

gulfindustrials
limited

2011

**ANNUAL
REPORT**



CORPORATE INFORMATION

GULF INDUSTRIALS LIMITED
Registration No. ABN 13 115 027 033

DIRECTORS
S Jonah
V Fitzmaurice
J Best
M Brook
C Innis
R Jurd
W Kernaghan

COMPANY SECRETARY
W Kernaghan

REGISTERED OFFICE
Level 10 Gold Fields House
1 Alfred Street
Sydney NSW 2000
Australia
t | 02 8247 5333
f | 02 9247 7722

POSTAL ADDRESS
PO Box R745
Royal Exchange NSW 1225
Australia

SHARE REGISTER
Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153
Australia
t | 08 9315 2333
www.securitytransfer.com.au

AUDITORS
A D Danieli Audit Pty Ltd

Level 14
275 George Street
Sydney NSW 2000
Australia

BANKERS
Westpac Banking Corporation
275 George Street
Sydney NSW 2000
Australia

CONTENTS

	PAGE
Chairman's Letter	1
Activities & Project Review	2
Corporate Governance Statement	7
Directors' Report	10
Auditors' Independence Declaration	17
Independent Audit Report	18
Directors' Declaration	20
Consolidated Statement of Comprehensive Income	21
Consolidated Statement of Financial Position	22
Consolidated Statement of Changes in Equity	23
Statement of Cash Flows	24
Notes to the Financial Statements	25
Australian Securities Exchange Information	51

CHAIRMAN'S LETTER

Dear Shareholder

The 2010-2011 financial year has been transformational for Gulf Industrials. This year has seen your Company continue to successfully develop its African focus industrial mineral strategy, developing projects in Uganda and evaluation projects in Madagascar.

The move from explorer to producer with the successful commencement of commercial production at the Namekara Mine, located in Uganda, was followed with several expansions which will conclude with the current plant reaching capacity of around 30,000tpa late in 2011, as well as capital raisings in order to fund our company's strategy of growing as an industrial minerals producer. This was planned and executed in less than two years.

In addition, the team was strengthened by the addition of very experienced board members as well as the appointment of Mr Rob Guest as Manager, East African Operations in August 2011.

It is the Company's intention to complete technical and feasibility studies with a view to increasing capacity from 30,000tpa to 80,000tpa and then to 130,000tpa. To this end the Company will commence a drilling program in October with an objective of proving up sufficient resources to underpin this increased level of production.

The Soalara Limestone Project in Madagascar has been purchased following completion of due diligence. Various technical studies and alternatives for developing the project have been concluded during the period and will be expanded during the next financial year.

At Soalara we envisage a substantial long life mining operation and we believe that the high quality limestone deposit, combined with its location on the coast (immediately adjacent to a designated bulk mineral handling port) makes for an exciting development proposition. Having already been approached by several major limestone end users, Soalara represents the next development opportunity for the Company and very much fits within our defined African focused mineral strategy.

We believe that securing Soalara only a couple of months after commencing production at Namekara is a clear indication of our dedication to becoming a leading African focused industrial minerals production house.

I would like to personally thank all of our shareholders for their continuing support and look forward to another transformational year ahead of us.



Sir Sam Jonah, KBE, OSG
Non - Executive Chairman
Gulf Industrials Ltd

ACTIVITIES & PROJECT REVIEW

For the financial year 2011 Gulf Industrial's projects have been:

- The Namekara Mine, Uganda
- The Soalara Limestone Project, Madagascar
- The Mwingi Exploration Prospect, Kenya

INDUSTRIAL MINERAL FOCUS

During the year Gulf continued with its African focussed industrial mineral strategy. Whilst the monetary value of the industrial minerals market in developed countries such as the US surpasses that of the metals market and continues to rise year on year, the rate of growth for industrial minerals demand in developing countries is considerably higher. Gulf's targeted strategy of primarily focusing on African projects aims at taking advantage of these growing markets.

It is Gulf's intention to specifically focus on industrial minerals that are used to enhance agricultural food production, manufacturing industrial goods, specialist and chemical processes including vermiculite, phosphates, gypsum, limestone, salts, lithium and borates.

The Company has cited the following key advantages of focusing on industrial minerals:

- Industrial minerals are vital commodities
- Essential raw materials for a wide range of industrial and domestic products
- Demand for industrial minerals is consistent and long term
- Markets for these minerals are typically by off take agreements
- Exposure to commodity price cycles is less pronounced
- Generate long term cash flows providing a solid platform for growth
- New technology can quickly expand existing markets
- Chemical and special specifications demanded by consumers can protect existing operations

UGANDA

Gulf's primary focus for the majority of the 2011 financial year has been the successful six-fold increase of the size of the main mining license as well as the operation of the Namekara Mine, including the planning and execution of the 30,000tpa upgrade which will be completed during September 2011. The start of commercial production at Namekara and its subsequent sales through Dupre Minerals is a major milestone for the Company as it moves from an explorer to a producer, as part of the roll out of its African focused industrial minerals strategy.

During the year, the constraints of the old drying system at Namekara necessitated a period of extensive and detailed design, re-engineering, customer trials and test work to optimise the plant design, and resulted in a new dryer purchase, as well as progressive crushing and screening systems to improve the overall yield. The commissioning of the processing plant post the new dryer, and the upgrade to approximately 30,000tpa followed and will be completed by September 2011.

The continued commercial production from the project reinforces Uganda's position as a developing resources destination and its government's commitment to supporting sustainable development in this important sector of the economy.

The processing plant has to date has not exceeded the original expectations due to the dryer constraint, but with the new modifications, should be capable of yielding approximately 30,000 tpa of raw, graded vermiculite products for international export and regional consumption.

The market for vermiculite has been constrained by a lack of supply of coarser grade product, which is in the product offering from Namekara. With the off take agreement with Dupre Minerals in place covering the entire expected output from the Namekara processing plant, the Company's attention focuses on ramping up production in Uganda and the Board is currently investigating the most cost effective ways of doing so. Vermiculite prices have increased aggressively in 2011, after a sluggish market in 2009 and 2010, and demand for the coarser products is on the increase and Gulf is ideally placed to take advantage of this.

In addition to the current upgrade, various technical studies are underway leading to feasibility studies to increase the output from the mine to in excess of 130,000tpa in the next two to three years, as well as to maximise the mine's potential over the next five years, and to test the potential ramp up to over 280,000tpa.

ACTIVITIES & PROJECT REVIEW

This will be underscored by a drilling programme planned for the next financial year, to increase the confidence of the geological resource as well as to do infill drilling over the new mining lease, which is six times larger at 19.8km².

The Namekara Mine operation comprises one of the world's largest reported vermiculite resources, (the Namekara Mining Lease) with a JORC inferred resource of 54.9Mt of contained vermiculite. This is calculated at 26.7% 180_V (% vermiculite content in the +180 micron fraction) or 18.80% 425_V (% vermiculite content in the +425 micron fraction) at a 15% 180_V cut-off. This resource calculation has a surface extent of 1km by 1km (location of existing mine/pit). Additional exploration work indicated that the vermiculite extends and is present over an area of 1km by 5km (pit tested). This will be confirmed by the planned drilling campaign during the next financial year.

The Namekara Mine is not only one of the world's largest vermiculite resources but it also hosts some of the largest flake sizes which will enable Gulf to tailor vermiculite quality to specifically meet customer needs. More than 50% of the previous run of mine production at Namekara was graded Premium, Large, Medium and Fine, which are considered to be in the more desirable end of the product range, and also an improved price when compared with the finer grades of raw vermiculite.

OFFTAKE AGREEMENT EXTENDED

Gulf announced in July 2010 that it had extended the ten year exclusive sales and distribution contract with leading UK based vermiculite distributor Dupré Minerals Limited to twenty five years. The contract was also extended to cover full global sales and distribution rights. Dupré paid the Company USD \$1 million for the contract extension and rights.

Dupré is a long established UK company with its own manufacturing, storage and technical departments and is wholly owned by London listed Goodwin Plc (LON : GDWN). Under the terms of the contract, Gulf has agreed to supply Dupré with all commercial sizes of vermiculite products. Dupré is one of the leading vermiculite processing and manufacturing companies in the UK with over 40 years experience and its established brand inspiring some of the world's most advanced vermiculite product formulations

The Company's contractual arrangements with Dupré have resulted in a number of innovative product improvements and plant modifications over the past year.

BACKGROUND – NAMEKARA MINE

The project is situated in eastern Uganda near the towns of Mbale and Tororo close to the Kenyan border.

An Independent SRK review commissioned by Gulf in mid 2009 has verified that the East African Vermiculite Project contains a JORC inferred resource of 54.9million tonnes @ 26.7% vermiculite in the +180 micron fraction (V_180), and 18.8% vermiculite in the +425 micron fraction (V_425). This resource calculation has a surface extent of 1km by 1km (location of existing mine/pit). Additional exploration work indicates vermiculite is present over an area of 1km by 5km (pit tested) of which the 1km x 1km area is a part. The EAV resource is one of the largest high grade (large crystal size) vermiculite resources in the world.

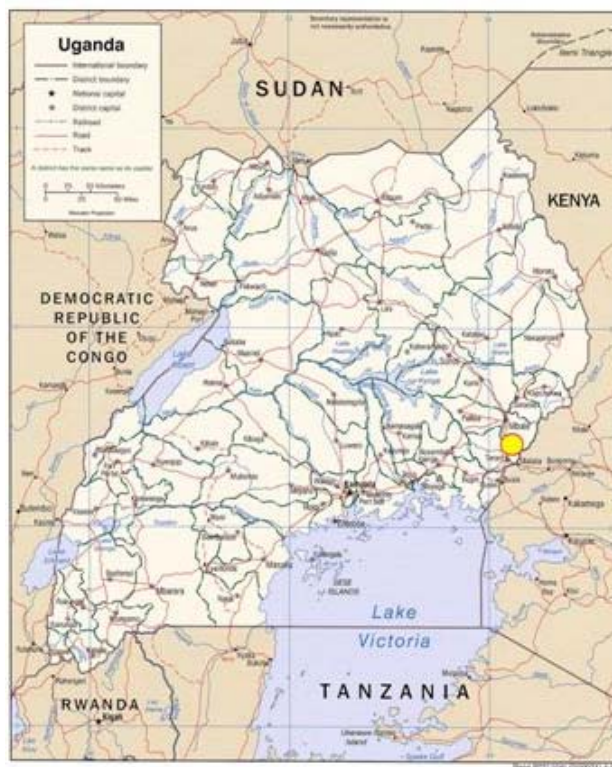
The mineralisation in the project area was first documented in the 1950s, but it was not until 2002 that initial test production commenced with a small scale operation that produced 16,000t of ore between 2002 and 2006. Under Rio Tinto's stewardship a substantial amount of work was completed including drilling of 64 holes for resource definition, pit optimisation and design, plant redesign, transport and infrastructure studies and market research. The vermiculite deposit extends from near surface to a depth of between 45m and 55m and is excavated using off the shelf mechanical excavating equipment in a standard shallow open pit operation.

WORLD VERMICULITE MARKET

The global vermiculite market is estimated by the United States Geological Survey (USGS) to be 800,000 tonnes, with production from Southern Africa accounting for approximately 39% of this amount.

ACTIVITIES & PROJECT REVIEW

LOCATION MAP



● Location of Namekara mining operation in Eastern Uganda, on Kenyan border

Agreement has also been reached with East African based freight and logistics company SDV Transami, for the management and logistics of all concentrate production to and from the East African Vermiculite operation in Uganda. The SDV Transami is part of the Bollorè African Logistics Group, the largest transport and logistics operator in Africa. Given the size and reach of this logistics group we are jointly investigating options to reduce freight costs for our operation. The group also offers sea freight management for potential customers enabling a fully integrated freight solution from mine to any customer in the world. In addition, the company is evaluating various other alternatives with SDV to ensure the logistics to support the future expansions are supported.

MADAGASCAR

During the financial year, various project and joint venture operations were reviewed resulting in the Company securing the Soalara limestone project in the south east of the country, near the town of Tuleare.

SOALARA LIMESTONE PROJECT

During the financial year, the Company purchased three blocks called the Soalara Limestone Project, a large, high quality limestone deposit covering an area of 12.5 square kilometers which demonstrates a chemical composition suitable for application in the cement, mineral processing and fertiliser industries near Tulear in the south-west.

The Soalara is favorably located near an existing port, and the Company believes Soalara can be developed and expanded into a world class limestone, lime and cement exporting project with a substantial long life mining operation. The Company has already been approached by several major limestone end users.

The total acquisition cost including option fees was USD\$1,215,000 of which USD\$795,000 has been paid and the balance of USD\$420,000 on the sales receipt from the first commercial shipment. There is also a royalty of USD\$0.40 per tonne to be paid on 70% of production.

ACTIVITIES & PROJECT REVIEW

KENYA - Mwingi Exploration Prospect

The Company has decided to dispose of this asset.

CORPORATE

Gulf mandated Australian corporate advisory firm Veritas Securities Limited (“Veritas”) as Strategic Adviser which continue to provide corporate and general advice to the Company. The Veritas team has significant experience in both the industrial and resources sectors and is recognised as an expert in assisting emerging companies. The legal advisors were Norton Rose.

Various fund raising activities to support the activities of the Company were concluded during the reporting period, mainly to support the Namekara Mine capital works and operations expenditure.

The major shareholders as at the end of the reporting period were African Lion, Jonah Capital and Contango Asset Management.

The major shareholders:

- | | | |
|-----------------------------|---|--------|
| • African Lion 3 | - | 16.21% |
| • Jonah Capital | - | 12.16% |
| • Contango Asset Management | - | 7.63% |

African Lion is invested in the company through the African Lion 3 Fund (‘AFL3’) for the further development of the Company’s African focussed industrial minerals strategy. African Lion, which consists of three specialist mining funds, AFL, AFL2 and AFL3, is established to identify, assess and invest in resource projects in Africa.

Shareholders of the AFL3 include:

- **CDC Group plc** - UK’s development finance institution, owned by the Government Department for International Development.
- **European Investment Bank** - development bank of the European Union, owned by the EU member states.
- **Lion Selection Group Limited** - an Australian listed resource investment company.
- **PROPARCO** - a member of the Agence Française de Développement group, its mission is to provide finance to the private sector in developing economies, mainly in Africa.
- **RMB Structured Life Ltd** - subsidiary of FirstRand Group - a leading South African bank.
- **BIFM** – a mining fund in Botswana.

COMPETENT PERSONS STATEMENT

The information in this report that relates to Mineral Resources is based on information compiled by Hennie Theart, BSc (Hons), MSc, PhD, Pr. Sci. Nat (SACNASP 400069/88), FSEG, FGSSA, FAAG; Shaun Crisp, BSc (Hons), Pr.Sci.Nat. (SACNASP 400076/09); and Brent Barber, BSc (Hons), MPhil, AusIMM (222559), AAPG (59319-8).

Hennie Theart and Shaun Crisp are registered with the South African Council for Natural Scientific Professions (SACNASP), a JORC Recognised Overseas Professional Organisation "ROPO" and Brent Barber is a member of the Australasian Institute of Mining and Metallurgy (AusIMM). They are full-time employees of SRK Consulting and have experience which is relevant to the style of mineralisation, type of deposits under consideration and to the activity which they have undertaken, to qualify them as a Competent Persons, as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Minerals Resources and Ore Reserves'. Hennie Theart, Shaun Crisp and Brent Barber consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.

ACTIVITIES & PROJECT REVIEW

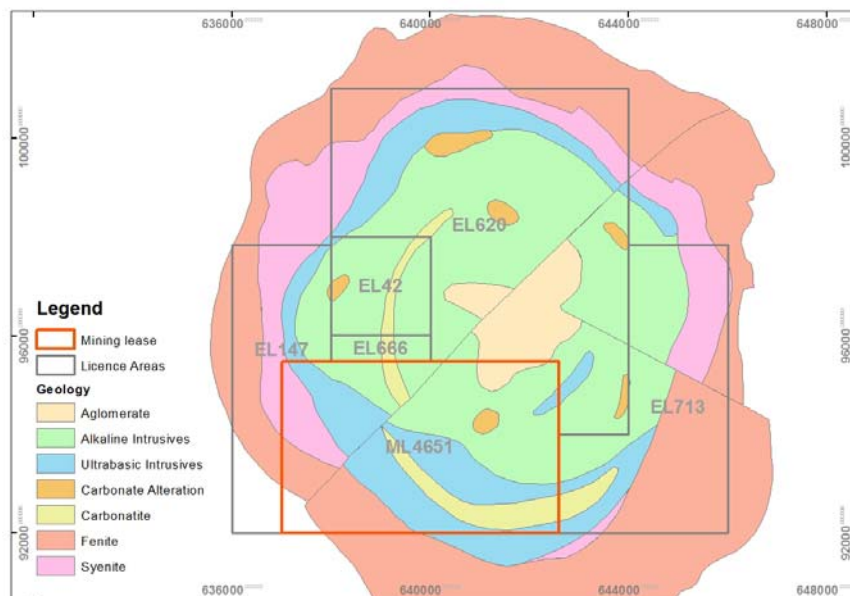
The information in this release that relates to the Exploration Process is based on information compiled by A Johnstone who is a member of the Australian Institute of Geoscientists (AIG). Andrew Johnstone provides exploration management consulting services to Gulf Industrials Ltd and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which Andrew Johnstone has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Andrew Johnstone consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

SCHEDULE OF TENEMENTS AS AT 30 JUNE 2011

Location	Tenement / Mining Lease Number / Special License Number
Uganda	ML 4651 EL 0042 EL 0147 EL 666 EL 620 EL 713
Kenya	EPL 244(A) EPL 244(B) SL 284
Madagascar	R14542 R14960

TENEMENTS IN UGANDA



CORPORATE GOVERNANCE STATEMENT

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Gulf Industrials Limited (“the company”) have adhered to the principles of corporate governance and this statement outlines the main corporate practices in place throughout the financial year. The ASX Corporate Governance Council has released revised Corporate Governance Principles and Recommendations – 2nd Edition. Having regard to the size of the Company and the nature of its enterprise, it is considered that the company complies as far as possible with the spirit and intentions of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations as set out below. Unless otherwise stated, the practices were in place for the entire year.

1. Board of Directors

The Board of Directors of the company is responsible for the corporate governance of the company. The Board guides and monitors the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

As the Board acts on behalf of shareholders, it seeks to identify the expectations of shareholders, as well as other ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The primary responsibilities of the Board include:

- formulation and approval of the strategic direction, objectives and goals of the company;
- monitoring the financial performance of the company, including approval of the company’s financial statements;
- ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- the identification of significant business risks and ensuring that such risks are adequately managed;
- the review of performance and remuneration of executive directors; and
- the establishment and maintenance of appropriate ethical standards.

The responsibility for the operation and administration of the company is carried out by the directors, who operate in an executive capacity, supported by senior professional staff. The Board ensures that this team is suitably qualified and experienced to discharge its responsibilities, and assesses on an ongoing basis the performance of the management team, to ensure that management’s objectives and activities are aligned with the expectations and risks identified by the board.

The directors of the company are as follows:

Sir Samuel Jonah	- Non-Executive Chairman
Mr Victor Fitzmaurice	- Executive Director
Mr Mike Brook	- Non Executive Director
Mr Jonathan Best	- Non Executive Director
Mr Robert Jurd	- Non Executive Director
Mr Chris Innis	- Non Executive Director
Mr Wayne Kernaghan	- Finance Director

For information in respect to each director refer to the directors’ report.

2. Independent Directors

Under ASX guidelines principle 2.1, all of the current board members with the exception of Sir Jonah, Mr Fitzmaurice and Mr Kernaghan are considered to be independent directors. The executive role is performed by two of the seven directors, accordingly two of the seven directors are considered not to be independent. The Board believes that Sir Jonah is not considered to be independent as he is a major shareholder in Jonah Capital (BVI) Limited which is a major shareholder of the Company.

3. Board Composition

When the need for a new director is identified, selection is based on the skills and experience of prospective directors, having regard to the present and future needs of the company. Any director so appointed must then stand for election at the next Annual General Meeting of the company.

4. Terms of Appointment as a Director

The constitution of the company provides that a director other than the Managing Director may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting for re-election. One third of the directors must retire each year and are eligible for re-election. The directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

5. Board Committees

(a) The Remuneration Committee

In December 2010 the Company formed a Remuneration Committee comprising of Mr Innis (Chairman), Mr Duncan and Sir Jonah, all of whom are considered by the Board to be independent with the exception of Sir Jonah as he is a major shareholder in the Company. The Committee met twice from the period of formation to 30 June 2011. Mr Brook joined the Remuneration Committee on 11 February 2011 and is considered by the Board to be independent. Mr Duncan resigned from the Committee on his resignation as a director of the Company. The Committee is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration, having due regard for the interests of shareholders as a whole and the performance of the Group. The remuneration of the Non-Executive Directors is reviewed by the Board. Where appropriate, the Committee obtains advice from independent remuneration consultants.

(b) The Audit Committee

In February 2011 the Company formed a Audit Committee comprising Mr Best (Chairman), Mr Jurd and Mr Innis, all of whom are considered by the Board to be independent, with Messrs Fitzmaurice and Kernaghan attending by invitation. The Committee met once during the period from formation to 30 June 2011. The Committee reviews the Company's half-year and annual financial statements before submission to the Board for approval as well as any announcements relating to financial performance. Regular reports from management and the external auditors are also managed by the Committee.

6. Remuneration

Remuneration and other terms of employment of executives, including executive directors, are reviewed periodically by the Board having regard to performance, relevant comparative information and, where necessary, independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the company's operations.

The terms of engagement and remuneration of executive directors is reviewed periodically by the Board. Where the remuneration of a particular executive director is to be considered, the director concerned does not participate in the discussion or decision-making.

7. Conflict of Interest

The directors must keep the company informed, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

8. Independent Professional Advice

Directors have the right, in connection with their duties and responsibilities as directors, to seek independent professional advice at the company's expense. Prior approval of the Chairman is required, which will not be unreasonably withheld.

9. Code of Conduct

In view of the size of the company and the nature of its activities, the Board has considered and adopted a code of conduct which is appropriate to guide executives, management and employees in carrying out their duties and responsibilities.

10. Make Timely and Balanced Disclosures

The Board has in place written policies and procedures to ensure the Company complies with its obligations under the continuous disclosure rule 3.1 and other ASX Listing Rule disclosure requirements.

11. Communication to Market & Shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors and the company. Information is communicated to shareholders and the market through:

- the Annual Report which is available to all shareholders;
- other periodic reports which are lodged with ASX and available for shareholder scrutiny;
- other announcements made in accordance with ASX Listing Rules;
- special purpose information memoranda issued to shareholders as appropriate;
- the Annual General Meeting and other meetings called to obtain approval for board action as appropriate; and
- the company's website.

12. Share Trading

Dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act 2001 prohibits the purchase or sale of securities whilst a person is in possession of inside information.

13. External Auditors

The external auditor is A D Danieli Audit Pty Ltd. The external auditor is invited to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Full details of the company's corporate governance practices can be viewed at www.gulfindustrials.com.au.

DIRECTORS' REPORT

Your Directors submit their report together with the financial statements of the Group, being the company and its controlled entities, for the financial year ended 30 June 2011.

Directors

The names of directors in office at any time during or since the end of the year are:

Director	Appointed	Resigned
S Jonah	16 November 2010	-
V Fitzmaurice	7 January 2011	-
J Best	21 February 2011	-
M Brook	7 January 2011	-
C Innis	31 August 2010	-
R Jurd	21 February 2011	-
W Kernaghan	30 June 2005	-
S Reid	30 June 2005	21 February 2011
G Duncan	30 June 2005	17 March 2011

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Information on Current Directors

Sir Sam Jonah Hon D Sc (Exeter) ,MSc (Mineral Production Management) | Non-Executive Chairman

Sir Sam Jonah is internationally recognised as one of Africa's leading businessmen. Between 1986 and 2004 he was the Chief Executive Officer of Ashanti Goldfields Company Limited. Here he championed for the transformation of Ashanti from a one mine operation into a multinational gold miner and the first African gold miner to list on the New York Stock Exchange. Sir Sam is currently a member of the United Nations Secretary-General's Global Compact Advisory Council. He received an honorary knighthood by Her Majesty Queen Elizabeth II, the Star of Ghana, in recognition of his achievements as an African businessman and a leading business executive from the Commonwealth. During the past three years Sir Sam has held the following Australian listed company directorships:

- Range Resources Ltd

Vic Fitzmaurice Pr Eng, B.Sc. (Min Eng), GDE (Min Econ), AMM (Assoc.), SAIMM (Fellow), Cert Dir (IOD) | Chief Executive Officer

Mr Fitzmaurice has worked as a Mining Engineer in Australia and Africa for over 20 years. His experience covers commodities including: gold, diamond, platinum, chrome, base metals and other bulk mineral operations both underground and surface. From working with companies such as BHP Billiton (Gencor), De Beers and Aquarius Platinum along with a number of junior companies Mr Fitzmaurice has experience in the management of the full spectrum of project development from initial project acquisition through pre-feasibility to full bankable feasibility studies. Along with design, construction and commissioning of mines and processing facilities, Mr Fitzmaurice has also extensive experience on a corporate level including project assessment/valuation, mergers and acquisitions and finance structuring.

Jonathan Best ACIMA, ACIS, MBA | Non-Executive Director

Mr Best has extensive experience in senior management, leadership and business strategy in the mining industry, including the Anglo American and De Beers groups. Among other senior management positions, he served as the executive director and Chief Financial Officer for AngloGold Ashanti from 1998 to 2005. He currently has a number of Independent Non-Executive Directorships, including AngloGold Ashanti Holdings Plc and JSC Polymetal.

Mike Brook BSc (Mining Geology), CEng MIMMM MAusImm Fund Manager, African Lion | Non-Executive Director

Mr Brook has extensive experience in the mining industry having worked for 30 years since graduating with a Bachelor of Science in Mining and Geology in 1981. He started as a mine geologist for MIM Holdings and soon progressed to Chief Geologist for the company's copper mining operations. In 1993, Mr Brook joined Stockbrokers J B Were & Son as a resource analyst specialising in

emerging resource companies in the gold, base metal and mineral sands sectors. He was later awarded the prestigious Best Junior Company Research Award from the Australian Gold Council. Mr Brook joined Lion Selection group in 2001 and became executive director of Lion Manager Pty Limited in 2004.

Chris Innis B.A., LLB (Syd) | Non Executive Director

Chris is a professional manager with a background in strategy, marketing and finance and has worked across a number of industries including investment banking, media and mining in senior positions including Chairman and Board Director. Chris specialises in growing businesses and is skilled in re-engineering business strategies and implementing and managing growth plans. Previous experience includes Chairman of Mining Communications where he initiated, led and arranged the management buy in, achieving an exit of approximately nine times money for original investors and twenty two times for management.

Chris was previously a director of London listed Angus & Ross and Blackthorn Resources Limited where he assisted in raising \$30 million in London. Chris has also served on the management board of EMAP plc and was an Associate Director at Hambros Bank plc where he worked in corporate finance.

Chris is currently Chairman of Intierra Pty Ltd, a global competitive intelligence service for the mining industry and Edge Custom Media, a content agency for multiple media channels. In his role as Non Executive Director at Gulf, Chris will play a key role in overseeing the move from a pure exploration company into a multi commodity production house.

Robert Jurd PrEng, BSc Eng (Mining), MComm | Non-Executive Director

Mr Jurd is experienced in all facets of the mining industry from operations to corporate finance. He served as an executive for TransNatal Coal Corporation, Goldfields, Gencor (which merged into BHP Billiton), as well as Head of Resources – Investment Banking Division at ABSA Corporate and Merchant Bank for nine years.

Wayne John Kernaghan B.Bus, ACA, FAICD, FCIS | Finance Director & Company Secretary

Wayne Kernaghan is a member of the Institute of Chartered Accountants in Australia with over 20 years experience in various areas of the mining industry. He is a Fellow of the Australian Institute of Company Directors and a Chartered Secretary. During the past three years Mr Kernaghan has held the following listed company directorships:

- Cullen Resources Limited from 11 November 1997
- FarmWorks Australia Limited from 19 February 2009 to 24 August 2010
- Orpheus Energy Limited from 7 September 2006 to 24 November 2008

Mr Kernaghan was appointed company secretary on 30 June 2005.

Directors' Interests

Directors' interests in the shares and options of the company were:

Director	Direct		Indirect	
	Shares	Various Options	Shares	Various Options
S Jonah	-	-	60,000,000	19,000,000
V Fitzmaurice	2,133,333	8,025,000	-	-
J Best	-	2,000,000	-	-
M Brooke	-	2,000,000	-	-
C Innis	800,000	2,000,000	-	-
R Jurd	-	2,000,000	-	-
W Kernaghan	5,500,000	4,575,002	3,250,000	759,316

Principal Activities

The principal activities of the consolidated group during the financial year were mining and mineral exploration and seeking mining infrastructure opportunities. There was no significant change in the nature of the consolidated group's principal activities during the financial year.

Review & Results of Operations

Gulf Industrials Limited is involved in mining and mineral exploration and infrastructure projects. The net loss after providing for income tax amounted to \$8,861,524 (2010: \$5,445,548).

The consolidated entity during the year carried out extensive and detailed design, re-engineering, customer trials and test work at the Namekara Mining operation in Eastern Uganda. As part of the re-commissioning, cost effective and productive equipment including ten additional screens and a crusher, additional winnowers and new plant front end have been installed at the Namekara mining operation. This is one of the largest high grade vermiculite mineral deposits in the world.

Development opportunities were also reviewed in Uganda, Southern Sudan, Tanzania, Madagascar, and South Africa.

Dividends Paid or Recommended

The directors do not recommend the payment of a dividend for this financial year. No dividend has been declared or paid by the company since the end of the previous financial year.

Financial Position

The net assets of the consolidated entity have increased by \$801,251 to \$3,848,924 at 30 June 2011.

Shareholders' equity has changed during the year with an increase in issued capital by \$7,158,751, increase in reserves of \$2,504,024 and a loss for the year of \$8,861,524.

Future Developments, Prospects & Business Strategies

Gulf is committed to developing the mining operations at the vermiculite operation and is to bring the operation to a production rate of 30,000 tonnes per annum of vermiculite product within the next few months. Gulf is looking to expand the operations and further design work has been undertaken during the year for additional facilities to be added in the future as part of the proposed production ramp up.

Environmental Issues

The exploration and mining activities of the consolidated entity in Uganda are subject to environmental regulation under the laws of the Republic of Uganda (most specifically the 2004 Ugandan Mining Regulations and 2003 Ugandan Mining Act). The environmental laws and regulations in Uganda address the impact of the consolidated entity's activities in the areas of water and air quality, noise, surface disturbance and impact on flora and fauna. The directors are not aware of any environmental matter which would have a materially adverse impact on the overall business of the consolidated entity.

Significant Changes in State of Affairs

The significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review were:

- The issue of shares and options during the year to raise a net \$7,158,751.
- The consolidated entity continued with the development of the Namekara mining operations in Eastern Uganda where extensive and detailed design, re-engineering, customer trials and test work were carried out. Namekara is one of the largest high grade vermiculite mineral deposits in the world.

After Balance Date Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the parent entity, to affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the subsequent financial years. Other than:

- On July 14 2011 the Company announced that it will undertake a 3 for 5 non-renounceable pro-rata rights issue of ordinary shares at 4 cents per share fully underwritten to raise approximately \$11.85 million.
- On 17 August 2011 the Company announced it has withdrawn its recent rights issue following the termination of the underwriting agreements as a result of recent adverse movements in global equity markets.
- On 17 August 2011 the Company received loans totaling A\$3.36m from its two largest shareholders, Jonah Capital BVI Limited and African Lion 3 Limited. The principal amounts outstanding under the loans will be repayable through the issue of a total of 134.4 million shares at 2.5 cents per share and attaching free one-for-one options exercisable at 2.5 cents expiring on 31 December 2012, subject to shareholder approval at the general meeting to be held on 26 September 2011.
- Gulf received unconditional commitments under a proposed placement for 404 million placement shares and attaching free one-for-one placement options, subject to shareholder approval on 26 September 2011.
- A share purchase plan (SPP) will offer eligible shareholders the opportunity to purchase up to \$15,000 worth of shares in Gulf at 2.5 cents per share to raise approximately A\$3.7m. Subject to shareholder approval on 26 September 2011 successful applicants for SPP shares will also be entitled to receive a free attaching option with an exercise price of 2.5 cents and an expiry date of 31 December 2012 for every share that they are issued under the SPP, provided that their shareholding as at 7:00m AEST on the option record date (6 October 2011) is not less than their shareholding as at 7:00pm AEST at the SPP record date (16 August 2011).
- On 26 September 2011 shareholders approved the placement for a total of 404 million shares and attaching free one-for-one options exercisable at 2.5 cents expiring on 31 December 2012. These shares and options were issued and the company received \$6,740,000 and the loans of \$3,360,000 were extinguished.

Directors' Meetings

The number of Directors' Meetings of Gulf Industrials Limited held during the financial year ended 30 June 2011 and the number of meetings attended by each director are as follows:

Name	Directors Meetings		Audit Committee		Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
S Jonah	8	8	-	-	2	2
V Fitzmaurice	7	7	-	-	-	-
J Best	6	5	1	1	-	-
M Brook	7	7	-	-	1	1
C Innis	10	9	1	1	2	2
R Jurd	6	6	1	1	-	-
W Kernaghan	15	15	-	-	-	-
S Reid	9	8	-	-	-	-
G Duncan	11	4	-	-	2	-

As well as formal directors' meetings, executive and non-executive directors are in frequent communication.

Options

At the date of this report and at 30 June 2011 the company had 146,964,028 (2010: 80,078,100) listed and unlisted options on issue over unissued ordinary shares and the details are as follows:

Type	Grant Date	Number	Exercise Price	Expiry Date
Listed	Various	52,629,028	\$0.10	31 March 2013
Unlisted	Various	94,065,000	\$0.03 - \$0.094	Various

During the year, no (2010: Nil) fully paid ordinary shares were issued by virtue of the exercise of options. Since the end of the financial year no shares have been issued by virtue of the exercise of options.

Remuneration Report

This report details the nature and amount of remuneration for each director of Gulf Industrials Limited.

Remuneration Policy

The remuneration policy of Gulf Industrials Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated group's financial results. The board of Gulf Industrials Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated group as well as create goal congruence between directors and shareholders.

Company Performance, Shareholders' Wealth & Director Remuneration

The remuneration policy, setting the terms and conditions for the executive directors was developed by the board. All executives receive a base salary (which is based on factors such as length of service and experience), options and incentives. The board reviews executive packages annually by reference to comparable information from industry sectors and other listed companies in similar industries.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of directors' fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Directors' fees for non-executive directors are not linked to the performance of the company.

During the year no remuneration was based on any performance conditions, including company or personal performance.

To align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

Compensation Practices

The board's policy for determining the nature and amount of compensation of key management for the company is:

The remuneration for executive officers, including executive directors is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. There are no formal written contracts in place, however normal employment arrangements are adhered to. Upon retirement, specified directors and executives are paid employee benefit entitlements accrued to the date of retirement. Any options not exercised before or on the date of termination lapse.

Key Management Personnel Remuneration

The remuneration for each director received during the year was as follows:

Director 2011	Short Term Directors Fees	Short Term Consulting Fees	Termination Payment	Post Employment Superannuation	Share Based Payments	Total	Performance Related
	\$	\$	\$	\$	\$	\$	%
S Jonah	40,000	-	-	-	818,200	858,200	95
V Fitzmaurice	-	244,333	-	-	241,800	486,133	50
J Best	12,750	-	-	-	80,600	93,350	86
M Brook	20,870	-	-	-	80,600	101,470	80
C Innis	27,500	14,500	-	1,530	80,600	124,130	65
R Jurd	12,750	-	-	-	80,600	93,350	86
W Kernaghan	54,000	120,000	-	4,860	80,600	259,460	31
S Reid	50,220	185,000	150,000	-	-	385,220	-
G Duncan	42,500	-	-	3,825	-	46,325	-
	260,590	563,833	150,000	10,215	1,463,000	2,447,638	

There have been payments made to director related entities for services provided to the economic entity which have been included in the above amounts.

Director 2010	Short Term Directors Fees	Short Term Consulting Fees	Non Monetary Benefit	Post Employment Superannuation	Share Based Payments	Total
	\$	\$	\$	\$	\$	\$
S Reid	259,553	-	16,812	23,359	-	299,724
P Treisman	35,000	40,000	-	3,150	-	78,150
W Kernaghan	60,000	120,000	-	5,400	-	185,400
G Duncan	60,000	-	-	5,400	-	65,400
	414,553	160,000	16,812	37,309	-	628,674

There have been payments made to director related entities for services provided to the economic entity which have been included in the above amounts. The executive role is performed by the directors.

Changes in Directors Subsequent to Year End

There have been no changes in directors since 30 June 2011.

Options Granted as Part of Remuneration for the Year Ended 30 June 2011

Director	Value of options granted during the year	Value of options exercised during the year	Value of options lapsed during the year	Total value of options granted, exercised and lapsed during the year
	\$	\$	\$	\$
S Jonah	818,200	-	-	818,200
V Fitzmaurice	241,800	-	-	241,800
J Best	80,600	-	-	80,600
M Brooke	80,600	-	-	80,600
C Innis	80,600	-	-	80,600
R Jurd	80,600	-	-	80,600
W Kernaghan	80,600	-	-	80,600
	1,463,000	-	-	1,463,000

Corporate Governance

In recognising the need for the highest standard of corporate behaviour and accountability, the directors of Gulf Industrials Limited support and adhere to the principles of good corporate governance. The company's corporate governance statement can be found on pages 7 to 9.

Indemnification and Insurance of Directors and Officers

The company has entered into deeds of indemnity with the Directors indemnifying them against certain liabilities and costs to the extent permitted by law. The company has paid premiums totaling \$16,750 (2010: \$19,500) in respect of Directors and Officers Liability Insurance and company reimbursement policies, which covers all Directors and Officers of the company. The policy conditions preclude the company from any detailed disclosures.

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Non-Audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed did not compromise the external auditors' independence for the following reasons:

- all non-audit services are reviewed and approved by the board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board. Fees payable to A D Danieli Pty Ltd an associated entity of A D Danieli Audit Pty Ltd are disclosed in Note 14.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 17.

The Directors' Report, incorporating the Remuneration Report is signed in accordance with a resolution of the Board of Directors:



W Kernaghan
Director
Sydney, 30 September 2011



A D Danieli Audit Pty Ltd

Authorised Audit Company
ASIC Registered Number 339233
Audit & Assurance Services

Level 14, 275 George Street
Sydney NSW 2000
PO Box H88
Australia Square NSW 1215

ABN: 56 136 616 610

Ph: (02) 9290 3099

Fax: (02) 9262 2502

Email: add3@addca.com.au

Website: www.addca.com.au

**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF GULF INDUSTRIALS LIMITED A.B.N 13 115 027 033 AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief during the year ended 30 June 2011 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A D DANIELI AUDIT PTY LTD

**Sam Danieli
Director**

Sydney, 26 September 2011



A D Danieli Audit Pty Ltd

Authorised Audit Company
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Audit & Assurance Services

Level 14, 275 George Street
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**Independent Auditor's Report
To the Members of
Gulf Industrials Ltd
A.B.N. 13 115 027 033
And Controlled Entities**

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

The director's of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable to preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

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

Auditor's Opinion

In our opinion:

- a. the financial report of Gulf Industrials Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the Corporations Regulations 2001;
- b. the financial report also comply with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuing as a Going Concern

Without qualifying our opinion, we draw attention to Note 1: Going Concern in the financial report. The group incurred a net loss of \$8,861,524 during the year ended 30 June 2011 and as of that date the group had current assets of \$1,686,092 and current liabilities of \$2,128,748. These conditions indicate the existence of a material uncertainty which may cast doubt on the group's ability to continue as a going concern should they be unable to raise additional capital. Note 24: After Balance Date Events state that capital raisings occurred in September 2011 totalling \$10,100,000 before expenses.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 15 of the Directors Report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

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

A D DANIELI AUDIT PTY LTD



Sam Danieli
Director

Sydney, 30 September 2011

DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) the financial statements and notes of the Consolidated Entity are in accordance with the Corporations Act 2001, and:
 - (i) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1.
- (c) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declaration required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2011.

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

For and on behalf of the Board



W Kernaghan
Director
Sydney, 30 September 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2011

	Note	Consolidated Group	
		2011	2010
		\$	\$
Revenue	2	2,193,698	286,501
Depreciation expense		(403,724)	(429,871)
Exploration expenditure		(471,060)	(727,650)
Employee benefits expense		(2,498,742)	(1,269,084)
Finance costs		-	(99,372)
Foreign exchange loss		(1,660,313)	-
Impairment of available for sale financial assets		-	(450,000)
Share based payments	16	(1,992,200)	-
Operating expenses		(4,029,183)	(2,756,072)
Loss before income tax		<u>(8,861,524)</u>	<u>(5,445,548)</u>
Income tax expense		-	-
Net loss for year attributable to members of parent entity		<u>(8,861,524)</u>	<u>(5,445,548)</u>
Other comprehensive income			
Exchange differences on translating foreign controlled entities		530,674	(21,287)
Net change in fair value of available for sale assets		(18,850)	-
Other comprehensive income for the year, net of tax		<u>(511,824)</u>	<u>(21,287)</u>
Total comprehensive income for the year attributable to members of parent entity		<u>(8,349,700)</u>	<u>(5,466,835)</u>
Basic loss per share attributable to ordinary equity holders of the parent (cents per share)	19	(2.37)	(3.25)
Diluted loss per share attributable to ordinary equity holders of the parent (cents per share)		(1.77)	(2.24)

(The accompanying notes form part of these financial statements.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 30 June 2011

		Consolidated Group	
	Note	2011	2010
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	4	1,168,347	238,576
Trade and other receivables	5	502,113	275,750
Inventory	6	15,632	-
TOTAL CURRENT ASSETS		<u>1,686,092</u>	<u>514,326</u>
NON-CURRENT ASSETS			
Financial assets	7	126,150	145,000
Property, plant and equipment	8	4,171,159	4,116,344
Exploration expenditure	9	1,187,455	-
TOTAL NON-CURRENT ASSETS		<u>5,484,764</u>	<u>4,261,344</u>
TOTAL ASSETS		<u>7,170,856</u>	<u>4,775,670</u>
CURRENT LIABILITIES			
Trade and other payables	10	2,115,041	704,392
Provisions	11	13,707	3,978
TOTAL CURRENT LIABILITIES		<u>2,128,748</u>	<u>708,370</u>
NON-CURRENT LIABILITIES			
Trade and other payables	10	1,168,299	1,019,627
Provision	11	24,885	-
TOTAL NON-CURRENT LIABILITIES		<u>1,193,184</u>	<u>1,019,627</u>
TOTAL LIABILITIES		<u>3,321,932</u>	<u>1,727,997</u>
NET ASSETS		<u>3,848,924</u>	<u>3,047,673</u>
EQUITY			
Issued capital	12	20,182,651	13,023,900
Reserves	13	4,437,166	1,933,142
Accumulated losses		(20,770,893)	(11,909,369)
TOTAL EQUITY		<u>3,848,924</u>	<u>3,047,673</u>

(The accompanying notes form part of these financial statements.)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

at 30 June 2011

	Issued Capital	Reserves (Note 12)	Accumulated Losses	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2009	9,549,967	1,290,594	(6,463,821)	4,376,740
<i>Comprehensive income for the period</i>				
Loss for the period	-	-	(5,445,548)	(5,445,548)
<i>Other comprehensive income</i>				
Net change in fair value of available for sale assets	-	450,690	-	450,690
Exchange differences on translating foreign controlled entities	-	(21,287)	-	(21,287)
<i>Transaction with owners in their capacity as owners</i>				
Issue of share capital	3,644,480	-	-	3,644,480
Cost of issue of capital	(170,547)	-	-	(170,547)
Issue of share options	-	213,145	-	213,145
Balance at 30 June 2010	13,023,900	1,933,142	(11,909,369)	3,047,673
Balance at 1 July 2010	13,023,900	1,933,142	(11,909,369)	3,047,673
<i>Comprehensive income for the period</i>				
Loss for the period	-	-	(8,861,524)	(8,861,524)
<i>Other comprehensive income</i>				
Net change in fair value of available for sale assets	-	(18,850)	-	(18,850)
Exchange differences on translating foreign controlled entities	-	530,674	-	530,674
<i>Transaction with owners in their capacity as owners</i>				
Issue of share capital	7,449,000	-	-	7,449,000
Cost of issue of capital	(290,249)	-	-	(290,249)
Issue of share options	-	1,992,200	-	1,992,200
Balance at 30 June 2011	20,182,651	4,437,166	(20,770,893)	3,848,924

(The accompanying notes form part of these financial statements.)

STATEMENT OF CASH FLOWS

at 30 June 2011

	Note	Consolidated Group	
		2011	2010
		\$	\$
Cash flows from Operating Activities			
Receipts from customers		1,685,336	-
Interest received		58,248	33,570
Other receipts		98,790	22,337
Payments to suppliers and employees		(6,249,779)	(3,747,916)
Net Cash (used in) provided by Operating Activities	25	<u>(4,407,405)</u>	<u>(3,692,009)</u>
Cash flows from Investing Activities			
Proceeds from sale of financial assets		-	62,492
Purchase of investment		(1,183,990)	-
Exploration expenditure		(3,465)	-
Sales distribution fee		1,000,000	-
Proceeds for plant and equipment		58,561	40,000
Payment for plant and equipment		(1,692,681)	(625,777)
Net Cash (used in) provided by Investing Activities		<u>(1,821,575)</u>	<u>(523,285)</u>
Cash flows from Financing Activities			
Proceeds from share and option issues (net of expenses)		<u>7,788,751</u>	<u>3,687,078</u>
Net Cash provided by (used in) Financing Activities		<u>7,788,751</u>	<u>3,687,078</u>
Net (decrease)/increase in cash held		929,771	(528,217)
Cash at beginning of the year		238,576	766,793
Cash at end of the year	4	<u>1,168,347</u>	<u>238,576</u>

(The accompanying notes form part of these financial statements.)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

1. Summary of Significant Accounting Policies

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial statements include the consolidated entity consisting of Gulf Industrials Limited and its subsidiaries. The parent entity Gulf Industrials Limited is a public listed company incorporated and domiciled in Australia.

The financial statements of the consolidated entity consisting of Gulf Industrials Limited and its controlled entities comply with all International Financial Reporting Standards (IFRS) in their entirety.

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

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

The financial statements have been prepared using the accrual basis of accounting and are based on historical cost modified where applicable by the measurement at fair value of selected non-current assets, financial assets and liabilities.

New and Revised Accounting Standards and Interpretations

Gulf Industrials Limited and its subsidiaries have adopted all new and amended Accounting Standards and Interpretations which were applicable as of 1 July 2010.

Adoption of these new Standards and Interpretations did not have any effect on the financial position or performance of the consolidated entity.

Gulf Industrials Limited and its controlled entities have not early adopted any other standards or amendments that are issued but not yet effective.

Going Concern

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the normal course of business.

The consolidated group had cash assets of \$1,168,347 at 30 June 2011. The directors acknowledge that continued exploration and development of the consolidated group's mineral exploration projects will necessitate further capital raisings.

The consolidated group remains dependent on its ability to raise funding in volatile capital markets. However, the directors continue to believe that the going concern basis of accounting by the consolidated group is appropriate for the following reasons:

- The company and consolidated group have successfully completed capital raisings during the year to 30 June 2011, notwithstanding the challenging conditions in equity markets.
- The company has raised \$10,100,000 before expenses since 30 June 2011 as announced on 30 September 2011.

In consideration of the above matters, the directors have determined that it is reasonably foreseeable that the consolidated group will continue as going concern and that it is appropriate that the going concern method of accounting be adopted in the preparation of the financial statements. In the event that the consolidated group is unable to continue as a going concern (due to inability to raise future funding requirements), it may be required to realise its assets at amounts different to those currently recognised, settle liabilities other than in the ordinary course of business and make provisions for other costs which may arise as a result of cessation or curtailment of normal business operations.

Accordingly, the financial statements do not include adjustments relating to the recoverability and classification of assets amount or to the amounts and classification of liabilities that might be necessary if the consolidated group does not continue a going concern.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

a. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Gulf Industrials Limited at the end of the reporting period.

A controlled entity is any entity controlled by the Company. Control exists where the Company has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of the Company.

A list of controlled entities is contained in Note 18 to the Financial Statements. All controlled entities have a June financial year end. All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the consolidated group during the year, their financial performance has been included from the date control was obtained or until the date control ceased.

b. Mining Tenements & Deferred Exploration, Evaluation & Development Expenditure

Mining tenements are carried at cost, less accumulated impairment losses.

Mineral 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 of interest or sale of that area of interest, or exploration and evaluation activities have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in or in relation to, the area of interest are continuing.

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

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

c. Goods & Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). 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 are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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.

d. Impairment of Assets

At each reporting date, the consolidated 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.

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

e. Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates and tax laws that have been enacted or are subsequently enacted by the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

Current tax losses for current and prior periods are not recognised as an asset as the future income tax benefit can be carried forward only as an asset where realisation of the benefit can be regarded as being probable.

f. Share Based Payments

The fair value determined at the grant date of equity-settled share-based payments is treated as the cost of assets acquired or expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Vesting is not conditional upon a market condition. No asset or expense is recognised for share-based payments that do not vest.

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

g. Cash & Cash Equivalents

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

h. Revenue Recognition

Interest revenue is recognised using the effective interest rate method which for floating rate financial assets, is the rate inherent in the instrument.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers. All revenue is stated net of the amount of goods and services tax (GST).

i. Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained.

Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

j. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

k. Joint Venture Interests

An interest in a joint venture operation is brought to account by including in the respective financial statement categories:

- the consolidated entity's share in each of the individual assets employed in the joint venture;
- liabilities incurred by the consolidated entity in relation to the joint venture including the economic entity's share of any liabilities for which the consolidated entity is jointly and/or severally liable; and
- The consolidated entity's share of expenses of the joint venture.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

I. Financial Instruments

Recognition & Initial Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, 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 fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to the statement of comprehensive income.

Classification & Subsequent Measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. *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.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the *effective interest method*; and
- d. less any reduction for impairment.

The *effective interest method* is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in the statement of comprehensive income.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

- i. *Financial assets at fair value through the Statement of Comprehensive Income*
Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging 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 a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in the Statement of Comprehensive Income.
- 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.
- iii. *Held-to-maturity investments*
Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.
- iv. *Available-for-sale financial assets*
Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.
- v. *Financial liabilities*
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

Fair Value

Fair value is determined based on current bid prices for all quoted investments. Valuation 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 receipt of cash flows expires or the asset is transferred to another party whereby the entity 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 expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the Statement of Comprehensive Income.

m. Foreign Currency Transactions and Balances

Functional & Presentation Currency

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

Transaction & Balances

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

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

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

Group Companies

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

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

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

n. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within the year have been measured at the amounts expected to be paid when

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

the liability is settled. Employee benefits payable later than one year are 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.

Super commitments: Each employee nominates their own superannuation fund to which Gulf contributes the compulsory superannuation amount.

o. Critical Accounting Estimates & 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

(i) Impairment

The Group assesses impairment at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Key judgements

(i) Exploration and Evaluation Expenditure

All exploration expenditure is reviewed by Directors to determine whether it is appropriate to capitalise any of these costs. All expenditure to date has been fully expensed.

p. Property, Plant & Equipment

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

Property and Leasehold Improvement

Freehold land and buildings and leasehold improvements are shown at their cost.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the statement of comprehensive income. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the statement of comprehensive income and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant & Equipment

Plant and equipment are measured on the cost basis.

r. New Accounting Standards for Application in Future Periods

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 values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the 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 including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

	Class of Fixed Asset	Depreciation Rate
The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.	Buildings	5% - 10%
	Leasehold improvements	10% - 33.33%
	Plant and equipment	20% - 33.33%
	Motor vehicles	33.33%

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 reserve relating to that asset are transferred to retained earnings.

q. Comparative Figures

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

r. New Accounting Standards and Interpretations

Australian Accounting Standards and Interpretations that have been adopted as at 1 July 2010 that have recently been issued or amended but are not yet effective and have not been adopted by the Company for the annual reporting period ending 30 June 2011 are outlined below:

AASB 124 Related Party Disclosures (Revised)

The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. The amendments become effective for the Company's 30 June 2012 financial statements. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]

This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. The amendments become effective for the Company's 30 June 2012 financial statements. The company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 2009-14 Amendments to Australian Accounting Standards – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14]

IFRIC 14 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendments become effective for the Company's 30 June 2012 financial statements. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 1053 Application of Tiers of Australian Accounting Standards

This Standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements

The amendments become effective for the Company's 30 June 2014 financial statements. The Company's financial report has not yet determined the potential impact of the amendments on the Company's financial report.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

AASB 1054 Australian Additional Disclosures

This standard is as a consequence of phase 1 of the joint Trans-Tasman convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revised disclosures in certain areas. The amendments become effective for the Company's 30 June 2012 financial statements. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]

Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. The amendments become effective for the Company's 30 June 2012 financial statements. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]

The amendments increase the disclosure requirements for transactions involving transfers of financial assets. The amendments become effective for the Company's 30 June 2012 financial statements. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

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

The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities, the change in fair value is accounted for differently. The amendments become effective for the Company's 30 June 2014 financial statements. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 2010-8 Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]

These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments become effective for the Company's 30 June 2013 financial statements. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]

This Standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054. The amendments become effective for the Company's 30 June 2012 financial statements. The Company has not yet determined the potential impact of the amendments on the Company's financial report.

AASB 10 Consolidated Financial Statements

IFRS 10 establishes a new control model that applies to all entities. It replaces part of IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for the consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. The amendments become effective for the entity's 30 June 2014 financial statements. The entity has not yet determined the potential impact of the amendments on the entity's financial report.

AASB 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-Controlled Entities – Non-Monetary Contributions by Ventures. IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. The amendments become effective for the entity's 30 June 2014 financial statements. The entity has not yet determined the potential impact of the amendments on the entity's financial report.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

AASB 12 Disclosure of Interests in Other Entities

IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. The amendments become effective for the entity's 30 June 2014 financial statements. The entity has not yet determined the potential impact of the amendments on the entity's financial report.

AASB 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. The amendments become effective for the entity's 30 June 2014 financial statements. The entity has not yet determined the potential impact of the amendments on the entity's financial report.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

	Consolidated Group	
	2011	2010
	\$	\$
2. Loss for the Year		
Revenue from ordinary activities:		
Sale of goods	2,036,660	-
Interest – other persons	58,248	33,570
Profit on sale of fixed assets	-	35,596
Profit on sale of investments	-	194,998
Sublease rental income	57,000	13,000
Other	41,790	9,337
	<u>2,193,698</u>	<u>286,501</u>
Expenses from ordinary activities:		
Loss on sale of financial assets	-	27,588
Loss on sale of fixed assets	2,811	-
Unrealised exchange losses	1,660,313	-
Consulting	280,842	303,185
Depreciation and amortisation	403,724	429,871
Compliance	132,253	161,242
Legal	144,578	69,638
Share based payments	1,992,200	-
Travel and airfares	491,076	375,851
Rental expense – minimum lease payments	187,115	174,709
3. Income Tax		
Operating (loss) before income tax	(8,861,524)	(5,445,548)
Prima facie income tax (benefit) calculated at 30% (2010:30%)	(2,658,457)	(1,633,664)
Non-deductible items		
Non-deductible expenses	23,756	14,891
	2,634,701	1,618,773
Less income tax benefits not brought to account at balance date	-	-
Total income tax expense	<u>-</u>	<u>-</u>

Potential future income tax benefits estimated at \$6,595,896 (2010: \$3,961,195) attributable to Australian tax losses carried forward by the company and future benefits to exploration expenditure and other timing differences allowable for deduction have not been brought to account in the consolidated accounts at 30 June 2011 because the Directors do not believe it is appropriate to regard full realisation of the future income tax benefits as probable. These benefits will only be obtained if:

- (a) the consolidated entity derives future assessable income of a nature and of sufficient amount to enable the benefit from the deductions to be realised; and
- (b) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- (c) no changes in tax legislation adversely affect the company in realising the benefit from the deduction in losses.

4. Cash & Cash Equivalents

Cash and cash equivalents at the end of the year as shown in the statement of cash flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash on hand and at bank	1,168,347	238,576
	<u>1,168,347</u>	<u>238,576</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

		Consolidated Group	
		2011	2010
		\$	\$
5. Trade & Other Receivables			
	Current		
	Other debtors	502,113	275,750
		<u>502,113</u>	<u>275,750</u>
6. Inventory			
	Finished goods – net realisable value	15,632	-
		<u>15,632</u>	<u>-</u>
7. Financial Assets			
	Available for sale financial assets comprise:		
	Unlisted investments at cost		
	- shares in unlisted corporations	-	145,000
	Listed investments at fair value		
	- shares in listed corporations	595,000	450,000
	Less: impairment provision	<u>(468,850)</u>	<u>(450,000)</u>
		<u>126,150</u>	<u>-</u>
	Total available for sale financial assets	<u>126,150</u>	<u>145,000</u>

The fair value of unlisted available for sale financial assets cannot be reliably measured, and are therefore measured at cost. Available for sale financial assets comprise investments in the ordinary capital of various entities. There are no fixed returns or fixed maturity dates attached to these investments. During the year the unlisted investments became listed investments upon the Company commencing trading on the ASX on 3 February 2011.

Provision for Impairment of Financial Assets

A provision for impairment is recognised when there is objective evidence that an individual financial asset is impaired. The group still owns the shares in the listed entity. The estimated fair value is \$126,500 at 30 June 2011. Therefore the asset has been restated to cost and an impairment expense recognised in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

	Consolidated Group	
	2011	2010
	\$	\$
8. Property, Plant & Equipment		
Plant and equipment	2,163,193	879,932
Less accumulated depreciation	<u>(301,955)</u>	<u>(175,326)</u>
	<u>1,861,238</u>	<u>704,606</u>
Leasehold improvements	3,006,567	4,211,765
Less accumulated amortisation	<u>(721,452)</u>	<u>(869,277)</u>
	<u>2,285,115</u>	<u>3,342,488</u>
Motor Vehicles	43,994	115,707
Less accumulated depreciation	<u>(19,188)</u>	<u>(46,457)</u>
	<u>24,806</u>	<u>69,250</u>
Total Property, Plant & Equipment	<u>4,171,159</u>	<u>4,116,344</u>
Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.		
Plant and Equipment		
Balance at the beginning of year	704,606	391,037
Additions	1,537,925	521,314
Net exchange differences	(180,115)	(144,517)
Disposals	(9,562)	-
Depreciation	<u>(191,616)</u>	<u>(63,228)</u>
Carrying amount at the end of year	<u>1,861,238</u>	<u>704,606</u>
Leasehold improvements		
Balance at the beginning of year	3,342,488	4,138,715
Additions	118,631	-
Net exchange differences	(985,046)	(501,379)
Disposals	-	-
Amortisation	<u>(190,958)</u>	<u>(294,848)</u>
Carrying amount at the end of year	<u>2,285,115</u>	<u>3,342,488</u>
Motor Vehicles		
Balance at the beginning of year	69,250	41,145
Additions	36,125	104,463
Net exchange differences	(16,328)	(159)
Disposals	(43,091)	(4,404)
Depreciation	<u>(21,150)</u>	<u>(71,795)</u>
Carrying amount at the end of year	<u>24,806</u>	<u>69,250</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

	Consolidated Group	
	2011	2010
	\$	\$
9. Exploration Expenditure		
Costs carried forward in respect of areas of interest in the exploration and evaluation phase		
Opening balance	-	-
Expenditure incurred during the year	1,187,455	727,650
	1,187,455	727,650
Less expenditure written off during the year	-	(727,650)
Expenditure impaired	-	-
Closing balance	1,187,455	-
10. Trade & Other Payables		
Current		
Trade and other payables	1,138,980	704,392
Deferred revenue (ii)	32,461	-
Deferred settlement proceeds (iii)	943,600	-
	2,115,041	704,932
Non-Current		
Trade and other payables (i)	420,000	-
Deferred revenue (ii)	748,299	-
Deferred settlement proceeds (iii)	-	1,019,627
	1,168,299	1,019,627
(i)	This amount represents the amount outstanding for the purchase of the company that holds the limestone deposit in Madagascar. This amount is payable when the first commercial shipment of limestone from the project has occurred.	
(ii)	This amount represents the balance of the US\$1,000,000 fee received in respect of the Dupré Minerals Ltd distribution agreement being recognised over the 25 year term of the agreement.	
(iii)	This amount represents the US\$1,000,000 payable to Rio Tinto Ltd for the purchase of East African Vermiculite Ltd which is due to be paid on 31 March 2012. This amount as been discounted at the rate of 8% per annum. If the group completes an external fund raising of US\$5,000,000 before this date the amount becomes payable on the successful completion of this fund raising.	
11. Provisions		
Current		
Employee benefits	13,707	3,978
	13,707	3,978
Non Current		
Rehabilitation (i)	24,885	-
	24,885	-
(i)	The provision was raised during the year in respect of the rehabilitation of its mining operations in Uganda.	

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

12. Issued Capital

Issued capital		
493,604,729 (2010: 222,104,729) fully paid shares	<u>20,182,651</u>	<u>13,023,900</u>

The company has authorised share capital amounting to 493,604,729 ordinary shares of no par value.

Movements during the year	2011 Number of Shares	2010 Number of Shares	2011 \$	2010 \$
Beginning of the financial year	222,104,729	89,474,729	13,023,900	9,549,967
4/8/09 issued at 3 cents	-	35,000,000	-	1,050,000
12/10/09 issued at 3 cents	-	1,400,000	-	42,000
1/11/09 issued at 3 cents	-	60,000,000	-	1,800,000
16/04/10 issued at 2.1 cents	-	27,000,000	-	567,000
31/05/10 issued at 2.1 cents	-	880,000	-	18,480
29/06/10 issued at 2 cents	-	8,350,000	-	167,000
21/07/11 issued at 2.1 cents	55,000,000	-	1,155,000	-
27/07/10 issued at 2 cents	41,500,000	-	830,000	-
31/12/10 issued at 2 cents	60,000,000	-	1,200,000	-
06/01/11 issued at 2 cents	25,000,000	-	500,000	-
04/02/11 issued at 3.4 cents	26,000,000	-	884,000	-
04/05/11 issued at 4.5 cents	64,000,000	-	2,880,000	-
Less share issue expenses	-	-	(290,249)	(170,547)
End of the financial year	<u>493,604,729</u>	<u>222,104,729</u>	<u>20,182,651</u>	<u>13,023,900</u>

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid upon shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Capital Management

Management controls the capital of the group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the group can fund its operations and continue as a going concern.

The group's debt and 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 group's financial risks and adjusting its capital structure to include the management of debt levels, distributions to shareholders and share issues.

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

Options

At 30 June 2011 there were 146,694,028 (2010: 80,078,100) unissued shares in respect of which options were outstanding and the details of them are as follows:

Type	Number	Exercise Price	Expiry Date
Listed	52,629,028	\$0.10	31 March 2013
Unlisted	94,065,000	\$0.03 - \$0.094	Various

During the year 10,000,000 listed options over unissued shares in the company were issued at 0.10 cents each. Also a total of 82,065,000 unlisted options exercisable at various prices were issued during the year. Also, 25,449,072 listed options over unissued shares exercisable at \$0.20 expired on 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

	Consolidated Group	
	2011	2010
	\$	\$
13. Reserves		
Share Option Reserve	3,729,377	1,737,177
Financial Asset Reserve	(18,850)	-
Foreign Currency Translation Reserve	726,639	195,965
	<u>4,437,166</u>	<u>1,933,142</u>
(i) Share Option Reserve		
This relates to the recognition on the issue of options.		
Beginning of the financial year	1,737,177	1,524,032
Share based payment	1,992,200	-
Issue of options to shareholders	-	213,145
End of the financial year	<u>3,729,377</u>	<u>1,737,177</u>
(ii) Financial Asset Reserve		
This relates to the movement in the fair valuation of financial assets.		
Beginning of the financial year	-	(450,690)
Net change in fair value of financial assets during year	(18,850)	(30,747)
Reclassification adjustment to income statement for assets impaired	-	450,000
Reclassification adjustment to income statement for assets disposed	-	31,437
End of the financial year	<u>(18,850)</u>	<u>-</u>
(iii) Foreign Currency Translation Reserve		
This relates to translation of foreign subsidiaries accounts to Australian dollars.		
Beginning of the financial year	195,965	217,252
Translation	530,674	(21,287)
End of the financial year	<u>726,639</u>	<u>195,965</u>
14. Auditors remuneration		
Remuneration of the auditor (and associated entities) of the parent entity for:		
– auditing or reviewing the financial report	69,865	67,500
– other services	-	2,772
	<u>69,865</u>	<u>70,272</u>
Remuneration of the auditor of subsidiaries:		
- auditing or reviewing the financial report	1,699	1,303
	<u>1,699</u>	<u>1,303</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

15. Key management personnel compensation

(a) Names and positions held of economic and parent entity key management personnel in office at any time during the financial year are:

Name	Appointed	Resigned	Position
S Reid	30 June 2005	21 February 2011	Executive Director
W Kernaghan	30 June 2005	-	Finance Director
G Duncan	30 June 2005	17 March 2011	Non Executive Director
S Jonah	16 November 2010	-	Non Executive Chairman
V Fitzmaurice	7 January 2011	-	Chief Executive Officer
J Best	21 February 2011	-	Non Executive Director
M Brooke	7 January 2011	-	Non Executive Director
C Innis	31 August 2010	-	Non Executive Director
R Jurd	21 February 2011	-	Non Executive Director

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

(b) Number of options over ordinary shares of the parent held by key management personnel and their related parties:

Company Director	Balance 1/7/2010	Options Issued	Options Exercised	Net Change Other	Option Lapsed	Balance 30/6/2011
S Reid	3,672,500	2,622,500	-	*(6,295,000)	2,622,500	-
W Kernaghan	5,984,810	3,334,318	-	-	3,334,318	5,984,810
G Duncan	4,595,416	-	-	*(4,595,411)	-	-
V Fitzmaurice	-	6,000,000	-	2,025,000	-	8,025,000
S Jonah	-	19,000,000	-	-	-	19,000,000
J Best	-	2,000,000	-	-	-	2,000,000
M Brooke	-	2,000,000	-	-	-	2,000,000
C Innis	-	2,000,000	-	-	-	2,000,000
R Jurd	-	2,000,000	-	-	-	2,000,000

* Number of options at time of resignation as a director.

Company Director	Balance 1/7/2009	Options Issued	Options Exercised	Options Lapsed	Balance 30/6/2010
S Reid	3,672,500	-	-	-	3,672,500
W Kernaghan	5,984,810	-	-	-	5,984,810
G Duncan	4,595,416	-	-	-	4,595,416
	14,252,726	-	-	-	14,252,726

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

(c) Number of shares held by key management personnel and their related parties

Company Director	Balance 1/7/2010	Options Exercised	Net Change Other	Balance 30/6/2011
S Jonah	-	-	60,000,000	60,000,000
V Fitzmaurice	-	-	2,133,333	2,133,333
J Best	-	-	-	-
M Brooke	-	-	-	-
C Innis	-	-	800,000	800,000
W Kernaghan	8,750,000	-	-	8,750,000
R Jurd	-	-	-	-
S Reid	7,250,000	-	*(7,250,000)	-
G Duncan	6,231,667	-	^(6,231,667)	-

* S Reid resigned on 21 February 2011. His shareholding was 7,250,000 shares.

^ G Duncan resigned on 17 March 2011. His shareholding was 6,231,667 shares.

Company Director	Balance 1/7/2009	Options Exercised	Net Change Other	Balance 30/6/2010
S Reid	5,501,667	-	1,748,333	7,250,000
P Treisman*	443,333	-	(443,333)	-
W Kernaghan	6,876,672	-	1,873,328	8,750,000
G Duncan	6,231,667	-	-	6,231,667

*P Treisman resigned on 22 October 2009. His shareholding was 443,333 shares.

16. SHARE BASED PAYMENTS

	2011 \$	2010 \$
(a) Recognised share based payment expenses		
Director options	1,463,000	-
Employee options	<u>529,200</u>	-
	<u>1,992,200</u>	-

(b) Employee Options

(i) Options held at the beginning of the reporting period

Number	Grant Date	Vest Date	Expiry Date	Weighted Average Exercise Price
-	-	-	-	-

(ii) Options lapsed / exercised during the year

Number	Grant Date	Exercise Date	Exercise Price	Number Lapsed
-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

(iii) Options issued during the year

Number	Grant Date	Vest Date	Expiry Date	Weighted Average Exercise Price	Weighted Average Share Price
2,750,000	11/3/11	11/3/11	10/3/16	\$0.094	\$0.068
6,000,000	11/3/11	11/3/11	10/3/16	\$0.079	\$0.068

(iv) Options held at the end of the reporting period

Number	Grant Date	Vest Date	Expiry Date	Exercise Price	Weighted Average Fair Value of Options
2,750,000	11/3/11	11/3/11	10/3/16	\$0.094	\$0.060
6,000,000	11/3/11	11/3/11	10/3/16	\$0.079	\$0.067

These options had a weighted average exercise price of \$0.084 and a weighted average remaining contractual life of 4.75 years.

The fair value of the equity settled share options granted are estimated as at the date of allocation using a Binomial Model taking into account the terms and conditions upon which they were granted.

(v) Valuation of options issued during the year

Number	Grant Date	Vest Date	Expiry Date	Exercise Price	Weighted Average Fair Value of Options
2,750,000	11/3/11	11/3/11	10/3/16	\$0.094	\$165,000
6,000,000	11/3/11	11/3/11	10/3/16	\$0.079	\$364,200

(c) Weighted average remaining contractual life

	2011 Years	2010 Years
Options - Employee	4.75	-
Options - Directors	2.75	-

(d) Range of exercise prices

	2011 \$	2010 \$
Options - Employee	0.079-0.094	-
Options - Directors	0.05-0.086	-

(e) Weighted average fair value at date of issue

	2011 \$	2010 \$
Options - Employee	0.060-0.067	-
Options - Directors	0.0403-0.0438	-

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

(f) Option pricing model

The fair value of the equity settled share options granted are estimated as at the date of allocation using a Binomial Model taking into account the terms and conditions upon which they were granted.

The following table lists the inputs to the models used at the date of allocation for employee options:

	2011	2010
Dividend yield	-	-
Expected volatility	141.38%	-
Risk free interest rate	5.23%	-
Exercise price	\$0.079-\$0.094	-
Share price at measurement date	\$0.068	-

The following table lists the inputs used at the date of allocation for directors' options:

	2011	2010
Dividend yield	-	-
Expected volatility	140.05%	-
Risk free interest rate	5.085%	-
Exercise price	\$0.05-\$0.086	-
Share price at measurement date	\$0.055	-

17. Related Party Transactions

(a) Payments to director related companies

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

Consultancy payments were made to J A Hobson & Associates Pty Ltd totaling \$Nil (2010: \$40,000) which is a company controlled by Mr P Treisman. Consultancy payments were made to Mosman Corporate Services Pty Ltd totaling \$120,000 (2010: \$120,000) which is a company controlled by Mr W Kernaghan.

Rental payments for an office in South Africa were made to Jonah Capital (BVI) Ltd totaling \$14,788 (2010: \$Nil) which is a company controlled by Mr S Jonah.

(b) Transactions with partially and wholly owned controlled entities

During the financial year there have been transactions between Gulf Industrials Limited, and its partially and wholly owned controlled entities which have been eliminated for consolidation purposes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

18. Economic entity accounts include a consolidation of the following companies:

Company	Contribution to consolidated operating loss		Details of investment in shares Cost of parent entity's investment in subsidiaries	
	2011	2010	2011	2010
	\$	\$	\$	\$
Gulf Industrials Ltd	(4,883,532)	(3,617,809)	-	-
Asia Pacific Gold Corporation Pty Ltd	-	-	-	-
Chillagoe Resources Pty Ltd	-	-	-	-
Austral Malagasy Resources Pty Ltd	-	(5)	5	5
Gulf Resources Uganda Limited	498,972	(167,167)	-	-
Gulf Resources Logistics (Southern Sudan) Limited	-	(425)	-	-
Gulf Resources (Southern Sudan) Limited	-	-	-	-
GLF Holdings Limited	-	36,335	108	108
Industrial Minerals International Corporation	76,027	(488,166)	-	-
Nile Fresh Produce Limited	-	-	-	-
Revuma Energy Corporation	-	(1,497)	-	-
East Africa Development Corporation	-	-	-	-
Gulf Future Fuels Corporation	-	(1,662)	-	-
East African Vermiculite Limited	(4,552,991)	(1,205,152)	-	-
Soalara Calcaire SARL	-	-	1,183,990	-
	<u>(8,861,524)</u>	<u>(5,445,548)</u>	<u>1,184,103</u>	<u>113</u>

Company	Place of Incorporation	Date of Acquisition	Class of Shares	2011	2010
Asia Pacific Gold Corporation Pty Ltd	Australia	28.02.06	Ordinary	-	-
Chillagoe Resources Pty Ltd	Australia	28.02.06	Ordinary	-	-
Austral Malagasy Resources Pty Ltd	Australia	18.12.09	Ordinary	100%	100%
Soalara Calcaire SARL	Madagascar	18.08.10	Ordinary	100%	-
East African Vermiculite Limited	Uganda	22.05.09	Ordinary	100%	100%
Gulf Resources Uganda Limited	Uganda	29.04.08	Ordinary	100%	90%
GLF Holdings Limited	British Virgin Islands	30.04.08	Ordinary	100%	100%
Industrial Minerals International Corporation	British Virgin Islands	30.04.08	Ordinary	100%	100%
Revuma Energy Corporation *	British Virgin Islands	30.04.08	Ordinary	100%	100%
East Africa Development Corporation *	British Virgin Islands	30.04.08	Ordinary	100%	100%
Gulf Future Fuels Corporation *	British Virgin Islands	30.04.08	Ordinary	100%	100%
Gulf Resources Logistics (Southern Sudan) Limited *	Southern Sudan	29.04.08	Ordinary	80%	80%
Gulf Resources (Southern Sudan) Limited *	Southern Sudan	29.04.08	Ordinary	80%	80%
Nile Fresh Produce Limited *	Southern Sudan	29.04.08	Ordinary	64%	64%

On 17 March 2010, Asia Pacific Gold Corporation Pty was sold for \$75,000 which resulted in net assets disposed of \$20,000 for the group. The loss for the period up to its sale was \$Nil.

On 17 March 2010, Chillagoe Resources Pty Ltd was sold for \$120,000 which resulted in net assets disposed of \$2,500 for the group. The loss for the period up to its sale was \$Nil.

* These companies are in the process of being liquidated at 30 June 2011.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

19. Earnings per share	2011	2010
(a) Net loss: Net loss used in the calculation of basic earnings per share	(8,861,524)	(5,445,548)
(b) Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	374,669,113	167,662,400
Weighted average number of options outstanding	127,015,881	75,157,552
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	501,684,994	242,819,952

20. Business Combination

Acquisition of Soalara Calcaire SARL

On 18 August 2010, the Company acquired 100% of Soalara Calcaire SARL, a company holding the limestone deposit in Madagascar.

Consideration for the acquisition was US\$1,070,000 of which US\$420,000 was still outstanding at 30 June 2011. The US\$420,000 is payable on the first commercial shipment of limestone together with a royalty averaging US\$0.56 per tonne (refer note 10).

	Acquiree's Carrying Amount \$	Fair Value \$
Purchase consideration:		
Cash		1,183,990
Less:		
Exploration expenditure	-	1,183,990
Identifiable assets acquired and liabilities assumed	-	1,183,990
Purchase consideration settled in cash		1,183,990
Cash outflow on acquisition		1,183,990

From the date of acquisition Soalara Calcaire SARL achieved a net loss of \$nil after tax which has been included in the consolidated group's Statement of Comprehensive Income for period ended 30 June 2011. The fair value on business combination of \$1,183,990 has been recognised in the Statement of Financial Position as exploration expenditure.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

21. Capital & Leasing Commitments

(i) The consolidated entity has certain obligations to perform mining exploration work and expend minimum amounts of money on mineral exploration tenements. The consolidated entity has committed to expend a minimum of \$Nil (2009: \$75,000) over the next year to keep its current tenements in good standing.

(ii) The consolidated entity has certain obligations to East African Vermiculite Ltd over the next year for plant upgrade and mining operations.

(iii) Lease expenditure commitments

	Consolidated Group	
	2011	2010
	\$	\$
Lease expenditure commitment		
Operating lease for premises		
Minimum lease payments:		
– not later than one year	186,203	178,315
– later than one year and not later than five years	<u>379,760</u>	<u>565,903</u>
Aggregate lease expenditure contracted for at reporting date but not provided for	<u>565,963</u>	<u>744,218</u>

The property lease was renegotiated during the year and was extended for another two years. The lease is a non-cancellable lease with a seven year term (1 June 2007 to 31 May 2014), with rent payable monthly in advance.

22. Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries. The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk and liquidity risk. The Board of Directors is responsible for overseeing the establishment, implementation and ongoing monitoring and review of an effective risk management framework for the group. The group's risk management policies and objectives are designed to minimise the potential impacts of these risks on the results of the group where such impacts may be material.

i) Interest Rate Risk

The economic exposure to interest rate risk and the effective weighted interest for classes of financial assets and financial liabilities are set out below:

ii) Net fair values

Monetary financial assets and financial liabilities not readily traded in an organised financial market have been valued at cost, which approximate fair value. The carrying amounts of bank deposits, accounts receivable and, accounts payable approximate net fair value.

iii) Foreign Currency Risk

The consolidated group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the consolidated group's measurement currency.

iv) Liquidity Risk

The group manages liquidity risk by monitoring forecast cash flows.

v) Sensitivity Analysis

The group has performed a sensitivity analysis relating to its exposure to foreign currency risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

The group has not performed a sensitivity analysis relating to its exposure to interest rate risk at balance date as it is not material and would have limited effect on the current year results.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

	Consolidated Group	
	2011	2010
Currency Risk	\$	\$
10% Weakening of Australian dollar		
- Profit/(Loss) impact	(133,414)	(101,010)
10% Strengthening Australian Dollar		
- Profit/(Loss) impact	133,414	101,010

Currency risk exposure during the year was limited to inter-company transactions which eliminate on consolidation. The risk analysis is therefore based only on the non-current trade and other payables which are a liability denominated in US dollars and due to a third party.

23. Exchange Rates

The following exchange rates were used to convert Ugandan Shillings to United States dollars then to Australian Dollars for the Ugandan subsidiaries for the consolidated entity's accounts.

		Consolidated Group	
		2011	2010
Spot rate for end of year balances	Ugandan Shillings to USD	2,675	2,315
	USD to AUD	1.0595	0.8567
Average rates applied to revenue, costs	Ugandan Shillings to USD	2,290	2,044
Capital additions and disposals	USD to AUD	1.0146	0.8822

24. After Balance Date Events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the parent entity, to affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in the subsequent financial years. Other than:

- On July 14 2011 the Company announced that it will undertake a 3 for 5 non-renounceable pro-rata rights issue of ordinary shares at 4 cents per share fully underwritten to raise approximately \$11.85 million.
- On 17 August 2011 the Company announced it has withdrawn its recent rights issue following the termination of the underwriting agreements as a result of recent adverse movements in global equity markets.
- On 17 August 2011 the Company received loans totaling A\$3.36m from its two largest shareholders, Jonah Capital BVI Limited and African Lion 3 Limited. The principal amounts outstanding under the loans will be repayable through the issue of a total of 134.4 million shares at 2.5 cents per share and attaching free one-for-one options exercisable at 2.5 cents expiring on 31 December 2012, subject to shareholder approval at the general meeting to be held on 26 September 2011.
- Gulf received unconditional commitments under a proposed placement for 400 million placement shares and attaching free one-for-one placement options, subject to shareholder approval on 26 September 2011.
- A share purchase plan (SPP) will offer eligible shareholders the opportunity to purchase up to \$15,000 worth of shares in Gulf at 2.5 cents per share to raise approximately A\$3.7m. Subject to shareholder approval on 26 September 2011 successful applicants for SPP shares will also be entitled to receive a free attaching option with an exercise price of 2.5 cents and an expiry date of 31 December 2012 for every share that they are issued under the SPP, provided that their shareholding as at 7:00m AEST on the option record date (6 October 2011) is not less than their shareholding as at 7:00pm AEST at the SPP record date (16 August 2011).
- On 26 September 2011 shareholders approved the placement for a total of 404 million shares and attaching free one-for-one options exercisable at 2.5 cents expiring on 31 December 2012. These shares and options were issued on 30 September 2011 and the company received \$6,740,000 and the loans of \$3,360,000 were extinguished.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

25. Cash Flow Information

	Consolidated Group	
	2011	2010
	\$	\$
	<hr/>	<hr/>
Loss from ordinary activities after income tax	(8,861,524)	(5,445,548)
Non cash flows in loss:		
Profit/(loss) on sale of financial assets	-	(167,410)
Plant and equipment disposal	2,811	(35,596)
Provision for employee benefit	9,729	770
Provision for rehabilitation	24,885	-
Depreciation	403,724	429,871
Deferred distribution fee	(284,597)	-
Finance costs		99,372
Share based payments	1,992,200	-
Unrealised Exchange loss	1,736,340	500,047
Impairment of financial assets	-	450,000
Changes in assets and liabilities:		
(Increase)/Decrease in Trade receivables	(226,363)	3,095
(Increase) in Inventories	(15,632)	-
Increase/(Decrease) Trade and other payables	811,022	473,390
Operating cash flow	<u>(4,407,405)</u>	<u>(3,692,009)</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

26. Segment Information

The consolidated entity operates in two business segments being industrial minerals development and mining exploration, in two geographical locations, being Australia and Africa.

The operating segment analysis presented in these financial statements reflects operations analysis by business. It best describes the way the Company is managed and provides a meaningful insight into the business activities of the Company.

The following tables present details of revenue and operating profit by business segment. The information disclosed in the tables below is derived directly from the internal financial reporting system used by corporate management to monitor and evaluate the performance of our operating segments separately.

(a)	Industrial Minerals Development	Mineral Exploration	Unallocated	TOTAL Consolidated Group
2011	\$	\$	\$	\$
For the year ended 30 June 2011				
Revenue from external customers	2,036,660	-	-	2,036,660
Interest & other	37,319	-	119,719	157,038
Reportable segment profit/(loss) before income tax	<u>(4,054,019)</u>	<u>(471,060)</u>	<u>(4,336,445)</u>	<u>(8,861,524)</u>
Reportable segment assets as at 30 June 2011	<u>4,689,942</u>	<u>1,187,455</u>	<u>1,293,459</u>	<u>7,170,856</u>
2010				
For the year ended 30 June 2010				
Revenue from external customers	-	-	-	-
Interest & other	2,337	-	284,164	286,501
Reportable segment profit/(loss) before income tax	<u>(1,372,319)</u>	<u>(727,650)</u>	<u>(3,345,579)</u>	<u>(5,445,548)</u>
Reportable segment assets as at 30 June 2010	<u>4,069,689</u>	<u>-</u>	<u>705,981</u>	<u>4,775,670</u>

(b) Reconciliation of reportable segment profit and loss.

	2011	2010
	\$	\$
For the year ended 30 June 2011		
Total profit or loss for reportable segment	(8,861,524)	(5,445,548)
Eliminating of inter-segment profit	-	-
Loss before tax from continuing operations	<u>(8,861,524)</u>	<u>(5,445,548)</u>

(c) Reconciliation of reportable segment assets.

	2011	2010
	\$	\$
As at:		
Reportable segment assets	7,170,856	4,775,670
Elimination of inter-segment assets	-	-
Total assets	<u>7,170,856</u>	<u>4,775,670</u>

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2011

(d) Assets by geographical region.

As at:	2011	2010
	\$	\$
Australia	1,293,459	705,981
Africa	5,877,397	4,069,689
Total Assets	<u>7,170,856</u>	<u>4,775,670</u>

(e) The Company sold its finished goods to one customer during the year under review.

27. Parent Entity Information

Information relating to Gulf Industrials Limited:

STATEMENT OF FINANCIAL POSITION	2011	2010
	\$	\$
Current assets	<u>5,188,079</u>	<u>497,415</u>
Total assets	<u>6,507,851</u>	<u>2,010,183</u>
Current liabilities	<u>689,774</u>	<u>453,087</u>
Total liabilities	<u>689,774</u>	<u>453,087</u>
Issued capital	20,182,651	13,023,900
Accumulated losses	(18,075,106)	(13,203,986)
Reserves	<u>3,710,532</u>	<u>1,737,182</u>
Total shareholders' equity	<u>5,818,077</u>	<u>1,557,096</u>
 STATEMENT OF COMPREHENSIVE INCOME		
Loss of the parent entity	<u>(4,871,120)</u>	<u>(3,617,809)</u>
Total comprehensive income of the parent entity	<u>(4,871,120)</u>	<u>(3,617,809)</u>

Guarantees

Gulf Industrials Limited has guaranteed the obligations of its subsidiary, Industrial Minerals International Corporation in respect of the purchase of the vermiculate project in Uganda on 22 May 2009. See Note 10 for details.

Contingent Liabilities

At 30 June 2011 Gulf Industrials Limited had no contingent liabilities.

Contractual Commitments

At 30 June 2011 Gulf Industrials Limited had not entered into any contractual commitments for the acquisition of property, plant or equipment.

AUSTRALIAN SECURITIES EXCHANGE INFORMATION

Shareholdings

(a) Analysis of holdings as at 14 September 2011

	Ordinary Shares	Options 31/3/2013
1-1,000	64	1
1,001-5,000	43	24
5,001-10,000	132	6
10,001-100,000	558	47
100,001 and over	484	78
	1,281	156

Less than marketable parcels 339

(b) Substantial shareholders

The company has the following substantial shareholders as at 14 September 2011:

	No. of Shares	% of Total
African Lion 3 Limited	55,000,000	16.21
Jonah Capital BVI Limited	60,000,000	12.16
Contango Asset Management Limited	37,666,666	7.63

(c) Voting rights

No restrictions. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote.

(d) The names of the twenty largest shareholders of ordinary shares as at 14 September 2011.

Holder Name	No. of Shares	% of Total
1 African Lion 3 Limited	80,000,000	16.21
2 Jonah Capital BVI Limited	60,000,000	12.16
3 National Nominees Limited	41,488,969	8.41
4 Miss Ying Ting Tong & Mr Bun Au Yeung	13,064,000	2.65
5 HSBC Custody Nominees	9,025,942	1.86
6 Miss Yuk Ting Lucille Tong	7,900,809	1.60
7 Pan Australian Nominees Pty Ltd	5,875,000	1.19
8 Mr Wayne Kernaghan	5,500,000	1.11
9 SA Capital Funds Management Limited	4,500,000	0.91
10 UBS Wealth Management Australia Nominees Pty Ltd	4,322,857	0.88
11 Armco Barriers Pty Ltd	4,300,000	0.87
12 Miss Shuk Ting Tong	3,300,500	0.67
13 Mr Simon William Tritton	3,250,000	0.66
14 WJK Investments Pty Ltd	3,208,632	0.65
15 JP Morgan Nominees Australia Limited	3,173,549	0.64
16 Locope Pty Ltd	2,850,000	0.58
17 Vardanega Superannuation Pty Ltd	2,795,000	0.57
18 Mrs Katherine Louise Reid	2,567,972	0.52
19 Syncopated Pty Ltd	2,500,000	0.51
20 Mr Bun Au Yeung & Ms Ying Ting Tong	2,344,000	0.47

AUSTRALIAN SECURITIES EXCHANGE INFORMATION

(e) The names of the twenty largest option holders for options expiring 31/3/2013

		No. of Options	% of Total
1	Mr Peter Gebhardt & Mrs Carlene Gebhardt	3,000,000	5.70
2	Mr Scott Andrew Reid	2,656,910	5.05
3	Mr Wayne Kernaghan	2,575,002	4.89
4	H V Rahobialisoa	2,500,000	4.75
5	Mr Victor-Mark Fitzmaurice	2,025,000	3.85
6	Petard Pty Ltd	2,000,000	3.80
7	Mr Viet Quoc Ho	1,982,767	3.77
8	Mr Craig Naysmith & Mrs Tara Naysmith	1,641,000	3.12
9	Mr Carlo Chiodo	1,500,000	2.85
10	Mr Andrew Lorne Johnstone & Miss Helen Morrison	1,331,920	2.53
11	Vallelonga International Pty Ltd	1,250,000	2.38
12	Mrs Katherine Louise Reid	1,107,174	2.10
13	Mr Robert Owen Barnes	1,100,000	2.09
14	Mr Fharhaad Ali Moosa	1,000,000	1.90
15	National Nominees Limited	1,000,000	1.90
16	Brad Pty Ltd	1,000,000	1.90
17	Mr Christopher John Wilson & Ms Wei Mun Judienna Chang	1,000,000	1.90
18	Mr Gary David Beynon	909,869	1.73
19	Mrs Jane Helene Evelyn Pilgrim	840,000	1.60
20	Zona Holdings Pty Ltd	800,000	1.52

(f) The interests of each director and/or associate are listed in the Directors' Report.

(g) i) The name of the Company Secretary is Wayne Kernaghan

ii) The business and registered office address is

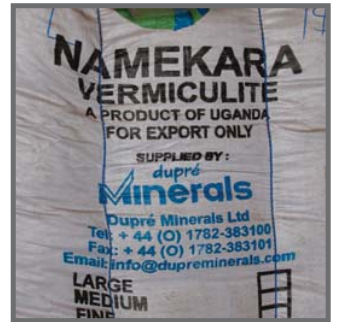
Level 10
Gold Fields House
1 Alfred Street
Sydney NSW 2000
Telephone (02) 8247 5333
Facsimile (02) 9247 7722

iii) Gulf Industrials Limited is listed on the Australian Securities Exchange.

ASX Code: GLF – Fully Paid Shares
GLFOB – Options expiring 31 March 2013

iv) Share registry is located at

Security Transfer Registrars Pty Limited
770 Canning Highway
Applecross WA 6153
Telephone (08) 9315 2333
Facsimile (08) 9315 2233



GULF INDUSTRIALS LIMITED
ACN 115 027 033
Level 10 Gold Fields House
1 Alfred Street
Sydney NSW 2000
PO Box R745
Royal Exchange NSW 1225
t 02 8247 5333
f 02 9247 7722
www.gulfindustrials.com.au