade and other payables	16	500 155	451 480
Provisions	17	1 108 964	855 729
Total Current Liabilities		1 609 119	1 307 209
NON-CURRENT LIABILITIES			
Borrowings	18	2 812 299	2 672 420
Total Non-Current Liabilities		2 812 299	2 672 420
TOTAL LIABILITIES		4 421 418	3 979 629
NET ASSETS		55 573 542	30 543 407
EQUITY			
Issued Capital	19	103 879 103	72 090 504
Reserves	20	1 776 899	1 748 562
Accumulated losses	21	(50 082 460)	(43 295 659)
TOTAL EQUITY		55 573 542	30 543 407

Notes to the financial statements are included on pages 32 to 65.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended 31 December 2010

	Share capital $	Reserves: Option reserve $	Reserves: Equity component on convertible notes $	Reserves: Foreign currency translation reserve $	Reserves: Total $	Accumulated losses $	Total attributable to equity holders of the parent $
Balance at 1 January 2009	67 261 038	1 287 205	496 330	1 071 446	2 854 981	(45 438 002)	24 678 017
Profit/(Loss) for the period	-	-	-	-	-	2 142 343	2 142 343
Exchange differences arising on translation of foreign operations	-	-	-	(1 723 174)	(1 723 174)	-	(1 723 174)
Total comprehensive income for the year	**-**	**-**	**-**	(1 723 174)	(1 723 174)	2 142 343	419 169
Share based payments	-	691 000	-	-	691 000	-	691 000
Issue of shares	4 859 983	-	-	-	-	-	4 859 983
Share issue costs	(283 471)	-	-	-	-	-	(283 471)
Transfer from option reserve	252 000	(252 000)	-	-	(252 000)	-	-
Issue of convertible notes	-	-	178 709	-	178 709	-	178 709
Transfer from equity component on convertible notes reserve	954	-	(954)	-	(954)	-	-
Balance at 31 December 2009	72 090 504	1 726 205	674 085	(651 728)	1 748 562	(43 295 659)	30 543 407
Balance at 1 January 2010	72 090 504	1 726 205	674 085	(651 728)	1 748 562	(43 295 659)	30 543 407
(Loss)/Profit for the period	-	-	-	-	-	(6 786 801)	(6 786 801)
Exchange differences arising on translation of foreign operations	-	-	-	(242 413)	(242 413)	-	(242 413)
Total comprehensive income for the year	-	-	-	(242 413)	(242 413)	(6 786 801)	(7 029 214))
Share based payments	-	270 750	-	-	270 750	-	270 750
Issue of shares	33 999 987	-	-	-	-	-	33 999 987
Share issue costs	(2 211 388)	-	-	-	-	-	(2 211 388)
Balance at 31 December 2010	103 879 103	1 996 955	674 085	(894 141)	1 776 899	(50 082 460)	55 573 542

Notes to the financial statements are included on pages 32 to 65.

CONSOLIDATED CASH FLOW STATEMENT

for the financial year ended 31 December 2010

	Note	2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1 053 928	1 698 815
Payment received under Senegal farm-in option agreement		-	3 697 313
Payments to suppliers		(2 534 599)	(2 547 518)
Interest and other costs of finance paid		(459 808)	(358 448)
Net cash (used in)/provided by operating activities	28(e)	(1 940 479)	2 490 162
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		227 078	222 656
Payments for oil and gas properties		(3 207 332)	(1 614 159)
Recovery of past exploration costs		-	595 619
Payments for property, plant and equipment		(17 209)	(55 981)
Proceeds from sale of oil and gas properties		-	2 872 389
Net cash (used in)/provided by investing activities		(2 997 463)	2 020 524
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		33 999 987	4 850 100
Payment for share issue costs		(2 211 388)	(348 408)
Proceeds from issue of debt securities		-	2 987 115
Payment for debt security issue costs		-	(236 905)
Repayment of borrowings		-	(5 902 540)
Net cash provided by financing activities		31 788 599	1 349 362
NET INCREASE IN CASH AND CASH EQUIVALENTS		26 850 657	5 860 048
Cash and cash equivalents at the beginning of the year		11 710 120	6 761 829
Effects of exchange rate changes on cash and cash equivalents		(468 645)	(911 757)
Cash and cash equivalents at the end of the financial year	28(a)	38 092 132	11 710 120

Notes to the financial statements are included on pages 32 to 65.

NOTES TO THE FINANCIAL STATEMENTS

1. General information

FAR Limited (the Company) is a listed public company, incorporated in Australia and operating in Australia, West Africa and North America.

FAR Limited's registered office and its principal place of business at the date of this report are as follows:

Suite B1
431 Roberts Road
Subiaco
WA 6008
Tel: (08) 6363 8779

2. Adoption of new and revised Accounting Standards

In the current period, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for reporting periods beginning on 1 January 2010.

The following new and revised Standards and Interpretations have been adopted in the current period:

- AASB 3 Business Combinations (2008), AASB 127 Consolidated and Separate Financial Statements (2008), and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127.
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project
- AASB 2009-7 Amendments to Australian Accounting Standards

The adoption of these standards and interpretations did not have any effect on the financial position or performance of the Consolidated Entity.

The Consolidated Entity has not elected to early adopt any new standards or amendments.

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective:

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 124 'Related Party Disclosures'(2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	31 December 2011
AASB 9 'Financial Instruments', AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	31 December 2013
AASB 9 'Financial Instruments' (December 2010), AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	31 December 2013
AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	1 July 2013	31 December 2014
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 July 2010	31 December 2011
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	1 January 2011	31 December 2011
AASB 2010-5 Amendments to Australian Accounting Standards	1 January 2011	31 December 2011
AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets	1 July 2011	31 December 2012
AASB 2010-8 Amendments to Australian Accounting Standards – Deferred tax: Recovery of Underlying Assets	1 January 2012	31 December 2012
Interpretation 19 Extinguishing Liabilities with Equity Instruments	1 July 2010	31 December 2011

NOTES TO THE FINANCIAL STATEMENTS

2. Adoption of new and revised Accounting Standards (continued)

The Directors note that the impact of the initial application of the Standards and Interpretations is not yet known or is not reasonably estimable. These Standards and Interpretations will be first applied in the financial report of the Consolidated Entity that relates to the annual reporting period beginning on or after the effective date of each pronouncement.

At the date of authorisation of the financial report, other Standards and Interpretations, including those Standards or Interpretations issued by the IASB/IFRIC where an equivalent Australian Standard or Interpretation has not been made by the AASB, that were on issue but not yet effective were not considered to have an effect on the Consolidated Entity as at reporting date.

3. Summary of significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report comprises of the consolidated financial statements of the Consolidated Entity.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Consolidated Entity comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 14 March 2011.

Basis of preparation

The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as 'the Consolidated Entity' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Consolidated Entity.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

Borrowings are classified as current liabilities unless the Consolidated Entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(c) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes on value, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

Cash flows have been allocated among operating, investing and financing activities which appropriately classify the Consolidated Entity's activities.

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

(e) Fair value estimation

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

Techniques, such as estimated discounted cash flows, are used to determine fair value for certain financial instruments. The fair value of forward exchange contracts, where applicable, is determined using forward exchange market rates at the reporting date.

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

(f) Employee benefits

General
Employee benefit expenses arising in respect of wages and salaries, non-monetary benefits, annual leave, long service leave and other types of employee benefits are charged to the statement of comprehensive income in the period when it is probable that settlement will be required and they are capable of being measured reliably. Contributions to superannuation funds by entities within the Consolidated Entity are charged to the statement of comprehensive income when due. A superannuation scheme is not maintained on behalf of employees.

Wages and salaries and annual leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave are measured at their nominal value using the remuneration rate expected to apply at the time of settlement.

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

(g) Financial assets

Financial assets at fair value through profit or loss
A financial asset is classified in this category if acquired principally for the purpose of selling in the short term and certain criteria are satisfied as outlined in AASB 139 'Financial Instruments: Recognition and Measurement'. Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Consolidated Entity's management has the positive intention and ability to hold to maturity and are initially held at fair value net of transactions costs.

Bills of exchange classified as held to maturity are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Consolidated Entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position. Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

Impairment of financial assets
Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

(h) Acquisition of assets and goodwill

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. If the cost of acquisition is less than the fair value of the business combination, the difference is recognised directly in the statement of comprehensive income.

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

(i) Financial instruments issued by the Company

Debt and equity instruments
Debt and equity instruments including ordinary shares and options are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments
Transaction costs arising on the issue of equity instruments, including new shares and options, are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and dividends
Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instruments. The Consolidated Entity does not presently pay dividends.

Financial guarantee contract liabilities
Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of the amount recognised as a provision and the amount initially recognised less cumulative amortisation in accordance with the revenue recognition policies described in note 3(q).

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 29.

Compound instruments
The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently remeasured.

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(j) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

The Consolidated Entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken exploration and evaluation activity. Restoration and abandonment obligations are reviewed annually taking into account estimates by independent petroleum engineers.

(k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

(i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

(ii) for receivables and payables which are recognised inclusive of GST.

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

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

(l) Foreign currency translation

Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Entity operates ("the functional currency").

The Consolidated financial statements are presented in Australian dollars, which is FAR Limited's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Group companies and foreign operations
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid a proportionate share of such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

(m) Payables

Trade payables and other accounts payable are recognised when the Consolidated Entity becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and usually paid within 30 days of recognition.

(n) Income tax

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures except where the Consolidated Entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Consolidated Entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/ Consolidated Entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items that are recognised outside profit or loss, in which case the deferred tax is also recognised outside profit or loss, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation
The Company and all its wholly-owned Australian resident Entities are part of a tax consolidated group under Australian taxation law. FAR Limited is the Head Entity in the tax consolidated group. A tax funding arrangement has not been finalised between Entities within the tax consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the "stand alone taxpayer" approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax consolidated group are recognised by the Company (as head-entity in the tax consolidated group).

(o) Joint ventures

Jointly controlled assets and operations
Interests in jointly controlled assets and operations are reported in the financial statements by including the Consolidated Entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred or income generated in relation to the joint ventures in their respective classification categories.

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income in accordance with the Consolidated Entity's general policy on borrowing costs. Refer to note 3(c).

Finance leased assets are amortised on a diminishing value basis over the term of the lease or, where it is likely the Consolidated Entity will obtain ownership of the asset, the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(q) Revenue recognition

Sale of oil and gas and related products
Revenue from the sale of oil and gas and related products is recognised when the Consolidated Entity has transferred to the buyer the significant risks and rewards of ownership and the amounts can be measured reliably. In the case of oil, this usually occurs at the time of lifting.

Interest revenue
Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(r) Exploration and evaluation costs

Exploration and evaluation costs are accumulated in respect of each "area of interest" or geographical segment in accordance with AASB 6 'Exploration For and Evaluation of Mineral Resources' and are disclosed as a separate class of assets. Costs are either expensed as incurred or partially or fully capitalised as an exploration and evaluation asset provided exploration titles are current and at least one of the following conditions are satisfied:

(i) the exploration and evaluation expenditures are expected to be recouped through development and exploitation of the area of interest or by future sale; or

(ii) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are classified between tangible and intangible and are assessed for impairment when facts and circumstances suggest the carrying amount may exceed the recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Expenditures relating to development of oil and gas leases are shown separately and not included in exploration and evaluation assets.

(s) Property, plant and equipment and oil and gas properties

Plant and equipment, equipment under finance lease and oil and gas properties, including carried forward development expenditure, are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

All tangible assets have limited useful lives and are depreciated/amortised using the diminishing value method over their estimated useful lives, taking into account estimated residual values, with the exception of carried forward development expenditure in the production phase and plant and well equipment which are amortised on a units of production method based on the ratio of actual production to remaining proved reserves (1P) as estimated by independent petroleum engineers, and finance lease assets which are amortised over the term of the relevant lease or, where it is likely the Consolidated Entity will obtain ownership of the asset, the life of the asset.

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

Depreciation is calculated on a diminishing value basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value, as follows:

- Vehicles	22.5%
- Furniture, fittings and equipment	20%
- Telephones	30%
- Computer equipment	40%
- Plant and well equipment	Based on units of production
- Oil and gas properties	Based on units of production

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the diminishing value method.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period and adjusted if appropriate.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(t) Impairment of assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impairment losses are recognised in the statement of comprehensive income.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

(u) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 30.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

The above policy is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS

3. Summary of significant accounting policies (continued)

(v) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

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

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the entity's accounting policies

The following are the critical judgements including those involving estimations, that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

(i) Oil and Gas Reserve Estimates are made in determining the depletion charge to be levied against producing oil and gas properties during the period. These estimates are provided by Independent Petroleum Engineers. These estimates are also used in determining the fair value of oil and gas properties for the purpose of impairment testing.

(ii) The Consolidated Entity recognises any obligations for removal and restoration that are incurred during a particular period as a consequence of having undertaken exploration and evaluation activity. Future restoration and abandonment obligations are reviewed annually taking into account estimates by independent petroleum engineers. Presently the Consolidated Entity does not have any large scale production facilities that would have a material impact in relation to future restoration costs and, accordingly, there are no provisions for future restoration costs. This position may change should the Consolidated Entity embark on a more substantial development project.

(iii) The Consolidated entity has capitalised significant exploration and evaluation expenditure on the basis either that this is expected to be recouped through future successful development or alternatively sale of the areas of interest. If ultimately the areas of interest are abandoned or are not successfully commercialised, the carrying value of the capitalised exploration and evaluation expenditure would need to be written down to its recoverable amount.

(iv) The Consolidated entity has carried forward tax losses which have not been recognised as deferred tax assets as it is not considered sufficiently probable at this point in time, that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS

5. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the entity that are regularly reviewed by the managing director (chief operating decision maker) in order to allocate resources to the segments and to assess its performance.

During the current year, the Consolidated Entity undertook exploration for and the production of oil and gas in Australia, West Africa, and North America. During the prior year, the Consolidated Entity disposed of its Chinese operations.

Segment Assets and Liabilities

The following is an analysis of the Consolidated Entity's assets and liabilities by reportable operating segment:

	Assets		Liabilities	
	2010 $	2009 $	2010 $	2009 $
Australia	94 331	55 709	-	-
Canada	-	-	-	-
China	-	-	-	-
Guinea Bissau	2 816 766	-	-	-
Senegal	14 378 586	13 905 367	-	-
USA	1 271 550	5 550 115	220 105	264 613
Corporate	41 433 727	15 011 845	4 201 313	3 715 016
Total assets and liabilities	59 994 960	34 523 036	4 421 418	3 979 629

Segment Revenue and Results

The following is an analysis of the Consolidated Entity's revenue and results by reportable segment for the periods under review:

	Revenue		Segment Profit/(Loss)	
	2010 $	2009 $	2010 $	2009 $
Australia	-	-	(68 951)	-
Canada	-	-	(1 354)	(748 498)
China	-	-	-	4 033 169
Guinea Bissau	-	-	-	-
Senegal	-	-	-	3 697 313
USA	1 024 441	1 294 881	(3 846 792)	(311 126)
Corporate	450 665	201 287	(2 869 704)	(4 528 515)
Consolidated segment revenue and (loss)/ profit before tax for the period	1 475 106	1 496 168	(6 786 801)	2 142 343
Income tax expense			-	-
Consolidated segment revenue and (loss)/ profit after tax for the period	1 475 106	1 496 168	(6 786 801)	2 142 343

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period.

NOTES TO THE FINANCIAL STATEMENTS

5. Segment Information (continued)

Other Segment Information

	Depreciation and Amortisation		Additions to Non-Current Assets	
	2010 $	2009 $	2010 $	2009 $
Australia	-	-	107 573	48 709
Canada	-	-	1 354	21 501
China	-	-	-	(11 732)
Guinea Bissau	-	-	2 816 766	
Senegal	-	-	473 219	797 457
USA	607 883	599 101	73 835	55 367
Corporate	21 597	23 744	2 236	90 222
	629 480	622 845	3 474 983	1 001 524

6. Revenue

An analysis of the Consolidated Entity's revenue for the year from continuing operations is as follows:

	2010 $	2009 $
Sales Revenue:		
Oil and gas revenues	1 023 070	1 293 123
Interest Revenue:		
Bank deposits	445 463	196 877
Other Revenue	6 573	6 168
	1 475 106	1 496 168

7. Other Income

	2010 $	2009 $
Gain on sale of oil and gas interests	-	4 033 169
Senegal farm-in option agreement	-	3 697 313
Rebate under R&D tax concession scheme	-	217 247
Gain on disposal of property, plant & equipment	-	15 540
Miscellaneous other income	-	3 982
	-	7 967 251

NOTES TO THE FINANCIAL STATEMENTS

8. Profit / (loss) for the year

Loss for the year from continuing operations includes the following expenses:

	2010 $	2009 $
Depreciation and amortisation:		
- Property, plant & equipment	(112 039)	(100 383)
- Oil & gas properties	(517 441)	(522 462)
	(629 480)	(622 845)
Impairment of non-current assets:		
- exploration costs expensed:		
- Oil & gas properties	(3 577 400)	(798 792)
Operating lease rental expenses:		
- Rental expense on operating lease	(144 319)	(156 104)
Share based payments to consultants – equity settled	(270 750)	(294 000)
Employee benefit expense:		
- Post employment benefits:		
Defined contribution plans	(64 791)	(60 685)
- Share based payments-equity settled	-	(397 000)
- Other employee benefits	(975 916)	(1 354 218)
	(1 040 707)	(1 811 903)

9. Finance costs

	2010 $	2009 $
Interest on bank overdrafts and loans	-	(5 667)
Interest on convertible notes	(445 675)	(441 658)
Total interest expense	(445 675)	(447 325)
Accretion expense	(139 879)	(113 734)
Other finance costs	(15 375)	(19 819)
	(600 929)	(580 878)

NOTES TO THE FINANCIAL STATEMENTS

10. Income Taxes

(a) Income tax recognised in profit or loss

	2010 $	2009 $
Tax expense/(income) comprises:		
Current tax expense/(income)	(2 036 040)	125 551
Benefit arising from previously recognised tax losses of prior periods used to reduce current tax expense	-	(125 551)
Tax losses not brought to account	2 036 040	-
	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	781 237	(1 577 356)
Benefit arising from previously recognised tax losses of prior periods used to reduce deferred tax expense	(781 237)	-
Expense arising from de-recognition of previously recognised tax losses of prior periods used to reduce deferred tax expense	-	1 577 356
Total tax expense/(income)	-	-

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2010 $	2009 $
Profit/(loss) from operations	(6 786 801)	2 142 343
Income tax expense/(income) calculated at 30%	(2 036 040)	642 703
Non-assessable income and non-deductible expenditure	-	(517 152)
Utilisation of carried forward tax losses	-	(125 551)
Unused tax losses and tax offsets not recognised as deferred tax assets	2 036 040	-
	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period. No adjustment has been made for the incremental impact of the USA federal income tax rate which is marginally higher at 35% for the purpose of this disclosure note as the impact is not considered significant with respect to the operations of the Consolidated Entity.

(b) Income tax recognised directly in equity

There were no current and deferred amounts charged directly to equity during the period.

(c) Deferred tax balances

	2010 $	2009 $
Deferred tax assets comprise:		
Tax losses in the United States	250 216	390 925
Tax losses in Australia	4 711 035	3 789 089
	4 961 251	4 180 014
Deferred tax liabilities comprise		
Temporary Differences	4 961 251	4 180 014

NOTES TO THE FINANCIAL STATEMENTS

10. Income Taxes (continued)

Taxable and deductible temporary differences arise from the following:

2010	Opening balance $	Recognised in income $	Recognised in equity $	Closing balance $
Oil & gas properties	4 602 932	828 355	-	5 431 287
Property, plant & equipment	(17 625)	23 459	-	5 834
Receivables	(148 574)	-	-	-
Provisions	(256 719)	(70 577)	-	(327 296)
Total	4 180 014	781 237	-	4 961 251

2009	Opening balance $	Recognised in income $	Recognised in equity $	Closing balance $
Oil & gas properties	6 002 368	(1 399 436)	-	4 602 932
Property, plant & equipment	(43 247)	25 622	-	(17 625)
Receivables	(148 574)	-	-	(148 574)
Provisions	(53 177)	(203 542)	-	(256 719)
Total	5 757 370	(1 577 356)	-	4 180 014

	2010 $	2009 $
Unrecognised deferred tax balances		
The following deferred tax assets have not been brought to account as assets:		
Tax losses in the United States (net)	3 671 067	3 652 111
Tax losses in Australia (net)	8 295 763	8 075 155
	11 966 830	11 727 266

Tax consolidation

Relevance of tax consolidation to the Consolidated Entity

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2007 and are therefore taxed as a single entity from that date. The Head Entity within the tax consolidated group is FAR Limited. The members of the tax consolidated group are identified at note 27.

11. Trade and other receivables

	2010 $	2009 $
Trade receivables	121 485	150 735
Interest receivable	234 069	15 679
Other receivables	3 623 192	3 861 055
Less allowance for doubtful debts	(495 246)	(495 246)
	3 483 500	3 532 223

The credit period on the sale of oil and gas varies between 30 and 60 days. No trade receivables were past due at balance date.

Included in other receivables is an amount of US$3million due in respect of the prior year sale of the Consolidated Entity's interest in the Beibu Gulf Block 22-12 Joint Venture (through the disposal of a wholly owned subsidiary). The amount is payable on satisfaction of certain conditions as stipulated in the sale and purchase agreement. Based on the most recent information available from the operator of the Joint Venture, the directors expect receipt of the funds within 12 months of balance date.

Other receivables include amounts of $495,246 (2009: $495,246) which were past due at balance date. These amounts have been provided for in full.

NOTES TO THE FINANCIAL STATEMENTS

12. Other financial assets

Current

	2010 $	2009 $
Other financial assets – security deposit	-	1 974

The weighted average interest rate on the security deposit is nil% (2009: nil%).

Non-current

	2010 $	2009 $
Other financial assets – security deposit	23 215	21 473

The weighted average interest rate on the security deposit is nil% (2009: nil%).

13. Other current assets

	2010 $	2009 $
Prepayments	174 834	89 033

14. Property, Plant and Equipment

	Plant and Equipment	TOTAL
Gross Carrying Amount	$	$
Balance at 1 January 2009	2 466 973	2 466 973
Additions	92 561	92 561
Disposals	(75 155)	(75 155)
Net foreign currency exchange differences	(528 498)	(528 498)
Balance at 1 January 2010	1 955 881	1 955 881
Additions	20 301	20 301
Disposals	-	-
Net foreign currency exchange differences	(212 612)	(212 612)
Balance at 31 December 2010	1 763 570	1 763 570
Accumulated Depreciation /amortisation and impairment		
Balance at 1 January 2009	2 040 555	2 040 555
Disposals	(60 682)	(60 682)
Depreciation expense	100 383	100 383
Net foreign currency exchange differences	(452 687)	(452 687)
Balance at 1 January 2010	1 627 569	1 627 569
Disposals	-	-
Depreciation expense	112 039	112 039
Net foreign currency exchange differences	(193 531)	(193 531)
31 December 2010	1 546 077	1 546 077
NET BOOK VALUE		
31 December 2009	328 312	328 312
31 December 2010	217 493	217 493

NOTES TO THE FINANCIAL STATEMENTS

15. Oil and gas properties

	2010 $	2009 $
Producing properties		
Capitalised development costs:		
Balance at 1 January	10 378 137	13 435 364
Additions	24 477	165
Disposals	-	-
Net foreign currency exchange differences	(1 221 602)	(3 057 392)
Balance at 31 December	9 181 012	10 378 137
Less: accumulated amortisation		
Balance at 1 January	9 097 379	11 179 682
Amortisation expense	517 441	522 462
Disposals	-	-
Net foreign currency exchange differences	(1 117 988)	(2 604 765)
Balance at 31 December	8 496 832	9 097 379
	684 180	1 280 758
Non-producing properties		
Exploration and evaluation expenditure:		
Balance at 1 January	17 559 143	22 221 970
Additions	3 430 205	908 798
Recoveries	-	(595 619)
Exploration expensed	(3 577 401)	(801 360)
Disposals	-	(2 975 441)
Net foreign currency exchange differences	(92 341)	(1 199 205)
Balance at 31 December	17 319 606	17 559 143
Total oil and gas properties	18 003 786	18 839 901

Exploration and evaluation costs are accumulated in respect of each "area of interest" or geographical segment in accordance with AASB 6 *'Exploration For and Evaluation of Mineral Resources'*. Costs are capitalised as an exploration and evaluation asset provided exploration titles are current and at least one of the following conditions are satisfied:

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

During September 2010, the Company gave notice under the terms of the Production Sharing Contract (PSC) to the Minister for Energy for the Republic of Senegal of its intention to enter the next exploration phase (second renewal period) which commenced on 23 November 2010. FAR's renewal under the PSC is subject to Ministerial approval and requires a Presidential Decree.

At the date of this report a formal response to FAR's renewal application remains outstanding however assurances have been provided to FAR by the Minister that the Presidential Decree will be issued in due course.

In accordance with the accounting policy above, the Company's ability to continue to carry capitalised exploration costs in respect of the Senegal licences is dependent on the exploration titles being current.

During the year a Heads of Agreement was signed with Ophir Energy plc giving them the ability to acquire a 25 percent interest in FAR's Senegal blocks within 60 days of drilling the Kora Prospect in the AGC area offshore Senegal and Guinea Bissau. The Kora well, which FAR has a 10% interest in as a result of the Heads of Agreement, is scheduled to be drilled in April 2011. Should Ophir elect to continue in the Senegal Blocks subsequent to drilling a Senegal well Ophir has agreed to pay a well promote (1.5 times well cost) to FAR.

NOTES TO THE FINANCIAL STATEMENTS

16. Trade and other payables

	2010 $	2009 $
Trade payables	232 454	280 879
Other	267 701	170 601
	500 155	451 480

The average credit period on purchases is approximately 30 days. No interest is charged on the trade payables for the first 30 days from the date of the invoice. Thereafter, interest may be levied on the outstanding balance at varying rates. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. Current Provisions

	2010 $	2009 $
Employee benefits	1 108 964	855 729

18. Borrowings

Non-Current

	2010 $	2009 $
Unsecured loans – convertible notes	2 812 299	2 672 420

6,638,033 15% convertible notes were issued in February 2009 at an issue price of $0.45 per note. Each note carries a coupon rate of 15% payable quarterly in arrears and is convertible into 10 ordinary shares on or before 31 January 2012 by payment of 4.5 cents per share. The convertible notes are quoted on the ASX. Unconverted notes mature at 45 cents on 31 January 2012. At balance date 6,602,589 notes remained unconverted (2009: 6,602,589).

The financial liability component has been calculated by discounting the face value of the convertible notes together with the interest payable thereon over the maturity period, followed by an allocation of the debt issue costs between the debt and equity components on a pro-rata basis. The discount rate used was 17.5%, representing the directors' estimate of the interest rate applicable to a debt instrument issued under similar terms with a similar maturity period. The unwinding of the discount is charged to the statement of comprehensive income as an accretion expense within finance costs.

19. Issued Capital

	2010 Number	2010 $	2009 Number	2009 $
Paid up capital:				
Ordinary fully paid shares at beginning of year	658 232 784	72 090 504	547 028 344	67 261 038
Shares allotted during the year	586 206 680	33 999 987	111 204 440	4 859 983
Share issue costs	-	(2 211 388)	-	(283 471)
Transfer from option reserve	-	-	-	252 000
Transfer from equity component on convertible notes reserve	-	-	-	954
Ordinary fully paid shares at end of year	1 244 439 464	103 879 103	658 232 784	72 090 504

NOTES TO THE FINANCIAL STATEMENTS

19. Issued Capital (continued)

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

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

(a) The following share placements were made during the financial year to raise working capital for the Consolidated Entity:

(i) An allotment of 465,000,000 shares at 5.8 cents per share on 15 November 2010 raising $26,970,000 before issue expenses.
(ii) An allotment of 121,206,680 shares at 5.8 cents per share on 29 November 2010 raising $7,029,987 before issue expenses.

(b) At balance date the Company had the following options available to be exercised:

6,000,000 unlisted options to subscribe for ordinary shares at 14 cents on or before 1 March 2011
4,750,000 unlisted options to subscribe for ordinary shares at 7.5 cents on or before 31 March 2012
2,000,000 unlisted options to subscribe for ordinary shares at 5 cents on or before 30 June 2012
7,800,000 unlisted options to subscribe for ordinary shares at 7 cents on or before 30 June 2012
4,750,000 unlisted options to subscribe for ordinary shares at 10 cents on or before 31 March 2013

20. Reserves

	2010 $	2009 $
(i) Option reserve		
- opening balance	1 726 205	1 287 205
- options allotted	270 750	691 000
- transfer to issued capital	-	(252 000)
- balance at end of year	1 996 955	1 726 205

The option reserve represents the value of options issued as share based payments based on the Black Scholes Valuation method. For further details on options issued during the year see note 30.

(i) Foreign currency translation reserve		
- balance at beginning of year	(651 728)	1 071 446
- translation of foreign operations	(242 413)	(1 723 174)
- balance at end of year	(894 141)	(651 728)

Exchange differences relating to the translation from functional currencies into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve, as described in note 3.

(i) Equity component on convertible notes		
- balance at beginning of year	674 085	496 330
- issue of convertible notes	-	178 709
- transfer to issued capital	-	(954)
- balance at end of year	674 085	674 085

The equity component on convertible notes represents the equity component (conversion rights) on the issue of unsecured convertible notes. Refer to note 18 for further information.

The equity component of was calculated as the face value of the note, less the financial liability component at the date of issue. The financial liability component at date of issue was calculated by discounting the face value of the convertible notes together with the interest payable thereon over the maturity period, followed by an allocation of the debt issue costs between the debt and equity components on a pro-rata basis. The discount rate used represented the directors' estimate of the interest rate applicable to a debt instrument issued under similar terms with a similar maturity period.

NOTES TO THE FINANCIAL STATEMENTS

21. Accumulated Losses

	2010 $	2009 $
Balance at beginning of financial year	(43 295 659)	(45 438 002)
Net (loss) / profit	(6 786 801)	2 142 343
Balance at end of financial year	(50 082 460)	(43 295 659)

22. Earnings Per Share

	2010 Cents per share	2009 Cents per share
Basic (loss)/earnings per share	(0.93)	0.34
Diluted (loss)/earnings per share	(0.93)	0.34

Basic earnings per share
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	$	$
Earnings:		
Net (loss)/per share for the year	(6 786 801)	2 142 343

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	730 064 128	631 410 348

Diluted earnings per share
The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share are as follows:

	$	$
Earnings:		
Net (loss)/profit for the year	(6 786 801)	2 142 343

	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	730 064 128	631 410 348
Shares deemed to have been issued in respect of:		
Unlisted options	-	6 630 136
	730 064 128	638 040 484

NOTES TO THE FINANCIAL STATEMENTS

22. Earnings Per Share (continued)

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares used in the calculation of diluted EPS:

	2010 Number	2009 Number
$0.30 June 2010 unlisted options	-	2 000 000
$0.15 July 2010 unlisted options	-	9 500 000
$0.14 March 2011 unlisted options	6 000 000	6 000 000
$0.075 March 2012 unlisted options	4 750 000	-
$0.05 June 2012 unlisted options	2 000 000	-
$0.07 June 2012 unlisted options	7 800 000	7 800 000
$0.10 March 2013 unlisted options	4 750 000	-
Convertible notes maturing 31 January 2012 (i)	66 025 890	66 025 890
	91 325 890	91 325 890

(i) Convertible notes are convertible into 10 shares each at 4.5 cents per share. The number of shares disclosed above represents the maximum number of share that would be issued on full conversion of all convertible notes on issue at balance date.

23. Commitments for expenditure

	2010 $	2009 $
Oil and Gas Properties		
Not longer than 1 year	15 005 318	61 935
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	15 005 318	61 935

The exploration commitments reflect the minimum expenditure to meet the conditions under which the licences are granted or such greater amounts that have been contractually committed. These commitments may vary from time to time, subject to approval by the grantor of titles or by variation of contractual agreements. The expenditure represents potential expenditure which may be reduced by entering into sale, farmout or relinquishment of the interests and may vary depending upon the results of exploration. The estimate does not include possible expenditures on certain USA drilling programs as the Entity has the right but not obligation to participate in most USA wells. Should expenditure not reach the required level in respect of each area of interest, the Consolidated Entity's interest could be either reduced or forfeited.

Included in the commitments above is an amount of US$5million in respect of a performance bond relating to a well commitment on the Consolidated Entity's Senegal leases. As disclosed in note 15, a formal response to FAR's application to enter the second renewal period of the licences is outstanding. On approval being granted FAR will be required to provide the performance bond which will be refundable in the event that the Joint Venture completes the drilling of an exploration well on the blocks during the second renewal period.

The commitments above do not included the cost of drilling the Senegal exploration well which would be required to be drilled during the second renewal period as FAR's share of costs cannot be reliably estimated at this stage. FAR is currently marketing the prospects and seeking a farmout that would see FAR free carried through the drilling of the well. FAR's exposure to well costs will be subject to the terms of any farmout agreement which may be signed and the working interest retained by FAR.

Non-cancellable operating lease commitments are disclosed in note 25 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

24. Contingent liabilities and contingent assets

	2010 $	2009 $
Contingent liabilities		
Guinea Bissau – acquisition cost	-	668 971
Guinea Bissau – contingent payment from future production (i)	12 791 499	14 494 369
	12 791 499	15 163 340
Contingent Assets		
China sale – conditional payment (ii)	2 951 884	3 344 482
	2 951 884	3 344 482

(i) In 2009, the Company entered into an Agreement to acquire a 15% interest in three blocks offshore Guinea Bissau. Under the terms of the Agreement, in the event of future production from the blocks the vendor will be entitled to recover up to US$13million in past exploration costs from the Company's proceeds from production. Any such recovery will be at a rate of 50% of the Company's annual net revenue as defined by the agreement.

(ii) In 2009 the Consolidated Entity sold its interest in the Beibu Gulf Block 22-12 Joint Venture (through the disposal of a wholly owned subsidiary). Under the terms of the Sale Agreement, the purchase price was payable in three tranches subject to certain conditions being met. In recognising the gain on sale in 2009 the third tranche payment of US$3million was not brought to account. The receipt of this amount is contingent on gross production of 1,000,000 barrels of oil from the project.

There are no contingent liabilities arising from service contracts with executives.

25. Leases

Operating Leases - Leasing arrangements

Operating leases relate to office facilities with lease terms of between 1 to 5 years remaining at balance date. The Company / Consolidated Entity does not have an option to purchase the leased asset at the end of the expiry term.

	2010 $	2009 $
Non-cancellable operating lease payments:		
Not longer than 1 year	107 422	172 427
Longer than 1 year and not longer than 5 years	91 075	226 321
Longer than 5 years	-	-
	198 497	398 748

NOTES TO THE FINANCIAL STATEMENTS

26. Interests in Joint Venture Operations

The Consolidated Entity has an interest in the following material joint venture operations whose principal activities are oil and gas production and/or exploration.

Name	Percentage of Output Interest 2010 %	Percentage of Output Interest 2009 %
Australia		
Carnarvon Basin –WA254P	10.71	10.71
Canning Basin – EP104/R1	8.00	8.00
Guinea Bissau		
Sinapa / Esperanca	15.00	-
Senegal		
Rufisque Offshore / Sangomar Offshore / Sangomar Deep Offshore	90.00	90.00

During the year FAR entered into a Heads of Agreement to acquire a 10 percent paying interest in the AGC Profond PSC, in the offshore area jointly administered by Senegal and Guinea Bissau. The acquisition is subject to a number of conditions including regulatory approval by the relevant authorities.

In addition to the interests set out in the above table, the Consolidated Entity holds working interests in numerous oil and gas leases in the United States of America and Canada as more fully detailed in the Permit Listing following the Operations Review section of the Annual Report.

The Consolidated Entity's interests in assets employed in the above joint venture operations are detailed below. The amounts are included in the financial statements under their respective asset categories

	2010 $	2009 $
Current Assets		
Other assets	58 215	60 513
Non-Current Assets		
Property, plant and equipment	129 283	219 435
Oil and gas properties	18 003 786	18 839 901
Current Liabilities		
Trade and other payables	200 099	237 654

Contingent liabilities and capital commitments

The capital commitments arising from the Consolidated Entity's interests in joint ventures are disclosed in note 23.

The contingent liabilities in respect of the Consolidated Entity's interest in joint ventures are disclosed in note 24.

NOTES TO THE FINANCIAL STATEMENTS

27. Subsidiaries

Name of Entity	Country of incorporation	Ownership interest 2010 %	Ownership interest 2009 %
Parent Entity			
FAR Limited (i)	Australia		
Subsidiaries			
First Australian Resources Pty Ltd (ii) (iii) (iv)	Australia	100	100
Humanot Pty Ltd (ii) (iii)	Australia	100	100
First Australian Resources Inc	USA	100	100

(i) FAR Limited is the Head Entity within the tax consolidated group.

(ii) These companies are members of the tax consolidated group (note – Oil Australia Pty Ltd left the group at the date of disposal).

(iii) These wholly-owned controlled Entities have entered into a deed of cross guarantee with FAR Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirements to prepare and lodge an audited financial report.

(iv) Formerly G2 Net Pty Ltd.

The consolidated statement of comprehensive income and statement of financial position of entities which are party to the deed of cross guarantee are:

Statement of Comprehensive Income	2010 $	2009 $
Revenues	450 665	201 287
Other income	-	7 967 251
Depreciation and amortisation expense	(21 597)	(23 744)
Exploration expense	(70 304)	(748 498)
Impairment of loans	(3 607 685)	(635 839)
Finance costs	(600 929)	(575 211)
Employee benefits expense	(912 421)	(1 665 407)
Consulting expense	(445 889)	(593 916)
Foreign exchange loss	(1 491 772)	(3 666 072)
Other expenses	(511 344)	(446 525)
Loss before income tax	(7 211 276)	(186 674)
Income tax expense	-	-
Loss for the year	(7 211 276)	(186 674)
Other comprehensive income	-	-
Total comprehensive income	(7 211 276)	(186 674)

NOTES TO THE FINANCIAL STATEMENTS

27. Subsidiaries (continued)

Statement of Financial Position	2010 $	2009 $
CURRENT ASSETS		
Cash and cash equivalents	37 857 317	11 482 906
Receivables	3 354 711	3 372 499
Other financial assets	-	-
Other	112 244	27 625
Total Current Assets	41 324 272	14 883 030
NON CURRENT ASSETS		
Trade and other receivables	1 341 974	5 758 083
Other financial assets	1 026 918	1 026 928
Property, plant and equipment	87 982	107 342
Oil and gas properties	17 289 683	13 961 076
Total Non-Current Assets	19 746 557	20 853 429
TOTAL ASSETS	61 070 829	35 736 459
CURRENT LIABILITIES		
Trade and other payables	298 027	207 062
Provisions	1 090 987	835 534
Total Current Liabilities	1 389 014	1 042 596
NON-CURRENT LIABILITIES		
Borrowings	2 812 299	2 672 420
Total Non-Current Liabilities	2 812 299	2 672 420
TOTAL LIABILITIES	4 201 313	3 715 016
NET ASSETS	56 869 516	32 021 443
EQUITY		
Issued Capital	103 879 103	72 090 504
Reserves	2 671 040	2 400 290
Accumulated losses	(49 680 627)	(42 469 351)
TOTAL EQUITY	56 869 516	32 021 443

Accumulated Losses	2010 $	2009 $
Balance at beginning of financial year	(42 469 351)	(42 282 677)
Net Loss	(7 211 276)	(186 674)
Balance at end of financial year	(49 680 627)	(42 469 351)

NOTES TO THE FINANCIAL STATEMENTS

28. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement are reconciled to the related items in the statement of financial position as follows:

	2010 $	2009 $
Cash and cash equivalents	38 092 132	11 710 120
	38 092 132	11 710 120

(b) Non-cash financing and investing activities

During the financial year, there were no non-cash financing or investing activities.

(c) Financing facilities

During the financial year, no financing facilities were used by the Consolidated Entity.

(d) Cash balances not available for use

There are no restrictions on cash balances at the reporting date.

(e) Reconciliation of profit for the period to net cash flows from operating activities

	2010 $	2009 $
(Loss) / profit for the period	(6 786 801)	2 142 343
Gain on sale or disposal of non-current assets	-	(4 048 709)
Depreciation and amortisation of non-current assets	629 480	622 845
Foreign exchange (gain)/loss	828 200	1 661 344
Equity settled share-based payment	270 750	691 000
Exploration expensed	3 577 400	798 792
Interest income received	(445 463)	(196 877)
Accretion on convertible note	139 879	113 734
(Increase)/decrease in assets:		
Trade and other receivables	(189 140)	203 024
Other financial assets	232	27 200
Other current assets	(85 801)	(18 032)
Increase/(decrease) in liabilities:		
Trade and other payables	(132 450)	(180 800)
Provisions	253 235	674 298
Net cash from operating activities	(1 940 479)	2 490 162

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments

(a) Capital risk management

The Consolidated Entity manages its capital to ensure that it will be able to continue as a going concern whilst maintaining an optimal debt to equity balance. The capital structure of the Consolidated Entity consists of cash and cash equivalents, convertible loan notes and equity attributable to equity holders of the parent comprising issued capital, reserves and accumulated losses.

(b) Financial risk management objectives

The Consolidated Entity's management provides services to the business, co-ordinates access to domestic and international financial markets, and manages the financial risks relating to the operations of the Consolidated Entity.

The Consolidated Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the Consolidated Entity's policies approved by the board of directors.

The Consolidated Entity's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates, liquidity risk and commodity price risk. The Consolidated Entity does not presently enter into derivative financial instruments to manage its exposure to interest rate and foreign currency risk.

(c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in note 3 to the financial statements.

(d) Categories of financial instruments

	2010 $	2009 $
Financial assets		
Cash and cash equivalents	38 092 132	11 710 120
Loans and receivables	3 506 715	3 555 670
Financial liabilities		
Amortised cost	3 312 454	3 123 900

(e) Foreign currency risk management

The Consolidated Entity undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters which may include forward foreign exchange contracts against specific obligations denominated in foreign currency.

The Consolidated Entity may enter into forward foreign exchange contracts to cover specific foreign currency payments from time to time relating to specific drilling obligations that are denominated in US dollars. There were no forward foreign currency contracts outstanding at the reporting date.

Foreign currency risk sensitivity
The Consolidated Entity is mainly exposed to US dollars. The following analysis details the Consolidated Entity's sensitivity to a 10% increase and decrease in the Australian dollar against the US dollar. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

At the reporting date, if the Australian dollar had increased / decreased by 10% against the US dollar the Consolidated Entity's net profit after tax would decrease/increase by $506,707.

(f) Commodity price risk management

The Consolidated Entity's oil and gas production is sold at spot price and hence has exposure to commodity price fluctuations. No forward commodity price contracts were entered into during the year.

Commodity price sensitivity analysis
The following analysis details the Consolidated Entity's sensitivity to a 10% increase and decrease in the average commodity price during the year.

If the average commodity prices during the year had increased / decreased by 10% the Consolidated Entity's net profit after tax would increase/decrease by $102,307.

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments (continued)

(g) Liquidity risk management

The Consolidated Entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Consolidated Entity's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been prepared based on the undiscounted cash flows expected to be received / paid by the Consolidated Entity.

	Weighted average effective interest rate	Maturity					
		Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total
	%	$'000	$'000	$'000	$'000	$'000	$'000
2010							
Financial assets:							
Non-interest bearing	-	2 387 706	-	3 483 500	23 215	-	5 894 421
Variable interest rate	4.25	3 642 045	-	-	-	-	3 642 045
Fixed interest rate	5.87	7 683 553	24 873 288	-	-	-	32 556 841
		13 713 304	24 873 288	3 483 500	23 215	-	42 093 307
Financial liabilities:							
Non-interest bearing	-	500 155	-	-	-	-	500 155
Fixed interest rate	15.00	-	111 419	334 257	3 008 302	-	3 453 978
		500 155	111 419	334 257	3 008 302	-	3 954 133
2009							
Financial assets:							
Non-interest bearing	-	5 992 356	-	3 346 829	21 473	-	9 360 658
Fixed interest rate	3.97	1 800 000	4 150 000	-	-	-	5 950 000
		7 792 356	4 150 000	3 346 829	21 473	-	15 310 658
Financial liabilities:							
Non-interest bearing	-	451 480	-	-	-	-	451 480
Fixed interest rate	15.00	-	111 419	334 257	3 453 978	-	3 899 654
		451 480	111 419	334 257	3 453 978	-	4 351 134

(h) Interest rate risk management

The Consolidated Entity is exposed to interest rate risk as it earns interest at floating rates from a portion of its cash and cash equivalents. The Consolidated Entity places a portion of its funds into short term fixed interest deposits which provide short term certainty over the interest rate earned.

Interest rate sensitivity analysis

The following analysis details the Consolidated Entity's sensitivity to a 10% increase and decrease in the average interest rate during the year.

If the average interest rate during the year had increased / decreased by 10% the Consolidated Entity's net profit after tax would increase/ decrease by $44,546

(i) Credit risk management

Trade accounts receivable presently consist of several established customers, spread across the oil and gas industry in the USA segment. The system for disbursements for oil and gas sales is well developed.

Other than the US$3m receivable in respect of the sale of its interest in the Beibu Gulf Block 22-12 Joint Venture (refer note 11), the Consolidated Entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Consolidated Entity's maximum exposure to credit risk.

NOTES TO THE FINANCIAL STATEMENTS

29. Financial instruments (continued)

(j) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2009: net fair value).

30. Share-based payments

Employee share option plan

Whilst the Consolidated Entity does not have a formal ownership-based compensation scheme for employees (including directors) of the company, certain share options may be granted to directors and employees as part of their remuneration from time to time. All options issued to directors are granted in accordance with a resolution of shareholders. Options granted to employees are at the discretion of the Board. Each executive share option converts into one ordinary share of the Company on exercise. No amounts have been paid or are payable by the recipient upon receipt of the options. The options neither carry rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The following table reconciles the outstanding share options granted to executives at the beginning and end of the financial year:

	2010 No:	2009 No:
Balance at beginning of the financial year	17 300 000	9 500 000
Expired during the financial year	9 500 000	-
Granted during the financial year	-	7 800 000
Balance at the end of the financial year	7 800 000	17 300 000

(i) *Options exercised during the financial year*

No options were exercised during the current financial year.

(ii) *Options granted during the financial year*

No options were granted during the financial year.

(iii) *Balance at the end of the financial year*

At the end of the financial year the following share options granted to key management personnel were in existence:

	2010 No:	2009 No:
Exercisable at 15 cents on or before 31 July 2010	-	9 500 000
Exercisable at 7 cents on or before 30 June 2012	7,800,000	7,800,000

Services Received

On 11 March 2010, the Company issued 9,500,000 unlisted options in lieu of consultancy fees. 4,750,000 options are exercisable at 7.5 cents on or before 31 March 2012 and 4,750,000 options are exercisable at 10 cents on or before 31 March 2013. All options vested on grant date.

The options package has been valued at $270,750 for accounting purposes using the Black Scholes model. The financial effect of the option issue has been recognised as a share-based payments expense in Consulting Expenses in the current financial year statement of comprehensive income. At the date of this report none of these options have been exercised.

NOTES TO THE FINANCIAL STATEMENTS

30. Share-based payments (continued)

The following inputs have been used to calculate the fair value of these options at grant date:

Option pricing inputs	March 2012 Options	March 2013 Options
Number granted	4 750 000	4 750 000
Grant date	11 March 2010	11 March 2010
Grant date share price	6.1 cents	6.1 cents
Exercise price	7.5 cents	10 cents
Expected volatility	90%	90%
Option life	750 days	1,115 days
Risk-free interest rate	4.00%	4.00%
Fair value per option	2.7 cents	3 cents

In addition to the options discussed above, a further 8,000,000 options issued to consultants in prior years as share-based payments remain unexercised at balance date. Further information concerning these options is set out in note 19.

31. Key management personnel compensation

(a) Details of key management personnel

The key management personnel of the Consolidated Entity during the year were:

- M J Evans (Chairman and Chief Executive Officer)
- C L Cavness (Non-Executive Director)
- A E Brindal (Non-Executive Director / Company Secretary)
- C J Harper (Chief Financial Officer / Company Secretary)
- J A Atling (Administration Manager Australia)
- R Adessa (Administration Manager USA)

(b) Key management personnel compensation

The aggregate compensation of the key management personnel of the Consolidated Entity and the Company is set out below:

	2010 $	2009 $
Short-term employee benefits	834 064	753 012
Post employment benefits	64 353	56 568
Share-based payment	-	397 000
Total	898 417	1 206 580

NOTES TO THE FINANCIAL STATEMENTS

32. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 27 to the financial statements.

Equity interests in associates and joint ventures

Details of interests in joint ventures are discussed in note 26.

(b) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 31 to the financial statements.

(c) Key management personnel equity holdings

Fully Paid Ordinary Shares

2010	Balance 1/1/10	Received on Exercise of Options	Net Other Change (i)	Balance 31/12/10
Directors				
M J Evans	6 225 450	-	145 800	6 371 250
C L Cavness	1 150 000	-	-	1 150 000
A E Brindal	29 000	-	97 200	126 200
Executives				
C J Harper	-	-	-	-
J A Atling	-	-	-	-
R Adessa	2 601	-	-	2 601

2009	Balance 1/1/09	Received on Exercise of Options	Net Other Change (i)	Balance 31/12/09
Directors				
M J Evans	6 225 450	-	-	6 225 450
C L Cavness	1 150 000	-	-	1 150 000
A E Brindal	29 000	-	-	29 000
Executives				
C J Harper	-	-	-	-
J A Atling	4 883 575	-	(4 883 575)	-
R Adessa	2 601	-	-	2 601

(i) Net other changes comprise shares purchased and sold, including shares acquired through participation in the Company's Share Purchase Plan.

NOTES TO THE FINANCIAL STATEMENTS

32. Related Party Disclosures (continued)

Share Options

2010	Balance 1/1/10	Options Granted as Compensation	Options Exercised	Net Other Change (i)	Balance 31/12/10
Directors					
M J Evans	11 000 000	-	-	(5 000 000)	6 000 000
C L Cavness	1 000 000	-	-	(1 000 000)	-
A E Brindal	-	-	-	-	-
Executives					
C J Harper	3 300 000	-	-	(1 500 000)	1 800 000
J A Atling	-	-	-	-	-
R Adessa	500 000	-	-	(500 000)	-

2009	Balance 1/1/09	Options Granted as Compensation	Options Exercised	Net Other Change	Balance 31/12/09
Directors					
M J Evans	5 000 000	6 000 000	-	-	11 000 000
C L Cavness	1 000 000	-	-	-	1 000 000
A E Brindal	-	-	-	-	-
Executives					
C J Harper	1 500 000	1 800 000	-	-	3 300 000
J A Atling	-	-	-	-	-
R Adessa	500 000	-	-	-	500 000

(i) Net other change comprises options which expired during the financial year.

All options vested at grant date and were exercisable at the balance date.

Further details of share options granted to directors and executives during the year have been disclosed at note 30 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

32. Related Party Disclosures (continued)

Convertible Notes

2010	Balance 1/1/10	Net Other Change (i)	Balance 31/12/10
Directors			
M J Evans	-	-	-
C L Cavness	-	-	-
A E Brindal	-	-	-
Executives			
C J Harper	4 500	-	4 500
J A Atling	13 500	-	13 500
R Adessa	-	-	-

2009	Balance 1/1/09	Net Other Change (i)	Balance 31/12/09
Directors			
M J Evans	-	-	-
C L Cavness	-	-	-
A E Brindal	-	-	-
Executives			
C J Harper	-	4 500	4 500
J A Atling	-	13 500	13 500
R Adessa	-	-	-

(i) Net other change comprises convertible notes purchased and sold.

The convertible notes have a face value of 45 cents each. Each note carries a coupon rate of 15 percent payable quarterly in arrears and is convertible into 10 ordinary shares on or before 31 January 2012 by payment of 4.5 cents per share. The convertible notes are quoted on the ASX. Unconverted notes mature at 45 cents on 31 January 2012.

(d) Transactions with the Directors of the Consolidated Entity

During the year, fees of US$6,000 were paid to Mr Cavness for the provision of professional advisory services based on normal terms and conditions (2009: nil).

(e) Controlling Entity

The Parent Entity in the Consolidated Entity is FAR Limited. Both the ultimate Parent Entity and the ultimate Australian Entity in the wholly owned group is FAR Limited.

33. Subsequent Events

Subsequent to the financial year end:

(a) the company has signed a 5 year lease for the rental of office premises.

The financial effect of the above has not been recognised in the current financial year.

Other than as stated in this note, the Directors are not aware of any other matters or circumstances at the date of this report, other than those referred to in this report, that have significantly affected or may significantly affect the operations, the results of the operations or the state of affairs of the Consolidated Entity in subsequent financial years.

NOTES TO THE FINANCIAL STATEMENTS

34. Remuneration of auditors

	2010 $	2009 $
Auditor of the Parent Entity:		
Audit or review of the financial report	45 500	45 000
Taxation services	-	-
	45 500	45 000

The auditor of the Consolidated Entity is Deloitte Touche Tohmatsu.

35. Parent Entity Disclosures

(a) Financial Position

	2010 $	2009 $
Assets		
Current assets	41 324 272	14 883 030
Non-current assets	19 746 560	20 853 422
Total Assets	61 070 832	35 736 452
Liabilities		
Current liabilities	1 389 014	1 042 596
Non-current liabilities	2 812 299	2 672 420
Total Liabilities	4 201 313	3 715 016
Equity		
Issued Capital	103 879 103	72 090 504
Reserves	2 671 040	2 400 290
Accumulated losses	(49 680 624)	(42 469 358)
Total Equity	56 869 519	32 021 436

(b) Financial Performance

	2010 $	2009 $
Loss for the year	(7 211 266)	(186 674)
Other comprehensive income	-	-
Total comprehensive income	(7 211 266)	(186 674)

(c) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

Other than the Deed of Cross Guarantee disclosed in Note 27, at reporting date there are no guarantees entered into by the parent entity in relation to the debts of its subsidiaries (2009: nil).

(d) Contingent liabilities of the parent entity

	2010 $	2009 $
Contingent liabilities		
Guinea Bissau – acquisition cost	-	668 971
Guinea Bissau – contingent payment from future production (i)	12 791 499	14 494 369
	12 791 499	15 163 340

Refer to note 24 for further details.

NOTES TO THE FINANCIAL STATEMENTS

35. Parent Entity Disclosures (continued)

(e) Commitments for capital expenditure entered into by the parent entity

	2010 $	2009 $
Oil and Gas Properties		
Not longer than 1 year	15 005 318	61 935
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years	-	-
	15 005 318	61 935

Refer to note 23 for further details.

SUPPLEMENTARY INFORMATION Pursuant To The Listing Requirements Of The Australian Securities Exchange

Number of holders of equity securities

Ordinary shares

At 3 March 2011, the issued capital comprised of 1,244,439,464 ordinary shares held by 5,070 holders.

Convertible Notes

At 3 March 2011, there were 6,602,589 fully paid 15% convertible notes held by 33 holders. Each note converts to 10 shares. Notes do not carry the right to vote.

Unlisted Options

At 3 March 2011, there were 19,300,000 unlisted options, of various exercise prices and expiry dates, held by 5 holders. Each option converts to one share. Options do not carry the right to vote.

Spread details as at 3 March 2011	Ordinary Shares Number of Holders	Convertible Notes Number of Holders
1 - 1,000	373	0
1,001 - 5,000	472	18
5,001 - 10,000	593	11
10,001 - 100,000	2,451	2
100,001 and over	1,181	2
	5,070	33
Holding less than a marketable parcel	646	0

Substantial Shareholders

The Company has received substantial shareholder notices from the following entities:

- UBS AG and its related bodies corporate hold 82,468,832 shares, representing voting power of 6.63%
- Bluegold Global Fund (LP) hold 73,026,346 shares, representing voting power of 5.87%

Top Twenty Shareholders	Number of Shares	Percentage
HSBC Custody Nominees (Australia) Limited	158,774,857	12.759
National Nominees Limited	138,865,227	11.159
Citicorp Nominees Pty Limited	101,370,375	8.146
JP Morgan Nominees Australia Limited	47,909,759	3.850
CS Fourth Nominees Pty Ltd	42,051,792	3.379
JP Morgan Nominees Australia Limited	26,705,321	2.146
ABN AMRO Clearing Sydney Nominees Pty Ltd	22,386,021	1.799
Morgan Stanley Australia Securities (Nominee) Pty Limited	12,346,255	0.992
John Daniel Powell	9,207,500	0.740
Woodlands Asset Management Pty Ltd	6,741,379	0.542
Berne No 132 Nominees Pty Ltd	6,500,000	0.522
Tevlo Pty Ltd	6,371,250	0.512
P J Enterprises Pty Limited	6,100,000	0.490
Forty Traders Limited	5,756,092	0.463
Zarko Nikoloski	5,416,224	0.435
Vintage Pty Ltd	5,250,000	0.422
BT Portfolio Services Limited	5,045,000	0.405
Robert Lord	5,000,000	0.402
Nefco Nominees Pty Ltd	5,000,000	0.402
Nommack (No 255) Pty Ltd	4,960,000	0.399
	621,757,052	49.964

SUPPLEMENTARY INFORMATION Pursuant To The Listing Requirements Of The Australian Securities Exchange

Top Twenty Convertible Noteholders	Number of Notes	Percentage
HSBC Custody Nominees (Australia) Limited	5,555,555	84.14
Woodlands Asset Management Pty Ltd	800,000	12.11
Ian Michael Paterson Parker & Catriona Sylvia Parker	57,782	0.87
Zen Asset Management Pty Ltd	26,722	0.40
Jemaya Pty Ltd	13,600	0.21
Stephanie Wall	10,000	0.15
Philip Wall	10,000	0.15
Gunz Pty Ltd	7,300	0.11
Gould Nominees Pty Ltd	7,000	0.11
Liudmila Ivanovna Nokhova	7,000	0.11
Hendricus Pty Ltd	6,800	0.10
Dodge Dart Investments Pty Ltd	6,666	0.10
Denis Patrick Waddell & Francine Louise Waddell	6,000	0.09
Tarney Holdings Pty Ltd	6,000	0.09
L V Zaninovich Pty Ltd	5,000	0.08
Nina Michelle Ricketts	5,000	0.08
Zenex Holdings Pty Ltd	5,000	0.08
Catherine Mary Evans	4,500	0.07
Foxique Pty Ltd	4,500	0.07
Stephen Stone	4,500	0.07
	6,548,925	99.19

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