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**CERVANTES CORPORATION LTD A.B.N. 79 097 982 235  
AND CONTROLLED ENTITY  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2011**

# Corporate Directory

## **Board of Directors**

Barry MacKinnon

*Chairman*

Collin Vost

*Managing Director*

Graeme Armstrong

*Non-Executive Director*

## **Company Secretary**

Patrick J O'Neill

## **Registered Office**

Shop 11 "South Shore Piazza"

85 South Perth Esplanade

South Perth WA 6151

## **Contact Details**

Cervantes Corporation Ltd

PO Box 1196

South Perth WA 6951

Tel: +61 8 6436 2300

Fax: +61 8 9367 2450

Email: [admin@cervantescorp.com.au](mailto:admin@cervantescorp.com.au)

## **Corporate Advisors**

Jackson Greeve

Suite 2 286 Fitzgerald Street

Perth WA 6000

## **Solicitors**

Steinepreis Paganin

GPO Box 2799

Perth WA 6001

## **Auditors**

Rothsay Chartered Accountants

PO Box 8716

Perth Business Centre WA 6849

## **Share Registry**

Advanced Share Registry

150 Stirling Highway

Nedlands WA 6009

## **Stock Exchange Listing**

Australian Securities Exchange

(Home Exchange: Perth, Western Australia)

ASX Code: Ordinary Shares - CVS

## **Bankers**

National Australia Bank Ltd

Capital Office

100 St Georges Terrace

Perth WA 6000

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
INDEX**

| <b>Contents</b>                             | <b>Page</b> |
|---|-------------|
| Corporate Governance Statement              | 2           |
| Directors' Report                           | 7           |
| Remuneration Report                         | 12          |
| Shareholder Information                     | 15          |
| Statement of Comprehensive Income           | 17          |
| Statement of Financial Position             | 18          |
| Statement of Changes in Equity              | 19          |
| Statement of Cash Flows                     | 20          |
| Notes to the Financial Statements           | 21          |
| Directors' Declaration                      | 55          |
| Auditor's Independence Declaration          | 56          |
| Independent Auditor's Report to the Members | 57          |

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
CORPORATE GOVERNANCE STATEMENT**

Unless disclosed below, all the best practice recommendations of the Australian Securities Exchange (ASX) Corporate Governance Council have been applied for the entire year ended 30 June 2011.

| Principle   | Recommendation Reference |
|---|--------------------------|
| 1. Lay solid foundations for management and oversight | 1.2                      |
| 2. Structure the board to add value                   | 2.4 & 2.5                |
| 4. Safeguard integrity in financial reporting         | 4.2                      |
| 7. Recognise and manage risk                          | 7.1 & 7.2                |
| 8. Remunerate fairly and responsibly                  | 8.1 & 8.2                |

| Notification of Departure   | Explanation for Departure   |
|---|---|
| 1.2 & 2.5 The process for evaluation of the Board, individual directors and key executives has not been disclosed.              | During the reporting period, the Board of three members was compact enough to maintain internal evaluation. This approach is the subject of ongoing evaluation and evolution as the Company grows in terms of capitalisation and diverse management structure.  |
| 2.4 No Nomination Committee has been established.   | Members of the Board have been brought together to provide a blend of qualification, skills and national experience required for managing a company operating within the industry. The Board is small and any nominations would be considered by all members at the regular directors' meeting. The establishment of a Nomination Committee is considered not relevant for the size of the Company. This is however a matter for regular review and consideration by the Board. |
| 4 The Managing Director is the chairperson of the Audit Committee.  | The makeup of the Board makes strict compliance impractical. All directors are members of the Audit Committee. The Company Secretary is also a member of the committee.   |
| 7.1 & 7.2 Formal policies on risk management have not been adopted.   | The management of risk is part of the everyday responsibility of the Managing Director, and of the full Board on a regular basis. The Company's currently small operation makes this practical at the moment. Internal financial controls are assessed regularly through the audit process.   |
| 8.1 & 8.2 Substantive compliance in relation to remuneration disclosures has been achieved with a detailed remuneration report. | The Board determined all matters of remuneration in accordance with the Corporations Act requirements, especially in respect of related party transactions and personal interest in matters before the Board.<br><br>As the Company progresses and employs additional staff it is recognised that a more detailed policy and process will be required.  |

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
CORPORATE GOVERNANCE STATEMENT**

**Board Composition**

The Board comprises of three directors. The names, qualifications and relevant experience of each director are set out in the Directors' Report. The Managing Director is charged with the overall management of the Group however the rest of the Board is consulted on the activities of the Group on a regular (daily or weekly) basis and consider this an appropriate way to ensure good governance.

| Name of Director                           | Year Appointed | Executive | Independent | Member of Remuneration Committee | Member of Audit Committee | Member of Technical & Environment Committee |
|--|----------------|-----------|-------------|----------------------------------|---------------------------|---|
| Barry MacKinnon, Chairman                  | 2001           | No        | Yes         | Yes                              | Yes                       | Yes   |
| Collin Vost<br>Managing Director           | 2007           | Yes       | No          | Yes                              | Yes                       | Yes   |
| Graeme Armstrong<br>Non-Executive Director | 2008           | No        | Yes         | Yes                              | Yes                       | Yes   |

*Assessing the Independence of Directors*

An independent director is a non-executive director and:

1. is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
2. within the last three years has not been employed in an executive capacity by the Company or another Group member, or been a director after ceasing to hold any such employment;
3. within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
4. is not a material supplier or customer of the Company or another Group member, or an officer or otherwise associated directly or indirectly with a material supplier or customer;
5. has no material contractual relationship with the Company or another Group member other than as a Director of the Company;
6. has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
7. is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interest of the Company.

*Materiality Thresholds*

The Board considers that:

- § a supplier is material if the Company or the Group accounts for more than 2% of the supplier's consolidated gross revenue;
- § a material customer is a customer of the Company or Group member which accounts for more than 2% of the Company's gross revenue; and
- § service on the Board for a period exceeding 10 years is a period which could, or could reasonably be perceived to, materially interfere with a Director's ability to act in the best interests of the Company.

**Ethical Standards**

The Directors are responsible for protecting the rights and interest of the shareholders through the implementation of sound strategies and action plans and development of an integrated framework of controls over the Group's resources, functions and assets. Good corporate governance structures encourage companies to create value (through entrepreneurship, innovation and development) and provide accountability and control systems commensurate with the risks involved.

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
CORPORATE GOVERNANCE STATEMENT**

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Good corporate governance will evolve with the changing circumstances of a Group and must be tailored to meet these circumstances. The Group currently operates with only one permanent staff and relies on additional specialist consultants and casual field staff to assist in the formulation and implementation of development programs. On the corporate side, the management team consists of the Managing Director and the Company Secretary.

The Company's Board and management are committed to a high standard of corporate governance, ensuring that the Company complies with the Corporations Act 2001, Listing Rules of the ASX, Company Constitution and other applicable laws and regulations. However, at this stage of the Company's corporate development, implementation of the ASX Corporate Governance and Best Practice Recommendations, whilst fully supported, is not practical in every instance.

#### **Trading Policy**

Current practice requires Directors to advise the Company of any transactions conducted by them in the shares of the Company in accordance with the Corporations Act 2001 and the Listing Rules of the ASX. Officers and employees are also required to advise the Company of any transactions conducted by them in the shares of the Company in accordance with the Corporations Act 2001.

A copy of Cervantes' *Policy on Dealing with Cervantes Securities* can be accessed via the Company's website.

#### **Audit Committee**

The Managing Director, Chairman of the Audit Committee, and the Company Accountant formally state 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 operational results, and are in accordance with the relevant Australian Accounting Standards.

The Company has appointed an audit committee whose role it is to:

- Assess the appropriateness of the accounting policies, practices and disclosure and whether the quality of the financial reporting is adequate;
- Review the scope and results of internal, external and compliance audits;
- Maintain open lines of communication between the Board and external auditors and the Company's compliance officers;
- Review and report to the Board on the annual report and financial statements;
- Assess the adequacy of the Company's internal controls and make informed decisions regarding compliance policies, practices and disclosures; and
- Nominate the external auditors.

All the directors of the Company are members of the Audit Committee.

A copy of Cervantes' *Audit Committee Charter* can be accessed via the Company's website.

#### **Performance Evaluation**

Executive Directors and Non-Executive Directors are remunerated by way of consulting fee, receiving a fixed monthly amount for their services. This remuneration package is reviewed annually by the Board. No specific performance evaluation is conducted; however the Chairman does speak to each director individually regarding their role as director.

#### **Board Roles and Responsibilities**

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
CORPORATE GOVERNANCE STATEMENT**

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addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

Responsibility for the operation and administration of the consolidated entity is delegated by the Board to the Managing Director and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure that this is achieved. In addition to the establishment of the committees referred to in the table below, these mechanisms include the following:

- Board approval of a strategic plan designed to meet stakeholders' needs and manage business risk;
- The Board being actively involved in developing and approving initiatives and strategies designed to ensure the continued growth and success of the Company;
- Implementation of operating plans and budgets by management and Board monitoring of progress against budgets; and
- The ability for Directors to seek independent professional advice at the Company's expense, in the furtherance of their duties.

### **Shareholders Rights**

#### *Effective Communication*

The Company's communications strategy includes the communication with shareholders through:

- Announcements to the market via the Australian Securities Exchange;
- The Company's website;
- The annual report, which is distributed to shareholders; and
- The annual general meeting and other meetings so called to obtain approval for the Boards action as appropriate.

#### *Participation in General Meetings*

The external auditor attends meetings to respond to specific questions from shareholders.

A copy of Cervantes' *Shareholder Communication Policy* and *Code of Conduct* can be accessed via the Company's website.

### **Risk Management**

The Board considers identification and management of key risks associated with the business as vital to maximise shareholder wealth. A yearly assessment of the business's risk profile is undertaken and reviewed by the Board, covering all aspects of the business from the operational level through to strategic level risk. The Managing Director has been delegated the task of implementing internal controls to identify and manage risks for which the Board provides oversight. The effectiveness of these controls is monitored and reviewed regularly. The worsening economic environment has emphasised the importance of managing and assessing its key business risks.

### **Remuneration Policies**

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Board members and key management personnel of the Group. Broadly, the Group's remuneration policy is to ensure that any remuneration package properly reflects the person's duties and responsibilities and that it is competitive in attracting, retaining and motivating people of the highest quality.

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
CORPORATE GOVERNANCE STATEMENT**

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**Remuneration Committee**

Directors and key executives are remunerated in accordance with market conditions and performance as judged by the Board. The Managing Director's remuneration and directors' fees are detailed in the Remuneration Report contained in the Directors' Report on page 12. There are no termination entitlements.

**Timely and Balanced Disclosures**

In accordance with the Company's obligations under the Listing Rules of the ASX material information is lodged immediately with the ASX and on acknowledgment by the ASX is disseminated by posting to the Company website. The Board endorses a culture in favour of continuous disclosure and recognises the benefits of consistency achieved through a dedicated spokesperson.

A copy of Cervantes' *Continuous Disclosure Policy* can be accessed via the Company's website.

**Other Information**

The core principles contemplate establishment of the role of the Board and senior executives, with a balance of skills, experience and independence appropriate to the nature and extent of operations, and the need for integrity among those who influence strategy and financial performance, together with responsible and ethical decision-making. Presenting the Group's financial and non-financial position requires processes that safeguard, both internally and externally, the integrity of Group reporting and its provision in a timely and balanced manner. The rights of Company shareholders must be recognised and upheld. Risk must be managed through effective oversight and internal control. Board and management effectiveness must be encouraged. Remuneration must attract and maintain talented and motivated directors and employees with a clear relationship to corporate and individual performance.

Please refer to the Company's website for further details on the Corporate Governance documents.



**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
DIRECTORS' REPORT**

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Your Directors present their report, together with the financial statements of the Group, being the Company and its controlled entity, for the year ended 30 June 2011.

**Principal Activities and Significant Change in Nature of Activities**

The principal activities of the Group during the financial year was operating in the seafood and aquaculture industry in Western Australia and the exploration and evaluation of mineral resource projects.

There were no other significant changes in the nature of the Group's principal activities during the financial year.

**Operating Results and Review of Operations for the Year**

**Operating Results**

The loss of the Group for the financial year after providing for income tax amounted to:

| <b>Year ended<br/>30 June 2011</b> | <b>Year ended<br/>30 June 2010</b> |
|------------------------------------|------------------------------------|
| \$<br>40,350                       | \$<br>(429,268)                    |

The consolidated profit of the Group amounted to \$40,350, after providing for income tax. The significant improvement was largely due to the increase in the value of the Company's financial investments. Further discussion on the Group's operation now follows.

**Review of Operations**

The Lobster pots licences continue to be a source of income for the Group during the Lobster Season.

The Group continues to buy and sell shares in an active market and continues to assess various projects, including projects in the Resource and Energy sector, for a possible diversification of the Group's operations.

The Board will continue to assess projects, offers and opportunities which it believes will add value to Cervantes shares, based on market conditions, sector activity and ASX compliance requirements as well as ensuring the risk to reward ratio favours the Company and its shareholders.

**Financial Position**

The net assets of the Group have increased by \$125,350 from \$340,492 at 30 June 2010 to \$489,124 at 30 June 2011. This increase was largely due to the increase in other financial assets being an increase in the value of the Group investment portfolio.

**Significant Changes in the State of Affairs**

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

On 2 December 2010, 5,000,000 ordinary shares and 5,000,000 options were granted as remuneration to the Managing Director of the Company.

**Dividends Paid or Recommended**

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

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
DIRECTORS' REPORT**

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**Events after the Reporting Date**

No matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**Future Developments, Prospects and Business Strategies**

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report, as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

**Environmental Issues**

The Group is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

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**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
DIRECTORS' REPORT**

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**Information on Directors**

**Barry MacKinnon AM JP**

CHAIRMAN (Non-executive)

Qualifications

Bachelor of Economics, Fellow of the Australian Society of Certified Practising Accountants.

Experience

Chairman since 2001. Mr MacKinnon has a wide range of experience in corporate finance and business management. Mr MacKinnon was appointed to the Board on 28 August 2001.

Interest in shares

250,000 ordinary shares.

Special responsibilities

Mr MacKinnon is a member of the audit committee

Directorships held in other listed entities during the three years prior to the current year

Baraka Energy & Resources Ltd (appointed 18 May 2009).

**Collin Vost**

MANAGING DIRECTOR (Executive)

Qualifications

Diploma of Financial Services, Licenced Securities Dealer.

Experience

Mr Vost has been involved in public companies for the past 30 years and has served on the Board of several, mostly junior resource companies as well as being involved in the securities dealing business since 2001. Mr Vost was appointed to the Board on 9 October 2007.

Interest in shares and options

47,320,000 ordinary shares and options to acquire a further 5,000,000 shares.

Special responsibilities

Mr Vost is a member of the audit committee

Directorships held in other listed entities during the three years prior to the current year

Baraka Energy & Resources Ltd (appointed 18 May 2009)  
JV Global Ltd (appointed 29 May 2009).

**Graeme Armstrong**

DIRECTOR (Non-executive)

Experience

Mr Armstrong was appointed to the Board on 16 January 2008. From 1990 to 1997 he was a director and shareholder of Scarboro Toyota and when this entity purchased Galleria Toyota, Mr Armstrong was appointed dealer principal and director, a position he held until retirement in March 2007.

Interest in shares

5,550,000 ordinary shares.

Special responsibilities

Mr Armstrong is a member of the audit committee

Directorships held in other Listed entities during the three years prior to the current year

None.

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
DIRECTORS' REPORT**

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**COMPANY SECRETARY**

The following person held the position of company secretary at the end of the financial year:

Patrick O'Neill – Bachelor of Business, Chartered Accountant. Mr O'Neill is a partner in the accounting firm Jackson Greeve. He has acted as Company Secretary for several public companies. Mr O'Neill was appointed Company Secretary on 16 January 2008.

**Meetings of Directors**

During the financial year, 6 meetings of directors were held. Attendances by each director during the year were as follows:

|                  | <b>Directors' Meetings</b>           |                        |
|------------------|--------------------------------------|------------------------|
|                  | <b>Number eligible<br/>to attend</b> | <b>Number attended</b> |
| Barry MacKinnon  | 6                                    | 6                      |
| Collin Vost      | 6                                    | 6                      |
| Graeme Armstrong | 6                                    | 6                      |

**Indemnifying Officers or Auditor**

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

As at the date of this report no insurance premiums have been paid, or agreed to be paid, for insurance against a current or former Officer's liability for legal costs.

**Options**

At the date of this report, the unissued ordinary shares of Cervantes Corporation Ltd under option are as follows:

| <b>Grant Date</b> | <b>Date of Expiry</b> | <b>Exercise Price</b> | <b>Number under<br/>option</b> |
|-------------------|-----------------------|-----------------------|--------------------------------|
| 2 December 2010   | 31 December 2013      | \$0.03                | 5,000,000                      |
|                   |                       |                       | <u>5,000,000</u>               |

Option holders do not have any rights to participate in any issue of shares or other interests in the company or any other entity.

There have been no unissued shares or interests under options of any controlled entity within the Group during or since the end of the reporting period.

For details of option issued to directors and executives as remuneration, refer to the remuneration report.

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

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
DIRECTORS' REPORT**

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**Proceedings on Behalf of Company**

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

**Non-Audit Services**

Rothsay did not provide non-audit services to the Group during 2011.

**Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 56 of the financial report.

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**CERVANTES CORPORATION LTD (ABN 79 097 982 235)**  
**REMUNERATION REPORT**

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**Remuneration Policy**

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Board members and key management personnel of the Group. Broadly, the Group's remuneration policy is to ensure that any remuneration package properly reflects the person's duties and responsibilities and that it is competitive in attracting, retaining and motivating people of the highest quality.

**Fixed Remuneration**

Executive Directors and Non-Executive Directors are remunerated by way of a consulting fee, receiving a fixed monthly amount for their services. This remuneration package is reviewed annually by the Board.

**Performance Linked Remuneration and Entitlements**

The Board may from time to time approve cash bonuses and/or options designed to reward or incentivise executives, contractors and staff on such terms and conditions determined appropriate at the time of payment or issue. Often this will be linked to the achievement of Group objectives with a direct link to the creation of shareholder value.

**Director Remuneration and Incentives**

The Board policy is to remunerate Non-Executive Directors at market rates for time commitment and responsibilities. Independent external advice is sought where required. All securities issued to Directors and related parties must be approved by shareholders. In addition to Directors' fees, it is a policy of the Group that a Director may be paid fees or other amounts as the Board determines where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

No securities were issued to Directors or key management personnel of the Group during or since the end of the year as remuneration.

**Post-Employment Benefits**

The Group does not have any scheme relating to retirement benefits for Directors or key management personnel.

*Nomination and Remuneration Committee*

Currently, the full Board together with the Company Secretary, will consider all Nomination and Remuneration matters. The objective when the Board is convened to consider these matters is to ensure that the Group adopts and complies with remuneration policies that:

- § attract, retain and motivate high caliber executives and directors so as to encourage enhanced performance by the Group;
- § are consistent with the human resource needs of the Group;
- § motivate directors and management to pursue long-term growth and success of the Group with an appropriate framework; and
- § demonstrate a clear relationship between key executive performance and remuneration.

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)**  
**REMUNERATION REPORT**

**Employment Details of Members of Key Personnel and Other Executives**

The following table provides detail of persons who were, during the financial year, members of key management personnel of the Group, and to the extent different, among the three Group executives or company executives receiving the highest remuneration.

| Group Key Management Personnel | Position held as at 30 June 2011 and any change during the year | Proportion of elements of remuneration related to performance |                |                  | Proportions of elements of remuneration not related to performance |         |
|--------------------------------|---|---|----------------|------------------|--|---------|
|                                |   | Non-salary cash-based incentives %                            | Shares/Units % | Options/Rights % | Fixed Salary/Fees %  | Total % |
| Barry MacKinnon                | Chairman (Non-executive)  | -   | -              | -                | 100  | 100     |
| Collin Vost                    | Managing Director (Executive)                                   | -   | -              | -                | 100  | 100     |
| Graeme Armstrong               | Director (Non-executive)  | -   | -              | -                | 100  | 100     |

The service terms and conditions of the key management personnel and Group executives are not formalised in contracts of employments. The service terms and conditions are of no fixed term, no requirement for notice on termination and no entitlement for payment upon termination.

**Remuneration Details for the Year Ended 30 June 2011**

The following table of benefits and payments detail, in respect to the financial year, the components of remuneration for each member of the key management personnel of the Group, and to the extent different, the three Group executives receiving the highest remuneration.

| Group Key Management Personnel        |      | Short-Term Benefits           |          | Post-Employment                |          | Equity-settled share-based payments |                   | Total \$ |
|---------------------------------------|------|-------------------------------|----------|--------------------------------|----------|-------------------------------------|-------------------|----------|
|                                       |      | Salary, Fees & Commissions \$ | Other \$ | Pension and Super-annuation \$ | Other \$ | Shares/Units \$                     | Options/Rights \$ |          |
| Barry MacKinnon                       | 2011 | 24,000                        | -        | -                              | -        | -                                   | -                 | 24,000   |
|                                       | 2010 | 24,000                        | 1,400    | -                              | -        | -                                   | -                 | 25,400   |
| Collin Vost                           | 2011 | 24,000                        | 51,587   | -                              | -        | 85,000                              | 23,282            | 183,869  |
|                                       | 2010 | 24,000                        | 37,366   | -                              | -        | -                                   | -                 | 61,366   |
| Graeme Armstrong                      | 2011 | 24,000                        | -        | -                              | -        | -                                   | -                 | 24,000   |
|                                       | 2010 | 24,000                        | -        | -                              | -        | -                                   | -                 | 24,000   |
| <b>Total Key Management Personnel</b> | 2011 | 72,000                        | 51,587   | -                              | -        | 85,000                              | 23,282            | 231,869  |
|                                       | 2010 | 72,000                        | 38,766   | -                              | -        | -                                   | -                 | 110,766  |
| <b>Other Executives</b>               |      |                               |          |                                |          |                                     |                   |          |
| Patrick O'Neill                       | 2011 | 28,046                        | -        | -                              | -        | -                                   | -                 | 28,046   |
|                                       | 2010 | 30,111                        | -        | -                              | -        | -                                   | -                 | 30,111   |

There were no long-term, Cash settled share-based payments or termination benefits paid to Key Management Personnel or Other Executives.

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)**  
**REMUNERATION REPORT**

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Included in other short-term benefits are payments made to Zurich Securities Pty Ltd which provides a serviced office including bookkeeping services and is the landlord of Cervantes Corporation Ltd. Mr Collin Vost is a director and shareholder of the securities dealing company. During the financial year \$47,700 (2010: \$36,000) was paid or payable.

Also included in other short-term benefits are payments made to Zurich Securities Pty Ltd which is appointed as the Company's securities dealer and advisors on normal commercial terms and conditions. Mr Collin Vost is a director and shareholder of the securities dealing company. During the financial year \$3,887 (2010: \$1,366) was paid for share trading and investment services.

Included in other short-term benefits are payments made to Ausrecord Pty Ltd as consideration for the installation of shelving at Cervantes Corporation Ltd storage unit in Subiaco. Mr Barry MacKinnon was a director and shareholder of this document management company. During the financial year \$0 (2010: \$1,400) was paid or payable.

**Share-based Payments**

The terms and conditions relating to shares and options granted as remuneration during the year to key management personnel and other executives during the year are as follows:

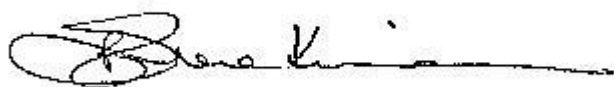
|                                | Remuneration Type | Grant Date | Grant Value \$ | Reason for Grant | Percentage Vested/Paid during Year % | Expiry Date for Vesting or Payment |
|--------------------------------|-------------------|------------|----------------|------------------|--------------------------------------|------------------------------------|
| Group Key Management Personnel |                   |            |                |                  |                                      |                                    |
| Mr C Vost                      | Shares            | 2/12/2010  | 85,000         | Note 1(a)        | 100                                  | -                                  |
|                                | Options           | 2/12/2010  | 23,282         | Note 1(a)        | 100                                  | 31/12/2013                         |

**Note 1 (a)**

The shares and options have been granted to the individual for their dedication and ongoing commitment and efforts to the Company. The issue of Director Options as a part of the remuneration package of the Directors is an established practice of junior public listed companies and has the benefit of conserving cash whilst properly rewarding the Directors. Based on this the Directors believe that this level of remuneration is in line with corporate remuneration of similar companies

|                                | Date      | No.       | Value \$ | Vested No. | Vested % |
|--------------------------------|-----------|-----------|----------|------------|----------|
| Group Key Management Personnel |           |           |          |            |          |
| Mr C Vost                      | 2/12/2010 | 5,000,000 | 23,282   | 5,000,000  | 100      |

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.



BARRY MacKINNON  
 Director  
 30 September 2011



**CERVANTES CORPORATION LTD (ABN 79 097 982 235)**  
**SHAREHOLDER INFORMATION**

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows.

The information is current as at 26 September 2011.

(a) **Distribution of Equity Securities**

The number of holders, by size of holding, in each class of security are:

|                   | Ordinary Shares |                    | Options -unlisted |                  |
|-------------------|-----------------|--------------------|-------------------|------------------|
|                   | No. of holders  | No. of shares      | No. of holders    | No. of options   |
| 1 – 1,000         | 6               | 1,297              |                   |                  |
| 1001 – 5,000      | 43              | 175,951            |                   |                  |
| 5001 – 10,000     | 194             | 1,888,032          |                   |                  |
| 10,001 – 100,000  | 342             | 16,306,156         |                   |                  |
| 100,001 and above | 241             | 275,899,676        | 1                 | 5,000,000        |
| <b>Total</b>      | <b>826</b>      | <b>294,271,112</b> | <b>1</b>          | <b>5,000,000</b> |

The number of shareholders holding less than a marketable parcel of shares is 440 (6,459,885 ordinary shares).

(b) **Twenty Largest Holders**

The names of the twenty largest holders, in each class of security are:

**Ordinary Shares:**

|   |            |         |
|---|------------|---------|
| 1 New York Holdings Pty Ltd <CV Superannuation Fund A/c>            | 33,550,000 | 11.401% |
| 2 J Vost  | 10,000,000 | 3.398%  |
| 3 PG and JW Crabb <The Crabb S/Fund A/c>                            | 9,800,000  | 3.330%  |
| 4 Jayvee Investments Pty Ltd <Jayvee SP-Pension A/c>                | 8,000,000  | 2.719%  |
| 5 New York Holdings Pty Ltd   | 7,770,000  | 2.640%  |
| 6 Laceglen Holdings Pty Ltd <Cadly Superfund A/c>                   | 6,900,000  | 2.345%  |
| 7 Bennett (WA) Pty Ltd  | 6,121,258  | 2.080%  |
| 8 Zurich Securities Pty Ltd   | 6,000,000  | 2.039%  |
| 9 Broken Ridge Pty Ltd  | 6,000,000  | 2.039%  |
| 10 GA Armstrong Superannuation Pty Ltd <GA Armstrong Superfund A/c> | 5,550,000  | 1.886%  |
| 11 Mr San Tiong Ng  | 4,376,557  | 1.487%  |
| 12 Mr David James O'Reilly  | 4,120,000  | 1.400%  |
| 13 Ms DM Vost & Mrs KL Sayers <The Dalma Vost Superfund A/c>        | 4,120,000  | 1.400%  |
| 14 Allcrest Nominees Pty Ltd <The Riemer A/c>                       | 3,900,000  | 1.325%  |
| 15 Kheng Sing Lim   | 3,888,562  | 1.321%  |
| 16 Mdm Tee Lian   | 3,736,350  | 1.270%  |
| 17 Chen Hoong   | 3,736,349  | 1.270%  |
| 18 Mrs DM Vost  | 3,700,000  | 1.257%  |
| 19 Mr Danny John Mountford <The Mountford Family A/c>               | 3,197,000  | 1.086%  |
| 20 Dr Chin Vie Yap  | 3,115,000  | 1.059%  |

**Options unlisted:**

|                             |           |      |
|-----------------------------|-----------|------|
| 1 Zurich Securities Pty Ltd | 5,000,000 | 100% |
|-----------------------------|-----------|------|

**CERVANTES CORPORATION LTD (ABN 79 097 982 235)**  
**SHAREHOLDER INFORMATION**

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(c) **Substantial Shareholder**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporation Act 2001 is New York Holdings Pty Ltd.

(d) **Voting Rights**

All ordinary shares carry one vote per share without restriction.

(e) **Restricted Securities**

The Company has no restricted securities (held in escrow) on issue.

(f) **Business Objective**

The Company has used its cash and assets that are readily convertible to cash in a way consistent with its business objectives.

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**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2011**

|   | Note | Consolidated Group |                  |
|---|------|--------------------|------------------|
|   |      | 2011               | 2010             |
| Continuing Operation                                |      | \$                 | \$               |
| <b>Revenue</b>                                      |      |                    |                  |
| Interest income                                     | 2a   | 139                | 5,075            |
| Other income  | 2b   | 378,510            | 215,557          |
| Impairment reversal of intangible assets            | 13   | 20,000             | 64,000           |
|   |      | <u>398,649</u>     | <u>284,632</u>   |
| Net loss on revaluation of other financial assets   | 3    | -                  | (84,026)         |
| Employee benefits expenses                          |      | (186,175)          | (91,133)         |
| Depreciation expenses                               |      | (57)               | (70)             |
| Occupancy expenses                                  | 3    | (40,453)           | (39,789)         |
| Exploration & evaluation expenditure written off    | 3    | (25,250)           | (382,548)        |
| Travel expenses                                     |      | -                  | (8,785)          |
| Finance costs                                       |      | -                  | (970)            |
| Administration expenses                             |      | (104,652)          | (99,811)         |
| Other expenses                                      |      | (1,712)            | (6,768)          |
|   |      | <u>40,350</u>      | <u>(429,268)</u> |
| <b>Profit/(Loss) before income tax</b>              |      | <b>40,350</b>      | <b>(429,268)</b> |
| Income tax (expense) / benefit                      | 4    | -                  | -                |
|   |      | <u>40,350</u>      | <u>(429,268)</u> |
| <b>Profit/(Loss) after tax</b>                      |      | <b>40,350</b>      | <b>(429,268)</b> |
| Other comprehensive income                          |      | -                  | -                |
| <b>Total comprehensive income net of income tax</b> |      | <b>40,350</b>      | <b>(429,268)</b> |
| <b>Basic loss per share (cents per share)</b>       | 7    | 0.013c             | (0.15)c          |
| <b>Diluted loss per share (cents per share)</b>     | 7    | 0.013c             | (0.15)c          |

The accompanying notes form part of these financial statements

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011**

|                                  | Note | Consolidated Group |                |
|----------------------------------|------|--------------------|----------------|
|                                  |      | 2011               | 2010           |
|                                  |      | \$                 | \$             |
| <b>Current Assets</b>            |      |                    |                |
| Cash and cash equivalents        | 8    | 67,089             | 20,585         |
| Trade and other receivables      | 9    | 1,650              | 4,187          |
| Other financial assets           | 10   | 264,488            | 197,064        |
| <b>Total Current Assets</b>      |      | <b>333,227</b>     | <b>221,836</b> |
| <b>Non-Current Assets</b>        |      |                    |                |
| Property, plant and equipment    | 12   | 3,160              | 3,217          |
| Intangible assets                | 13   | 164,670            | 144,670        |
| <b>Total Non-Current Assets</b>  |      | <b>167,830</b>     | <b>147,887</b> |
| <b>Total Assets</b>              |      | <b>501,057</b>     | <b>369,723</b> |
| <b>Current Liabilities</b>       |      |                    |                |
| Trade and other payables         | 14   | 11,933             | 29,231         |
| <b>Total Current Liabilities</b> |      | <b>11,933</b>      | <b>29,231</b>  |
| <b>Total Liabilities</b>         |      | <b>11,933</b>      | <b>29,231</b>  |
| <b>Net Assets</b>                |      | <b>489,124</b>     | <b>340,492</b> |
| <b>Equity</b>                    |      |                    |                |
| Issued capital                   | 15   | 12,068,070         | 11,983,070     |
| Reserves                         | 23   | 23,282             | -              |
| Accumulated losses               |      | (11,602,228)       | (11,642,578)   |
| <b>Total Equity</b>              |      | <b>489,124</b>     | <b>340,492</b> |

The accompanying notes form part of these financial statements

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011**

| Consolidated Group                                    | Share<br>Capital  | Accumulated<br>Losses | Reserves      | Total          |
|---|-------------------|-----------------------|---------------|----------------|
|   | \$                | \$                    | \$            | \$             |
| <b>Balance at 1 July 2009</b>                         | 11,983,070        | (11,213,310)          | -             | 769,760        |
| Shares issued during year                             | -                 | -                     | -             | -              |
| Transaction costs                                     | -                 | -                     | -             | -              |
| Net loss attributable to members of the parent entity | -                 | (429,268)             | -             | (429,268)      |
| <b>Balance at 30 June 2010</b>                        | <u>11,983,070</u> | <u>(11,642,578)</u>   | -             | <u>340,492</u> |
| Shares issued during year                             | 85,000            | -                     | -             | 85,000         |
| Transaction costs                                     | -                 | -                     | -             | -              |
| Options issued to employees                           | -                 | -                     | 23,282        | 23,282         |
| Net loss attributable to members of the parent entity | -                 | 40,350                | -             | 40,350         |
| <b>Balance at 30 June 2011</b>                        | <u>12,068,070</u> | <u>(11,602,228)</u>   | <u>23,282</u> | <u>489,124</u> |

The accompanying notes form part of these financial statements

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011**

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|   | Note | Consolidated Group |           |
|---|------|--------------------|-----------|
|   |      | 2011               | 2010      |
|   |      | \$                 | \$        |
| <b>Cash Flows from Operating Activities</b> |      |                    |           |
| Receipts from customers                     |      | 10,640             | 9,784     |
| Payments to suppliers and employees         |      | (197,747)          | (244,291) |
| Dividends received                          |      | -                  | 3,584     |
| Interests received                          |      | 139                | 5,075     |
| Net cash used in operating activities       | 19   | (186,968)          | (225,848) |
| <b>Cash Flows from Investing Activities</b> |      |                    |           |
| Proceeds from held for trading investments  |      | 291,974            | 68,254    |
| Proceeds from the sale of equipment         |      | 7,300              | 6,250     |
| Purchase of property, plant & equipment     |      | -                  | (1,400)   |
| Purchase of held for trading investments    |      | -                  | (35,678)  |
| Loans from related parties                  |      | -                  | 215,000   |
| Payments for exploration & evaluation       |      | (65,800)           | (283,612) |
| Net cash used in investing activities       |      | 233,474            | (31,186)  |
| <b>Cash Flows from Financing Activities</b> |      |                    |           |
| Proceeds of issue of shares                 |      | -                  | -         |
| Costs of share issue                        |      | -                  | -         |
| Net cash provided by financing activities   |      | -                  | -         |
| Net outflow in cash held for the year       |      | 46,504             | (257,034) |
| Cash at the beginning of the year           |      | 20,585             | 277,619   |
| Cash at the end of the year                 | 8    | 67,089             | 20,585    |

The accompanying notes form part of these financial statements

**CERVANTES CORPORATION LTD ABN 79 097 982 235**  
**AND CONTROLLED ENTITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

This financial report includes the consolidated financial statements and notes of Cervantes Corporation Ltd and its controlled entity ('Consolidated Group' or 'Group'), and the separate financial statements and notes of Cervantes Corporation Ltd as an individual parent entity ('Parent Entity' or 'Company').

**Note 1: Statement of Significant Accounting Policies**

**Basis of Preparation**

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

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

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

**a Principles of Consolidation**

A controlled entity is any entity over which Cervantes Corporation Ltd has the power to govern the financial and operating policies so as to obtain benefit from its activities. In assessing the power to govern, the existence and effect of holding actual and potential voting rights are considered.

Details of the controlled entity are contained in Note 11 to the financial statements. The controlled entity has a 30 June financial year-end.

As at reporting date, the assets and liabilities of the controlled entity have been incorporated into the consolidated financial statements as well as its results for the year ended. Where a controlled entity has entered or left the Group during the year, its operating results have been included from the date control was obtained or until the date control ceased.

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

**b Business combinations**

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill (refer note 1(i)) or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

**CERVANTES CORPORATION LTD ABN 79 097 982 235**  
**AND CONTROLLED ENTITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the statement of comprehensive income unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income.

**c Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on the taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movement in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profits will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur.

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**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**d Property, Plant and Equipment**

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

**Plant and Equipment**

Plant and equipment are measured on the cost basis.

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

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

**Depreciation**

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

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

| <b>Class of Fixed Asset</b> | <b>Depreciation Rate</b> |
|-----------------------------|--------------------------|
| Plant and equipment         | 0 – 40.0%                |

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

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

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

**e Exploration and Development Expenditure**

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

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

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

**CERVANTES CORPORATION LTD ABN 79 097 982 235**  
**AND CONTROLLED ENTITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

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

**f Financial Instruments**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For the financial asset, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**Classification and Subsequent Measurement**

Finance instruments are subsequently measured at fair value. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

(i) Financial assets at fair value through profit and loss

A financial asset is classified at 'fair value through the profit and loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedge purposes or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with in the investment strategy. Such assets are subsequently measured at fair value with changes in the carrying value being included in the profit and loss.

(ii) Loans and receivables

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

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

**Fair value**

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

**Impairment**

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

**Derecognition**

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

**CERVANTES CORPORATION LTD ABN 79 097 982 235**  
**AND CONTROLLED ENTITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**g Going Concern**

As at the date of this report the directors are considering raising further equity capital through a share placement. Also, the Group has current assets, being held for sale investments, which could be sold to meet financial obligations.

As a consequence, the directors believe the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the financial report which contemplates that the Group will continue to meet their commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

Notwithstanding cash outflows from operations of \$168,968, the directors have a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. However, should the held for sale investment not be realised as necessary or capital raising not occur, there is significant uncertainty whether the Group would be able to continue as a going concern.

**h Impairment of Assets**

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

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

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

**i Intangibles**

**Licences and Leases**

Licences and leases are recognised at director valuation. Licences and leases have an indefinite life as they are a right to fish within zones established by Government authorities. Licences and leases are carried at director valuation less any impairment losses.

**Research and Development Costs**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development cost are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

**j Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

**k Provisions**

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

**CERVANTES CORPORATION LTD ABN 79 097 982 235**  
**AND CONTROLLED ENTITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**I Cash and Cash Equivalents**

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

**m Revenue and Other Income**

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

Dividend revenue is recognised when the right to receive a dividend has been established.

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

Revenue from the annual lease of licences is recognised at the beginning of the lease period.

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

**n Goods and Services Tax (GST)**

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

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

**o Comparative Figures**

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

When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statement, a statement of financial position as at the beginning of the earliest comparative period will be disclosed

**Critical Accounting Estimates and Judgments**

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

**Key Estimates – Impairment/Revaluation**

Based on the Group's current use of the craypot licences the directors have estimated the recoverable amount of the craypot licences as the fair value of these licences less costs to sell which is higher than value in use. The fair value was determined by reference to information obtained from external industry sources on prices at which craypot licences are sold currently in an active market. The revaluation has led to a decrease in the provision for impairment of intangible assets of \$20,000 for the year ended 30 June 2011.

**Key Judgments – Provision for Impairment of Receivables**

Included in trade receivables at reporting date is an amount receivable from Cervantes Gold Pty Ltd for \$0 net of provision for impairment. During the financial year the parent entity advanced \$40,550. The recovery of the full amount is dependent on the successful exploration and sale of gold recovered from the retreatment projects. A provision for impairment of \$430,058 has been recognised by the parent entity based on the net asset position of Cervantes Gold Pty Ltd.

**CERVANTES CORPORATION LTD ABN 79 097 982 235**  
**AND CONTROLLED ENTITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

Key Judgment – Advance to non related parties

The recovery of the full amount was dependent on the successful exploitation and sale of gold recovered from the retreatment projects being financed by the subsidiary. At the date of this report the directors have sufficient reason to believe that the exploration in the specific areas will not lead to the discovery of viable quantities of mineral resources and have decided to discontinue such activity. Sufficient data exists to indicate that the recovery of the amounts advanced is unlikely however the non related parties are continuing with efforts and investigating new treatment and processing methods. Such capitalised expenditure is carried at reporting date at \$0 and the amount written off through the statement of comprehensive income as exploration and evaluation written off for project abandoned amounted to \$25,250.

Key Judgment – Exploration and Evaluation Expenditure

The Group's policy for exploration and evaluation requires management to make certain assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised exploration and evaluation expenditure, management concludes that the capitalised expenditure is unlikely to be recovered by future sale or exploitation, then the relevant capitalised amount will be written off through the statement of comprehensive income. At the date of this report the Group has sufficient reason to believe that the exploration in specific areas will not lead to the discovery of viable quantities of mineral resources and the Group has decided to discontinue such activity in the specific areas while alternative treatment methods are being investigated. Such capitalised expenditure is carried at reporting date at \$0 and the amount written off through the statement of comprehensive income as exploration and evaluation written off for projects abandoned amounted to \$430,058.

**p New Accounting Standards for Application in Future Periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

AASB 9: Financial Instruments (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2013)

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. The Group has not yet determined any potential impact on the financial statements.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- financial assets will need to be reclassified where there is a change in an entity's business model as they are initially classified based on
  - (a) the objective of the entity's business model for managing the financial assets; and
  - (b) the characteristics of the contractual cash flows
- Requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit and loss.

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

- *AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).*

This Standard removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies the definition of a 'related party' to remove inconsistencies and simplify the structure of the Standard. No changes are expected to materially affect the Group.

- *AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013)*

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (i.e. full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Subject to AASB 1049, general government sectors of the Australian Government and state and territory governments would also apply Tier 1 reporting requirements.

The following entities can elect to apply Tier 2 of the framework when preparing general purpose financial statements:

- for-profit private sector entities that do not have public accountability;
- not-for-profit private sector entities; and
- public sector entities, whether for-profit or not-for-profit, other than the Australian Government and state, territory and local governments.

AASB 2010-2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific 'RDR' disclosures.

- *AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).*

This Standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

- *AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).*

This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This Standard is not expected to impact the Group.

- *AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This Standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian Accounting Standard financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;

**CERVANTES CORPORATION LTD ABN 79 097 982 235**  
**AND CONTROLLED ENTITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

- *AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).*

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

*AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).*

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards; and AASB 7: Financial Instruments: Disclosures; establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

*AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).*

This Standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

As noted above, the Group has not yet determined any potential impact on the financial statements from adopting AASB 9.

*AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).*

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

- *AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011).*

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards. The amendments brought in by this standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

- *AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7] (applies to periods beginning on or after 1 January 2013).*

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9; and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009-11 will only affect early adopters of AASB 2009-11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010-7].

This Standard is not expected to impact the Group.

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**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

| Note   | Consolidated Group |                |
|--|--------------------|----------------|
|  | 2011<br>\$         | 2010<br>\$     |
| <b>NOTE 2: Revenue and Other Income</b>                  |                    |                |
| <b>2a. Interest revenues</b>                             |                    |                |
| - other persons  | 139                | 5,075          |
|  | <b>139</b>         | <b>5,075</b>   |
| <b>2b. Other income</b>                                  |                    |                |
| Lease revenue  | 10,640             | 5,273          |
| Dividend   | -                  | 3,584          |
| Commission   | -                  | 185,000        |
| Corporate Services                                       | 1,171              | 4,511          |
| Profit on disposal of shares                             | 160,928            | 10,939         |
| Fair value adjustment                                    | 198,471            | -              |
| Profit on the sale of equipment                          | 7,300              | 6,250          |
|  | <b>378,510</b>     | <b>279,557</b> |
| <b>NOTE 3: Loss for the Year</b>                         |                    |                |
| The profit for the year included the following expenses: |                    |                |
| Fair value adjustment                                    | -                  | 84,026         |
| Rental expense on operating leases                       |                    |                |
| - rental expense for sublease                            | 40,453             | 39,789         |
| Exploration and evaluation expenditure written off       | 25,250             | 382,548        |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

|   | <b>Consolidated Group</b> |                  |
|---|---------------------------|------------------|
|   | <b>2011</b>               | <b>2010</b>      |
|   | <b>\$</b>                 | <b>\$</b>        |
| <b>NOTE 4: Income Tax</b>   |                           |                  |
| Prima facie tax benefit on profit/(loss) before income tax @ 30%. | 12,105                    | (128,780)        |
| Add tax effect:   |                           |                  |
| <i>Non-allowable items</i>  |                           |                  |
| Impairment of assets  | (6,000)                   | (19,200)         |
| Fair value adjustment   | (59,541)                  | 25,208           |
| Exploration expenditure   | -                         | 16,610           |
| <i>Allowable items</i>  |                           |                  |
| Capital raising cost  | (11,082)                  | (11,082)         |
| Project assessment cost   | (4,968)                   | (4,968)          |
| Tax losses not brought to account                                 | 69,486                    | 122,212          |
| Income tax attributable to entity                                 | -                         | -                |
| Unrecognised deferred tax balances:                               |                           |                  |
| Unrecognised deferred tax asset losses                            | 2,681,782                 | 2,612,296        |
| Unrecognised deferred tax asset other                             | 192,448                   | 262,957          |
| Unrecognised deferred equity adjustment                           | -                         | 11,082           |
| Unrecognised deferred tax liabilities                             | -                         | -                |
| Net deferred tax asset not brought to account                     | <b>2,874,230</b>          | <b>2,886,335</b> |

Unrecognised deferred tax asset losses include deferred tax asset losses relating to Cervantes Gold Pty Ltd in the amount of \$422,483 (2010: \$374,553). These are available for offset against the unrecognised deferred tax loss in Cervantes Gold Pty Ltd.

The Unrealising deferred tax assets will only be available if:

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

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 5: Interests of Key Management Personnel (KMP)**

Refer to the remuneration report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2011.

The totals of remuneration paid to KMP of the company and the Group during the year are as follows:

|                                | <b>2011</b>    | <b>2010</b>    |
|--------------------------------|----------------|----------------|
|                                | <b>\$</b>      | <b>\$</b>      |
| Short-term employment benefits | 259,915        | 140,877        |
| Post-employment benefits       | -              | -              |
| Other long-term benefits       | -              | -              |
| Termination benefits           | -              | -              |
|                                | <b>259,915</b> | <b>140,877</b> |
|                                | <b>259,915</b> | <b>140,877</b> |

**KMP Options Holdings**

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

**30 June 2011**

|             | Balance at beginning of year | Granted as remuneration during the year | Exercised during the year | Other changes during the year | Balance at end of year |
|-------------|------------------------------|---|---------------------------|-------------------------------|------------------------|
| Collin Vost | -                            | 5,000,000                               | -                         | -                             | 5,000,000              |
|             | -                            | 5,000,000                               | -                         | -                             | 5,000,000              |
|             | -                            | 5,000,000                               | -                         | -                             | 5,000,000              |

**30 June 2010**

|             | Balance at beginning of year | Granted as remuneration during the year | Exercised during the year | Other changes during the year | Balance at end of year |
|-------------|------------------------------|---|---------------------------|-------------------------------|------------------------|
| Collin Vost | -                            | -                                       | -                         | -                             | -                      |
|             | -                            | -                                       | -                         | -                             | -                      |
|             | -                            | -                                       | -                         | -                             | -                      |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 5: Interests of Key Management Personnel (KMP) (cont'd)**

**KMP Shareholdings**

The number of ordinary shares in Cervantes Corporation Ltd held by each KMP of the Group during the financial year is as follows:

**30 June 2011**

|                  | Balance at beginning of year | Granted as remuneration during the year | Issued on exercise of options during the year | Other changes during the year | Balance at end of year |
|------------------|------------------------------|---|---|-------------------------------|------------------------|
| Barry MacKinnon  | 250,000                      | -                                       | -   | -                             | 250,000                |
| Collin Vost      | 30,620,000                   | -                                       | -   | 16,700,000                    | 47,320,000             |
| Graeme Armstrong | 4,550,000                    | -                                       | -   | 1,000,000                     | 5,550,000              |
| Patrick O'Neill  | 200,000                      | -                                       | -   | 200,000                       | 400,000                |
|                  | <u>35,620,000</u>            | <u>-</u>                                | <u>-</u>                                      | <u>17,900,000</u>             | <u>53,520,000</u>      |

**30 June 2010**

|                  | Balance at beginning of year | Granted as remuneration during the year | Issued on exercise of options during the year | Other changes during the year | Balance at end of year |
|------------------|------------------------------|---|---|-------------------------------|------------------------|
| Barry MacKinnon  | 250,000                      | -                                       | -   | -                             | 250,000                |
| Collin Vost      | 30,620,000                   | -                                       | -   | -                             | 30,620,000             |
| Graeme Armstrong | 4,550,000                    | -                                       | -   | -                             | 4,550,000              |
| Patrick O'Neill  | 200,000                      | -                                       | -   | -                             | 200,000                |
|                  | <u>35,620,000</u>            | <u>-</u>                                | <u>-</u>                                      | <u>-</u>                      | <u>35,620,000</u>      |

**Other KMP Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP refer to Note 21: Related Party Transactions.

**Consolidated Group**

**2011**

**2010**

**\$**

**\$**

**NOTE 6: Auditors' Remuneration**

Remuneration of the auditor of the parent entity for:

- auditing or reviewing the financial report

26,520

29,200

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

| <b>Consolidated Group</b> |             |
|---------------------------|-------------|
| <b>2011</b>               | <b>2010</b> |
| <b>\$</b>                 | <b>\$</b>   |

**NOTE 7: Earnings per Share**

(a) Reconciliation of earnings to profit or loss

|  |        |           |
|--|--------|-----------|
| Profit(Loss)                                     |        |           |
| Earnings used to calculate basic EPS             | 40,350 | (429,268) |
| Earnings used in the calculation of dilutive EPS | 40,350 | (429,268) |

| <b>No.</b> | <b>No.</b> |
|------------|------------|
|------------|------------|

(b) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS

Weighted average number of dilutive options outstanding

Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS

|  |             |             |
|--|-------------|-------------|
|  | 292,147,824 | 289,271,112 |
|  | -           | -           |
|  | 292,147,824 | 289,271,112 |

| <b>Consolidated Group</b> |             |
|---------------------------|-------------|
| <b>2011</b>               | <b>2010</b> |
| <b>\$</b>                 | <b>\$</b>   |

**NOTE 8: Cash and cash Equivalents**

|                          |               |               |
|--------------------------|---------------|---------------|
| Cash at bank & in hand   | 3,157         | 8,819         |
| Interest bearing deposit | 63,932        | 11,766        |
|                          | <b>67,089</b> | <b>20,585</b> |

**Reconciliation of cash**

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the statement of financial position as follows:

|                         |               |               |
|-------------------------|---------------|---------------|
| Cash & cash equivalents | 67,089        | 20,585        |
|                         | <b>67,089</b> | <b>20,585</b> |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

|  | Note | Consolidated Group |              |
|--|------|--------------------|--------------|
|  |      | 2011<br>\$         | 2010<br>\$   |
| <b>NOTE 9: Trade and Other Receivables</b> |      |                    |              |
| <b>Current</b>                             |      |                    |              |
| Amounts receivable from related parties    |      | 1,650              | -            |
| Input tax credits                          |      | -                  | 4,187        |
|  |      | <b>1,650</b>       | <b>4,187</b> |

The terms of the amounts receivable from related parties are non-interest bearing, payable on 30 day terms

**Credit Risk – Trade and Other Receivables**

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographical basis, all the Group credit risk exposure is in Australia.

At the date of this report all the amounts receivable from related parties had been repaid in full.

**Financial assets classified as loans and receivables**

Trade and other receivable

|                     |  |       |       |
|---------------------|--|-------|-------|
| - Total current     |  | 1,650 | 4,187 |
| - Total non-current |  | -     | -     |

|                         |           |              |              |
|-------------------------|-----------|--------------|--------------|
| <b>Financial assets</b> | <b>22</b> | <b>1,650</b> | <b>4,187</b> |
|-------------------------|-----------|--------------|--------------|

**NOTE 10: Other Financial Assets**

**Current**

|  |            |                |                |
|--|------------|----------------|----------------|
| Financial assets at fair value through profit and loss | <b>10a</b> | 264,488        | 197,064        |
|  |            | <b>264,488</b> | <b>197,064</b> |

**10a Financial assets at fair value through profit and loss**

|                                |  |                |                |
|--------------------------------|--|----------------|----------------|
| Held for trading listed shares |  | 264,488        | 197,064        |
|                                |  | <b>264,488</b> | <b>197,064</b> |

Shares held for trading are traded for the purpose of short term profit taking. Changes in fair value are included in the statement of comprehensive income.

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 11: Controlled Entities**

|  | Country of Incorporation | Percentage Owned (%) |      |
|--|--------------------------|----------------------|------|
|  |                          | 2011                 | 2010 |
| Subsidiary of Cervantes Corporation Ltd: |                          |                      |      |
| Cervantes Gold Pty Ltd                   | Aust                     | 100                  | 100  |

**Consolidated Group**

2011                      2010  
\$                              \$

**NOTE 12: Property, Plant and Equipment**

Plant & equipment

|                                  |            |            |
|----------------------------------|------------|------------|
| - At cost                        | 423        | 423        |
| - Less: accumulated depreciation | (163)      | (106)      |
|                                  | <u>260</u> | <u>317</u> |

Office equipment

|                                  |              |              |
|----------------------------------|--------------|--------------|
| - At cost                        | 2,900        | 2,900        |
| - Less: accumulated depreciation | -            | -            |
|                                  | <u>2,900</u> | <u>2,900</u> |

**Total Property, Plant & Equipment**

|              |              |
|--------------|--------------|
| <u>3,160</u> | <u>3,217</u> |
|--------------|--------------|

**Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment.

**Consolidated Group**

|  | Plant & Equip. | Office Equip. | Total        |
|--|----------------|---------------|--------------|
| <b>Year ended 30 June 2010</b>         |                |               |              |
| Balance at the beginning of year       | 387            | 1,500         | 1,887        |
| Revaluation increment                  | -              | -             | -            |
| Additions                              | -              | 1,400         | 1,400        |
| Depreciation expense                   | (70)           | -             | (70)         |
| Carrying amount at the end of the year | <u>317</u>     | <u>2,900</u>  | <u>3,217</u> |

**Year ended 30 June 2011**

|  |            |              |              |
|--|------------|--------------|--------------|
| Balance at the beginning of year       | 317        | 2,900        | 3,217        |
| Revaluation increment                  | -          | -            | -            |
| Additions                              | -          | -            | -            |
| Depreciation expense                   | (57)       | -            | (57)         |
| Carrying amount at the end of the year | <u>260</u> | <u>2,900</u> | <u>3,160</u> |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**Consolidated Group**  
**2011**                      **2010**  
**\$**                              **\$**

**NOTE 13: Intangibles Assets**

**Non-Current**

Licences and leases

At valuation

490,000

490,000

Less provision for impairment

(326,000)

(346,000)

Company formation expenditure

670

670

**164,670**

**144,670**

**Consolidated Group**

Licences &  
leases

Company  
formation  
expenditure

**Year ended 30 June 2010**

Balance at the beginning of the year

80,000

670

Reversal of impairment

64,000

-

**144,000**

**670**

**Year ended 30 June 2011**

Balance at the beginning of the year

144,000

670

Reversal of impairment

20,000

-

**164,000**

**670**

Closing value at 30 June 2011

The effective date for the revaluation of the licences and leases was 27 June 2011. The carrying amount that would have been recognised had licences and leases been measured using the cost model would have been \$800,000. Refer to Note 1, Critical Accounting Estimates and Judgments for impairment considerations.



**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

|   | <b>Consolidated Group</b> |               |
|---|---------------------------|---------------|
|   | <b>2011</b>               | <b>2010</b>   |
|   | <b>\$</b>                 | <b>\$</b>     |
| <b>NOTE 14: Trade and other payable</b>   |                           |               |
| <b>Current</b>  |                           |               |
| Unsecured liabilities   |                           |               |
| - Trade creditors   | 11,933                    | 29,231        |
|   | <b>11,933</b>             | <b>29,231</b> |
| <b>Financial liabilities at amortised cost classified as trade and other payables</b> |                           |               |
| Trade and other payables  |                           |               |
| - Total Current   | <b>11,933</b>             | <b>29,231</b> |

**NOTE 15: Issued Capital**

|                                 |                   |                   |
|---------------------------------|-------------------|-------------------|
| 294,271,112 (2010: 289,271,112) |                   |                   |
| Fully paid ordinary shares      | 12,068,070        | 11,983,070        |
|                                 | <b>12,068,070</b> | <b>11,983,070</b> |

|                                      | <b>2011</b>        | <b>2010</b>        |
|--------------------------------------|--------------------|--------------------|
|                                      | <b>No.</b>         | <b>No.</b>         |
| <b>Ordinary shares</b>               |                    |                    |
| At the beginning of reporting period | 289,271,112        | 287,011,112        |
| Shares issued during the year:       |                    |                    |
| 2 December 2010                      | 5,000,000          | -                  |
| At the end of reporting period       | <b>294,271,112</b> | <b>289,271,112</b> |

On 2 December 2010 the Company issued 5,000,000 ordinary shares to a director as a share based payment.

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called; otherwise each shareholder has one vote on a show of hands.

**Options**

On 2 December 2010 the Company issued 5,000,000 unlisted options to a director as a share based payment.

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 15: Issued Capital (cont'd)**

|  | <b>2011</b>      | <b>2010</b> |
|--|------------------|-------------|
|  | <b>No.</b>       | <b>No.</b>  |
| <b>Options</b>                             |                  |             |
| Opening number of options issued           | -                | -           |
| Number of options issued during the year   | 5,000,000        | -           |
| Number of option exercised during the year | -                | -           |
| Number of options lapsed during the year   | -                | -           |
| Closing Number of Options Issued           | <b>5,000,000</b> | <b>-</b>    |

**Capital Management**

Management control the capital of the Group in order to maintain a good debt to equity ratio and ensure that the Group can fund its operations and continue as a going concern.

The Group's capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Groups financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels and share issues. Total borrowings below represents trade and other payables.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratio's for the year ended 30 June 2011 and 30 June 2010 are as follows:

|                                | <b>Note</b> | Consolidated Group |          |
|--------------------------------|-------------|--------------------|----------|
|                                |             | 2011               | 2010     |
|                                |             | \$                 | \$       |
| Total borrowings               | 14          | 11,933             | 29,231   |
| Less cash and cash equivalents | 8           | (67,089)           | (20,585) |
| Net borrowings                 |             | (55,156)           | 8,646    |
| Total equity                   |             | 465,842            | 340,492  |
| Total capital                  |             | 410,686            | 349,138  |
| Gearing ratio                  |             | -13.4%             | 2.5%     |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

| Consolidated Group |      |
|--------------------|------|
| 2011               | 2010 |
| \$                 | \$   |

**NOTE 16: Capital and Leasing Commitments**

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable: minimum lease payments

|                                 |        |        |
|---------------------------------|--------|--------|
| - not later than 12 months      | 54,000 | 36,000 |
| - between 12 months and 5 years | -      | -      |
| - greater than 5 years          | -      | -      |

A serviced office including bookkeeping service and business premises are provided by Zurich Securities Pty Ltd at a fee of \$4,500 per calendar month (2010:\$3000).

**NOTE 17: Contingent Liabilities**

There are no contingent liabilities as at balance date or as at the date of the report.

**NOTE 18: Segment Reporting  
Segment Information**

**Identification of reportable segments**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversifications of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on this basis.

Reportable segment disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and also similar with respect to the following:

- the product sold and/or services provided by the segment;
- the type or class of customer for the product or service; and
- the external regulatory requirements

**Types of products and services by segment**

*Seafood and Aquaculture*

The seafood and aquaculture segment lease craypot licences and evaluates seafood and aquaculture projects.

*Mineral exploration and evaluation*

The mineral exploration and evaluation segment evaluates projects in the mining industry.

*Share Trading*

The share trading segment buys and sells shares through the Australian Securities Exchange.

**CERVANTES CORPORATION LTD ABN 79 097 982 235**  
**AND CONTROLLED ENTITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 18: Operating Segments (cont'd)**

**Basis of accounting for the purposes of reporting by operating segment**

*Accounting policies adopted*

Unless stated otherwise, all amounts reported to the Board of Directors as the chief operating decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

*Segment assets*

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

*Segment liabilities*

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

*Unallocated items*

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- derivatives
- impairment of assets and other non-recurring items of revenue or expense
- other financial liabilities
- intangible assets

*Comparative information*

This is the first reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the standard.

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 18: Operating Segments (cont'd)**

**(i) Segment performance**

|  | Seafood &<br>aquaculture<br>\$ | Exploration &<br>evaluation<br>\$ | Share trading<br>\$ | Corporate<br>\$  | Total<br>\$    |
|--|--------------------------------|-----------------------------------|---------------------|------------------|----------------|
| <b>Year ended 30.06.2011</b>   |                                |                                   |                     |                  |                |
| <b>Revenue</b>   |                                |                                   |                     |                  |                |
| External sales   | 17,940                         | -                                 | 359,399             | 1,171            | 358,510        |
| Revaluation of intangible asset  | 20,000                         | -                                 | -                   | -                | 20,000         |
| Dividends  | -                              | -                                 | -                   | -                | -              |
| Interest revenue   | -                              | -                                 | -                   | 139              | 139            |
| <b>Total segment revenue</b>   | <b>37,940</b>                  | <b>-</b>                          | <b>359,399</b>      | <b>1,310</b>     | <b>378,649</b> |
| <i>Reconciliation of segment revenue to group revenue</i>                      |                                |                                   |                     |                  |                |
| Total group revenue  |                                |                                   |                     |                  | <u>378,649</u> |
| <b>Segment net profit before tax</b>   | <b>36,025</b>                  | <b>-</b>                          | <b>359,399</b>      | <b>(329,765)</b> | <b>65,657</b>  |
| <i>Reconciliation of segment results to group net profit/(loss) before tax</i> |                                |                                   |                     |                  |                |
| Amount not included in segment results but reviewed by the Board:              |                                |                                   |                     |                  |                |
| Depreciation expenses  | -                              | (57)                              | -                   | -                | (57)           |
| Write off of exploration & evaluation expenditure                              | -                              | (25,250)                          | -                   | -                | (25,250)       |
| Net loss before tax from continuing operations                                 |                                |                                   |                     |                  | <u>40,350</u>  |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 18: Operating Segments (cont'd)**  
**(ii) Segment performance**

|  | Seafood &<br>Aquaculture<br>\$ | Exploration &<br>evaluation<br>\$ | Share<br>Trading<br>\$ | Corporate<br>\$  | Total<br>\$      |
|--|--------------------------------|-----------------------------------|------------------------|------------------|------------------|
| <b>For the year ended 30.06.2010</b>   |                                |                                   |                        |                  |                  |
| <b>Revenue</b>   |                                |                                   |                        |                  |                  |
| External sales   | 11,523                         | -                                 | 195,939                | 4,511            | 211,973          |
| Revaluation of intangible asset  | 64,000                         | -                                 | -                      | -                | 64,000           |
| Dividends  | -                              | -                                 | 3,584                  | -                | 3,584            |
| Interest revenue   | -                              | -                                 | -                      | 5,075            | 5,075            |
| <b>Total segment revenue</b>   | <b>75,523</b>                  | <b>-</b>                          | <b>199,523</b>         | <b>9,586</b>     | <b>284,632</b>   |
| <i>Reconciliation of segment revenue to group revenue</i>                      |                                |                                   |                        |                  |                  |
| Total group revenue  |                                |                                   |                        |                  | 284,632          |
| <b>Segment net profit before tax</b>   | <b>72,819</b>                  | <b>(1,668)</b>                    | <b>115,497</b>         | <b>(233,298)</b> | <b>(46,650)</b>  |
| <i>Reconciliation of segment results to group net profit/(loss) before tax</i> |                                |                                   |                        |                  |                  |
| Amount not included in segment results but reviewed by the Board:              |                                |                                   |                        |                  |                  |
| Depreciation & amortisation  | -                              | (70)                              | -                      | -                | (70)             |
| Write off of exploration & evaluation expenditure                              | -                              | (382,548)                         | -                      | -                | (382,548)        |
| Net loss before tax from continuing operations                                 |                                |                                   |                        |                  | <u>(429,268)</u> |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 18: Operating Segments (cont'd)**  
**(iii) Segment assets**

| As at 30.06.2011  | Seafood &<br>Aquaculture<br>\$ | Exploration &<br>evaluation<br>\$ | Share<br>Trading<br>\$ | Corporate<br>\$ | Total<br>\$    |
|---|--------------------------------|-----------------------------------|------------------------|-----------------|----------------|
| <b>Segment assets</b>                                   | 164,000                        | 260                               | 264,488                | 73,309          | 501,057        |
| Segment assets increased for the period                 |                                |                                   |                        |                 |                |
| Capital expenditure                                     | -                              | 25,307                            | -                      | -               | 25,307         |
| Less capital expenditure written off                    | -                              | (25,250)                          | -                      | -               | (25,250)       |
| Reversal of impairment of intangible asset              | 20,000                         | -                                 | -                      | -               | 20,000         |
| Acquisitions/(disposals)                                | -                              | -                                 | 67,424                 | -               | 67,424         |
|   | 20,000                         | (57)                              | 67,424                 | -               | 87,367         |
| <i>Reconciliation of segment assets to group assets</i> |                                |                                   |                        |                 |                |
| Total group assets                                      |                                |                                   |                        |                 | <u>501,057</u> |
| <b>As at 30.06.2010</b>                                 |                                |                                   |                        |                 |                |
| <b>Segment assets</b>                                   | 144,000                        | 317                               | 197,064                | 28,342          | 369,723        |
| Segment assets increased for the period                 |                                |                                   |                        |                 |                |
| Capital expenditure                                     | -                              | 268,179                           | -                      | -               | 268,179        |
| Less capital expenditure written off                    | -                              | (382,548)                         | -                      | -               | (382,548)      |
| Impairment of intangible asset                          | 64,000                         | -                                 | -                      | -               | 64,000         |
| Acquisitions/(disposals)                                | -                              | -                                 | (24,910)               | -               | (24,910)       |
|   | 64,000                         | (114,369)                         | (24,910)               | -               | (75,279)       |
| <i>Reconciliation of segment assets to group assets</i> |                                |                                   |                        |                 |                |
| Total group assets                                      |                                |                                   |                        |                 | <u>369,723</u> |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 18: Operating Segments (cont'd)**

|   | Seafood &<br>Aquaculture<br>\$ | Exploration &<br>evaluation<br>\$ | Share<br>Trading<br>\$ | Corporate<br>\$ | Total<br>\$   |
|---|--------------------------------|-----------------------------------|------------------------|-----------------|---------------|
| <b>(iv) Segment liabilities</b>                                   |                                |                                   |                        |                 |               |
| <b>As at 30.06.2011</b>   |                                |                                   |                        |                 |               |
| <b>Segment liabilities</b>  | -                              | -                                 | -                      | 11,933          | 11,933        |
| <i>Reconciliation of segment liabilities to group liabilities</i> |                                |                                   |                        |                 |               |
| Total group liabilities   |                                |                                   |                        |                 | <u>11,933</u> |
| <b>As at 30.06.2010</b>   |                                |                                   |                        |                 |               |
| <b>Segment liabilities</b>  | -                              | 16,500                            | -                      | 12,731          | 29,231        |
| <i>Reconciliation of segment liabilities to group liabilities</i> |                                |                                   |                        |                 |               |
| Total group liabilities   |                                |                                   |                        |                 | <u>29,231</u> |

**(v) Revenue by geographical region**

All Group revenue attributable to external customers was generated in Australia.

**(vi) Assets by geographical region**

The Group operated only in Australia.

**(vii) Major customers**

The Group supplies a single external customer in the seafood and aquaculture segment who accounts for 10% of external revenue (2010: 26%).



**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**Consolidated Group**  
**2011**                      **2010**  
**\$**                              **\$**

**NOTE 19: Cash Flow Information**  
**Reconciliation of Cash Flow from**  
**Operations with Profit/(Loss) after**  
**Income Tax**

|   |                         |                         |
|---|-------------------------|-------------------------|
| Profit/(Loss) after income tax  | 40,350                  | (429,268)               |
| Non-cash flows in profit/(loss) after income tax                                      |                         |                         |
| Impairment of intangible assets   | (20,000)                | (64,000)                |
| Profit on sale of equipment   | (7,300)                 | (6,250)                 |
| Commissions   | -                       | (185,000)               |
| Net gain on disposal of financial assets  | (160,928)               | (10,939)                |
| Fair value adjustment   | (198,471)               | 84,026                  |
| Depreciation  | 57                      | 70                      |
| Write down of exploration & evaluation expenditure                                    | 65,803                  | 382,548                 |
| Directors Fees  | 108,282                 | -                       |
| <i>Changes in Assets and Liabilities, net of the effect of purchase of subsidiary</i> |                         |                         |
| (Increase)/decrease in trade & term receivables                                       | 2,537                   | 1,980                   |
| Increase/(decrease) in trade & other payables   | (17,298)                | 985                     |
| <i>Cash flow from operations</i>  | <u><b>(186,968)</b></u> | <u><b>(225,848)</b></u> |

**NOTE 20: Events After Balance Sheet Date**

No matters or circumstances that have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**Consolidated Group**

**2011**

**2010**

\$

\$

**NOTE 21: Related Party Transactions**

Transactions with related parties:

Director or related entities

i) Serviced office fees paid and accrued to Zurich Securities Pty Ltd, a securities dealing firm where Mr Collin Vost is the director and shareholder

47,700

36,000

ii) Brokerage fees paid and accrued to Zurich Securities Pty Ltd, a securities dealing firm where Mr Collin Vost is a director and shareholder

3,887

1,366

v) For the supply and installation of shelving at the Group's storage facility in Subiaco an amount was paid to Ausrecord Pty Ltd, a company where Barry MacKinnon is a director and shareholder

-

1,400

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

**NOTE 22: Financial Risk Management**

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable and loans to subsidiary.

The totals for each category of financial instrument, measured in accordance with AASB: 139 as detailed in the accounting policies to these financial statements, are as follows:

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

|   | Note | Consolidated Group |         |
|---|------|--------------------|---------|
|   |      | 2011               | 2010    |
| <b>NOTE 22: Financial Risk Management (cont'd)</b>    |      | \$                 | \$      |
| <b>Financial Assets</b>                               |      |                    |         |
| Cash and cash equivalents                             | 8    | 67,089             | 20,585  |
| Financial assets at fair value through profit or loss |      |                    |         |
| -Held for trading                                     | 10   | 264,488            | 197,064 |
| Loans and receivables                                 | 9    | 1,650              | 4,187   |
|   |      | 333,227            | 221,836 |
| <b>Financial Liabilities</b>                          |      |                    |         |
| - Trade and other payables                            | 14   | 11,933             | 29,231  |
|   |      | 11,933             | 29,231  |

**Financial Risk Management Policies**

The Group's financial risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors, in its function as Audit Committee, oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors is responsible for the developing and monitoring the Group's risk management policies.

**Interest rate risk**

The Group has cash subject to interest and therefore the interest rate risk impact is minimal. Management continually monitors the exposure to interest rate risk. The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

|                                  | < 1 Year | Total  | Weighted average        |
|----------------------------------|----------|--------|-------------------------|
|                                  | \$       | \$     | effective interest rate |
| Year ended 30 June 2011          |          |        |                         |
| <i>Floating rate</i> Cash assets | 67,089   | 67,089 | 0.32%                   |
| Year ended 30 June 2010          |          |        |                         |
| <i>Floating rate</i> Cash assets | 20,585   | 20,585 | 3.40%                   |

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 22: Financial Risk Management (cont'd)**

**Liquidity Risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy for managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Group's overall objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities.

The Group also manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

The table below summarises the maturity profiles of the Group's financial liabilities based on contractual undiscounted payments.

|                           | Less than 3<br>months<br>\$ | 3 to 12<br>Months<br>\$ | More than<br>12 months<br>\$ | Total<br>\$   |
|---------------------------|-----------------------------|-------------------------|------------------------------|---------------|
| Year ended 30 June 2011   |                             |                         |                              |               |
| Trade and other creditors | 11,933                      | -                       | -                            | 11,933        |
|                           | <u>11,933</u>               | <u>-</u>                | <u>-</u>                     | <u>11,933</u> |
| Year ended 30 June 2010   |                             |                         |                              |               |
| Trade and other creditors | 29,231                      | -                       | -                            | 29,231        |
|                           | <u>29,231</u>               | <u>-</u>                | <u>-</u>                     | <u>29,231</u> |

The Group also has an office service agreement. The future contracted commitments at year end are disclosed in Note 16.

**Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. In most cases, the Group requires full and final payment either prior to, or upon delivery of the goods to the customer. In limited cases where credit is provided, the Group trades on credit terms with recognised, creditworthy third parties. Customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivables balances are monitored on an ongoing basis with the results that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Group.

All amounts past due in excess of 30 days are individually assessed and provided for as doubtful if reasonable doubt as to collectability exists.

With respect to credit risk arising from financial assets of the Group, which comprise of cash and cash equivalents and receivables, the Group's maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, as disclosed in the balance sheet and notes to the financial statements.

Included in receivables is the amount for GST refundable, this amount is not past due nor impaired.

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 22: Financial Risk Management (cont'd)**

**Net Fair Value**

*Fair Value Estimation*

The fair values of the financial assets and financial liabilities are presented in the following can be compared to their carrying values as presented in the balance sheet. Fair values are those amounts at which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information from markets that are actively traded. In this regard, fair value for listed securities are obtained from quoted market bid price.

|   | 2011               |                | 2010               |                |
|---|--------------------|----------------|--------------------|----------------|
|   | Net Carrying Value | Net Fair Value | Net Carrying Value | Net Fair Value |
|   | \$                 | \$             | \$                 | \$             |
| <b>Consolidated Group</b>                             |                    |                |                    |                |
| <b>Financial Assets</b>                               |                    |                |                    |                |
| Cash and cash equivalents                             | 67,089             | 67,089         | 20,585             | 20,585         |
| Financial assets at fair value through profit or loss |                    |                |                    |                |
| -Held for trading                                     | 264,488            | 264,488        | 197,064            | 197,064        |
| Loans and receivables                                 | 1,650              | 1,650          | 4,187              | 4,187          |
|   | 333,227            | 333,227        | 221,836            | 221,836        |
| <b>Financial Liabilities</b>                          |                    |                |                    |                |
| - Trade and other payables                            | 11,933             | 11,933         | 29,231             | 29,231         |
|   | 11,933             | 11,933         | 29,231             | 29,231         |

The fair values disclosed in the above table have been determined based on the following methodologies.

- (i) Cash and cash equivalents, trade and other receivables and trade and other payables are short-term instruments in nature whose carrying value is equivalent to fair value. Trade and other payable exclude amounts provided for relating to annual leave which is not considered a financial instrument.
- (ii) For listed held-for-trading financial assets, closing quoted bid prices at reporting date have been used.

**Price Risk**

Price risk relates to the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in market prices largely due to demand and supply factors for commodities.

The Group is exposed to securities price risk on investments held for trading or for medium to longer term. Such risk is managed through diversification of investments across industries and geographical location.

The Group's investments are held in the following sectors at reporting date.

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**Consolidated Group  
2011                      2010**

**NOTE 22: Financial Risk Management (cont'd)**

|                    |      |      |
|--------------------|------|------|
| Energy             | 88%  | 47%  |
| Materials          | 2%   | 20%  |
| Capital Goods      | 10%  | 11%  |
| Real Estate        | -    | 1%   |
| Telecommunications | -    | 21%  |
|                    | 100% | 100% |

**Sensitivity Analysis**

The following table illustrates sensitivity to the Group's exposures to changes in the interest rate. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

|                         | <b>Consolidated Group</b> |               |
|-------------------------|---------------------------|---------------|
|                         | <b>Profit</b>             | <b>Equity</b> |
|                         | <b>\$</b>                 | <b>\$</b>     |
| 2011                    |                           |               |
| +/- 2% in interest rate | +/- 880                   | +/- 880       |
| 2010                    |                           |               |
| +/- 2% in interest rate | +/- 3,000                 | +/- 3,000     |

**NOTE 23: Reserves**

Option Reserve

The option reserve records item recognized as expenses on valuation of employee share options.

**NOTE 24: Share-based Payments**

(i) On 2 December 2010, 5,000,000 ordinary shares and 5,000,000 options were granted to a director for provide dedicated and ongoing commitment and effort to the Company. The options have and exercise price of \$0.03 each and are exercisable on or before 31 December 2013. The options hold no voting or dividend rights are unlisted and are transferable.

(ii) Options granted to key management personnel are as follows:-

| <b>Grant Date</b> | <b>Number</b> |
|-------------------|---------------|
| 2 December 2010   | 5,000,000     |

The options are issued with a strike price that was not discounted to the average market price of the underlying shares determined over the previous five trading days.

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 24: Share-based Payments (Cont'd)**

A summary of the movements of all company options issued is as follows:

|   | <b>Consolidated Group</b> |                                 | <b>Parent Entity</b> |                                 |
|---|---------------------------|---------------------------------|----------------------|---------------------------------|
|   | Number                    | Weighted average exercise price | Number               | Weighted average exercise price |
| <b>Options outstanding as at 30 June 2009</b> |                           | \$                              |                      | \$                              |
| Granted                                       | -                         | -                               | -                    | -                               |
| Forfeited                                     | -                         | -                               | -                    | -                               |
| Exercised                                     | -                         | -                               | -                    | -                               |
| Expired                                       | -                         | -                               | -                    | -                               |
| <b>Options outstanding as at 30 June 2010</b> | -                         | -                               | -                    | -                               |
| Granted                                       | 5,000,000                 | 0.03                            | 5,000,000            | 0.03                            |
| Forfeited                                     | -                         | -                               | -                    | -                               |
| Exercised                                     | -                         | -                               | -                    | -                               |
| Expired                                       | -                         | -                               | -                    | -                               |
| <b>Options outstanding as at 30 June 2011</b> | 5,000,000                 | 0.03                            | 5,000,000            | 0.03                            |
| Options exercisable as at 30 June 2011:       | 5,000,000                 | 0.03                            | 5,000,000            | 0.03                            |
| Options exercisable as at 30 June 2010:       | -                         | -                               | -                    | -                               |

The weighted average remaining contractual life of options outstanding at year end was two and a half years. The exercise price of outstanding shares at the end of the reporting period was \$150,000.

The fair value of the options granted to the director is deemed to represent the value of the employee services received over the vesting period.

The weighted average fair value of options granted during the year was \$23,282 (2010: \$nil). These values were calculated using the Black Scholes option pricing model applying the following inputs:

|                                      |         |
|--------------------------------------|---------|
| Weighted average exercise price:     | \$0.03  |
| Weighted average life of the option: | 3 years |
| Expected share price volatility:     | 59%     |
| Risk free interest rate:             | 4.50%   |

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

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

(iii) Shares granted to key management personnel as share based payments are as follows:-

| Grant Date      | Number    |
|-----------------|-----------|
| 2 December 2010 | 5,000,000 |

The weighted average fair value of those equity instruments, determined by reference to market price, was \$85,000.

These shares were issued as compensation to key management of the Group. Further details are provided in the Directors' Report.

Included under employee benefits expense in the statement of comprehensive income is \$85,000 which relates to equity settled share based payment transactions (2010: \$nil)

**CERVANTES CORPORATION LTD ABN 79 097 982 235  
AND CONTROLLED ENTITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**NOTE 25: Company Details**

The registered office and principal place of business of the Company is:

Shop 11 "South Shore Piazza"  
85 South Perth Esplanade  
South Perth WA 6151

**NOTE 26: Parent Entity Information**

| Information relating to Cervantes Corporation Ltd: | 2011<br>\$   | 2010<br>\$   |
|--|--------------|--------------|
| Current assets                                     | 331,384      | 216,053      |
| Total assets                                       | 498,285      | 362,954      |
| Current liabilities                                | 11,933       | 12,731       |
| Total liabilities                                  | 11,933       | 12,731       |
| Issued capital                                     | 12,068,070   | 11,983,070   |
| Reserves   | 23,282       | -            |
| Retained earnings                                  | (11,605,000) | (11,632,847) |
| Total shareholders' equity                         | 486,352      | 350,223      |
| Profit or loss of the parent entity                | 27,847       | (419,537)    |
| Total comprehensive income of the parent entity    | 27,847       | (419,537)    |

**Provision for Impairment of Receivables**

Non-current trade and other receivables are assessed for recoverability based on the successful exploration and sale of gold recovered from the retreatment projects currently being assessed by the Group. A provision for impairment is recognised when there is objective evidence that an individual trade or other receivable is impaired. Refer to Note 1, Critical Accounting Estimates and Judgments for recoverability.

Movement in the provision for impairment of receivables is as follows:

|  | Opening<br>Balance<br>1.7.2010<br>\$ | Charge for the<br>year<br>\$ | Amount<br>Written Off<br>\$ | Closing<br>Balance<br>30.6.2011<br>\$ |
|--|--------------------------------------|------------------------------|-----------------------------|---------------------------------------|
| Parent Entity                          |                                      |                              |                             |                                       |
| i) Non-current wholly owned subsidiary | 389,508                              | 40,550                       | -                           | 430,058                               |
|  | <u>389,508</u>                       | <u>40,550</u>                | <u>-</u>                    | <u>430,058</u>                        |
|  |                                      |                              |                             |                                       |
|  | Opening<br>Balance<br>1.7.2009<br>\$ | Charge for the<br>year<br>\$ | Amount<br>Written Off<br>\$ | Closing<br>Balance<br>30.6.2010<br>\$ |
| Parent Entity                          |                                      |                              |                             |                                       |
| i) Non-current wholly owned subsidiary | 14,955                               | 374,553                      | -                           | 389,508                               |
|  | <u>14,955</u>                        | <u>374,553</u>               | <u>-</u>                    | <u>389,508</u>                        |

There are no balances within trade and other receivables that are impaired and are past due. It is expected these balances will be received when due.

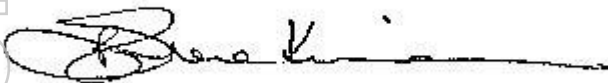


**CERVANTES CORPORATION LTD (ABN 79 097 982 235)  
AND CONTROLLED ENTITY  
DIRECTORS' DECLARATION**

The directors of the Company declare that:

1. the financial statements and notes as set out on pages 17 to 54 and the remuneration disclosures that are contained in the Remuneration Report within the Directors' Report on pages 12 to 14, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporate Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June, 2011 and of the performance for the year ended on that date of the Company and Group; and
  - (e) complies with International Financial Reporting Standards as disclosed in Note 1.
2. the Chief Executive Officer and the Chief Financial Officer have each declared that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



BARRY MacKINNON  
Director

Dated: 30 September 2011

# *R*OTHSA Y

Level 18, Central Park Building, 152-158 St Georges Terrace, Perth WA 6000  
P.O. Box 8716, Perth Business Centre WA 6849  
Phone (08) 6364 5076 www.rothsay.com.au

The Directors  
Cervantes Corporation Ltd  
PO Box 1196  
South Perth WA 6951

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2011 financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.



Graham Swan (Lead auditor)

Rothsay Chartered Accountants

Dated 30<sup>th</sup> September 2011



Chartered Accountants

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under the Professional Standards Act 1994 (NSW).

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## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF CERVANTES CORPORATION LIMITED**

### **Report on the financial report**

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

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

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The Directors are also responsible for the remuneration disclosures contained in the directors' report.

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used in and the reasonableness of accounting estimates made by the directors as well as evaluating the overall presentation of the financial report.

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

### **Independence**

We are independent of the Company, and have met the independence requirements of Australian professional ethical requirements and the *Corporations Act 2001*.



Chartered Accountants

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#### **Audit opinion**

In our opinion the financial report of Cervantes Corporation Limited is in accordance with the *Corporations Act 2001*, including:

- a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and  
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

#### **Material Uncertainty regarding Continuation as a Going Concern**

Without qualifying our opinion, we draw attention to Note 1 paragraph (g) in the financial report which indicates the basis for preparing the accounts on a going concern basis. We note the consolidated entity had net cash outflows from operating activities for the year ending 30 June 2011. In the event the consolidated entity is unable to issue additional share capital or dispose of held for sale trading listed shares, there is significant uncertainty as to whether the consolidated entity could continue as a going concern and therefore may be unable to realise its assets and extinguish its liabilities in the normal course of business and for the amounts stated in the financial report.


#### **Report on the remuneration report**

We have audited the remuneration report included in the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

#### **Audit opinion**

In our opinion the remuneration report of Cervantes Corporation Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

  
Rothsay

  
Graham R Swan  
Partner

Dated 30<sup>th</sup> September 2011

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