FIRST AUSTRALIAN RESOURCES LIMITED

ANNUAL REPORT 2009

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"2009 will be heralded as the year in which FAR cemented its footprint along the Central Atlantic Margin of West Africa."

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Chairman's Review

2009 will be heralded as the year in which FAR cemented its footprint along the Central Atlantic Margin of West Africa. Three promising blocks offshore Guinea Bissau were added to our three licences in deepwater Senegal bringing our total gross holdings to 13,322 square kilometres. This acquisition secures rights to the existing Sinapa oil discovery along with several large seismically defined prospects.

Other achievements during the year included the entry of Shell into Senegal; the grant of a Presidential Decree confirming a one year extension of the existing exploration period in Senegal, the sale of our Beibu Gulf interests and recording a profit for the year of $2,142,343.

Importantly for our shareholders, the Sinapa and Esperanca Licences in Guinea Bissau were acquired by FAR assuming existing exploration obligations on a non promoted basis. The Sinapa Oil discovery, located in 30 metres of water, holds much promise and has been determined to have a P50 STOOIP of 240 million barrels. Various low cost development options have been considered for Sinapa including the use of Mobile Offshore Production Units (MOPU) or Dry Trees with fixed platform topsides tied back to an FPSO.

Plans are advanced for a 3D seismic acquisition program commencing late third quarter 2010. The proposed survey is designed to follow up an earlier 200 sq km 3D survey over Sinapa (1997) and a more recent (November 2009) 2D survey. Appraisal drilling could follow as early as 2011 and move the project closer to commerciality.

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

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

FAR has long recognised the potential that exists along the Margin and has an early mover advantage is this exploration play. Recent bid rounds to the south in offshore Liberia were hotly contested and large valuations have been attributed to blocks with potential analogous to FAR as reported in ASX announcements made by African Petroleum Corporation (ASX Code: GFE).

Concurrently, drilling costs for deepwater wells are decreasing. Ophir Energy, who has plans approved to drill adjacent to FAR's Sinapa Licence mid 2010, has reported drilling 5 wells in 86 days in water depths up to 1716 metres. In November 2009 Anadarko reported drilling a well to a depth of 4556 metres in 1876 metres of water off the Ivory Coast in less than 20 days. These statistics enhance the attractiveness of deepwater exploration where large targets remain untested.

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

As a measure of our growing status in West Africa, members of the Africa Industry Forum in Houston recently voted at their 317th gathering to accept FAR into their fold as a full member.

FAR has also accepted an invitation to sponsor a paper at the 2010 AAPG Meeting in New Orleans during April on Evolving Plays within the Senegal portion of the Central Atlantic Margin. The paper is a close collaboration between FAR, Petrosen and Hunt Oil geologists and will be delivered by Dr Igor Effimoff representing FAR. Participation in this activity gains FAR greater exposure to industry for both new and existing opportunities.

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

Whilst embracing this significant shift we will continue to maintain our presence in assets already built up in North America and Australia. In order to allow capital to be focused on the Company's key projects, as foreshadowed in our 2008 Report, the directors of FAR executed a Sale Agreement over the Company's 5% interest in the Beibu Gulf Project in April 2009. Given the staged nature of the sale agreement, FAR will continue closely monitoring the future plans of this development.

Chairman's Review

In 2009, in the face of a global meltdown, FAR undertook measures to shore up its capital and reduce expenditures and consequently we are well placed as we look forward to 2010. Details of our forward program are contained in the Operations Review section of the Annual Report and in presentation material that has been lodged with the ASX and is available on our website.

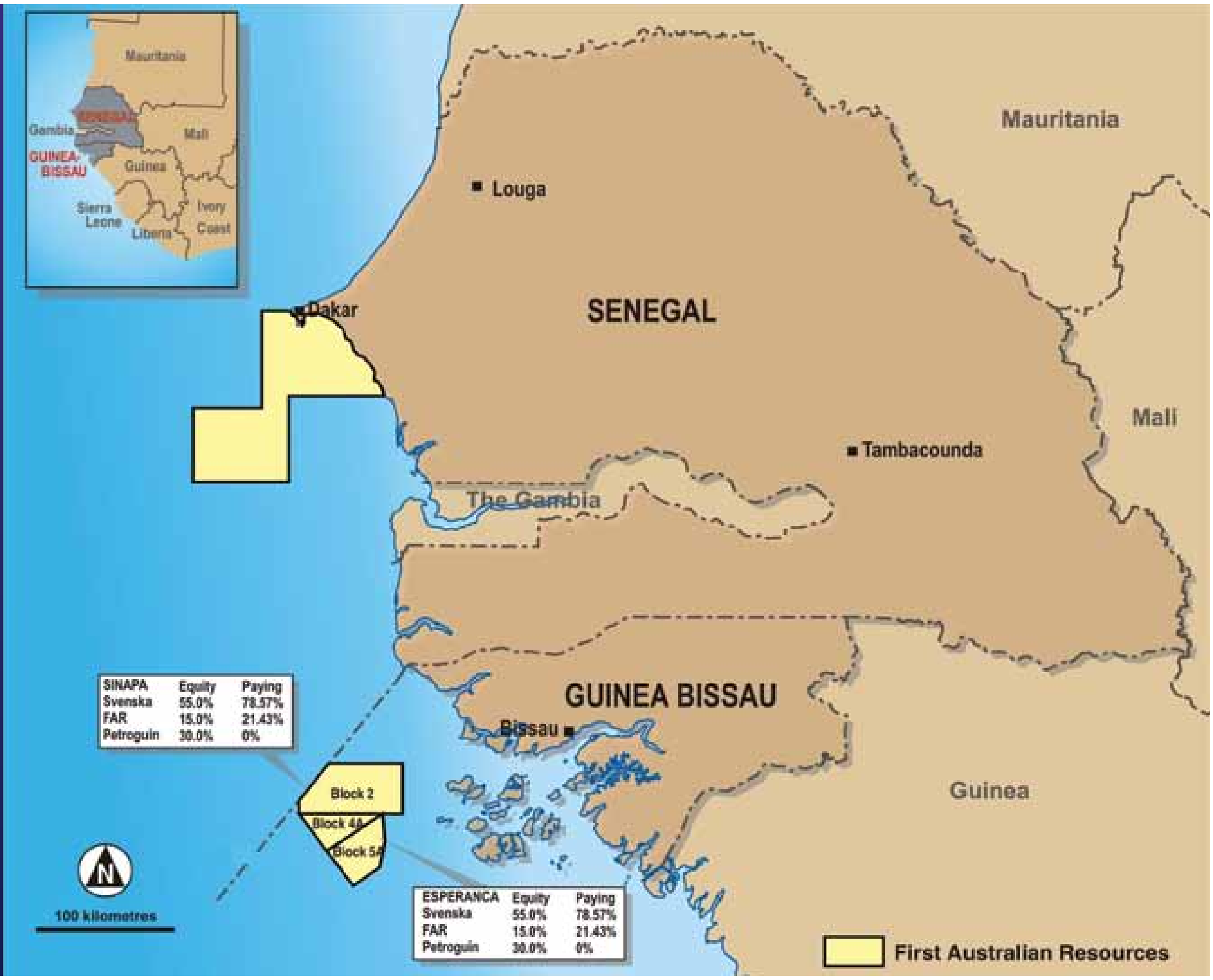
Oil and gas sales revenues in 2009 were $1,293,123 versus $2,673,581 in 2008 reflecting dramatic falls in energy pricing and natural decline in production as FAR preserved capital in its quest for leverage in West Africa. Our plans are to ultimately grow production volumes from our 3D driven drilling inventory.

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

Finally, on behalf of the company, I would very much like to thank shareholders who continue to offer their support. With you, I look forward to the challenge that West Africa presents and remain optimistic that we will experience success in our 2010 program and beyond.

Michael Evans
Chairman

OFFSHORE WEST AFRICA



SENEGAL

RUFISQUE AND SANGOMAR AND SANGOMAR DEEP OFFSHORE BLOCKS (FAR 90%)

OPERATOR: FAR

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

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

Late 2007 the 3D data was processed and interpreted. Several fans and a giant buried hills play have been identified lying adjacent to the Turonian source rock kitchen. A range of probabilistic oil in place (OOIP) estimates for a very large shelf edge closure (up to 178 km2) and multiple fan systems were derived by the previous Operator.

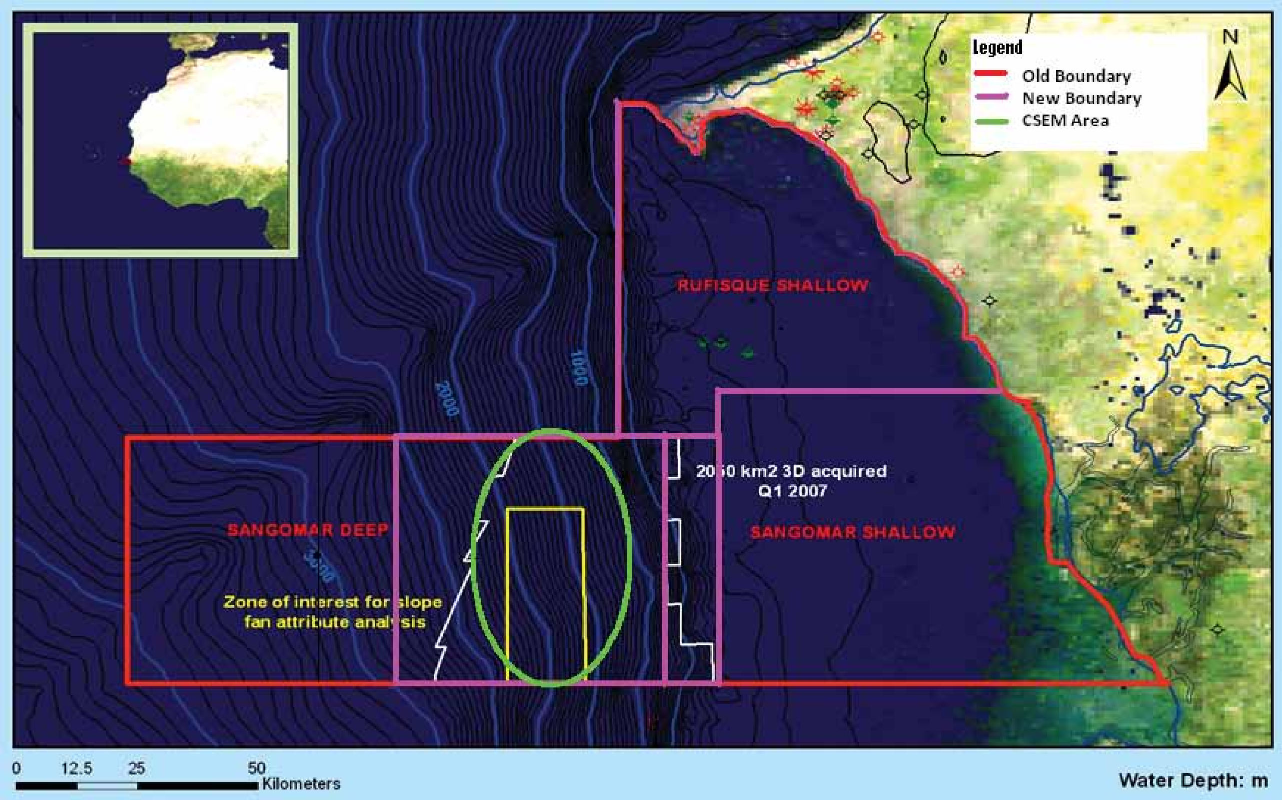
Particular focus has been drawn to analogue fields including Cantarell, recognized as a super giant accumulation being Mexico's and perhaps North America's largest. In pre-rift time Senegal was considered to be adjacent to Mexico before the African and American continents drifted apart

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

SHELF EDGE CLOSURE – POTENTIAL

	OOIP	Area	Net Pay	Ø	K
	MMBO	Acres	FT	%	mD
P90	40	4,000	16	3.6	50
Mean	1128	22,925	172	7	1000
P10	3082	54,550	452	10	10000

Operations Review



Senegal

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

SANTONIAN AGE FAN – SINGLE FAN/SINGLE RESERVOIR POTENTIAL

	OOIP	Area	Net Pay	Ø	K
	MMBO	Acres	FT	%	mD
P90	5	400	15	8	50
Mean	183	3855	102	17	200
P10	516	10,000	222	25	1000

The northwest African margin is relatively under-explored, but hosts numerous sizeable, and intriguing discoveries including Chinguetti and Tioff discoveries in adjacent Mauritania.

During 2008 the Joint Venture commenced an active marketing program to bring in drilling partners from the super majors and national oil companies pursuing large oil pools offshore West Africa much as Hardman Resources did several years earlier in nearby Mauritania.

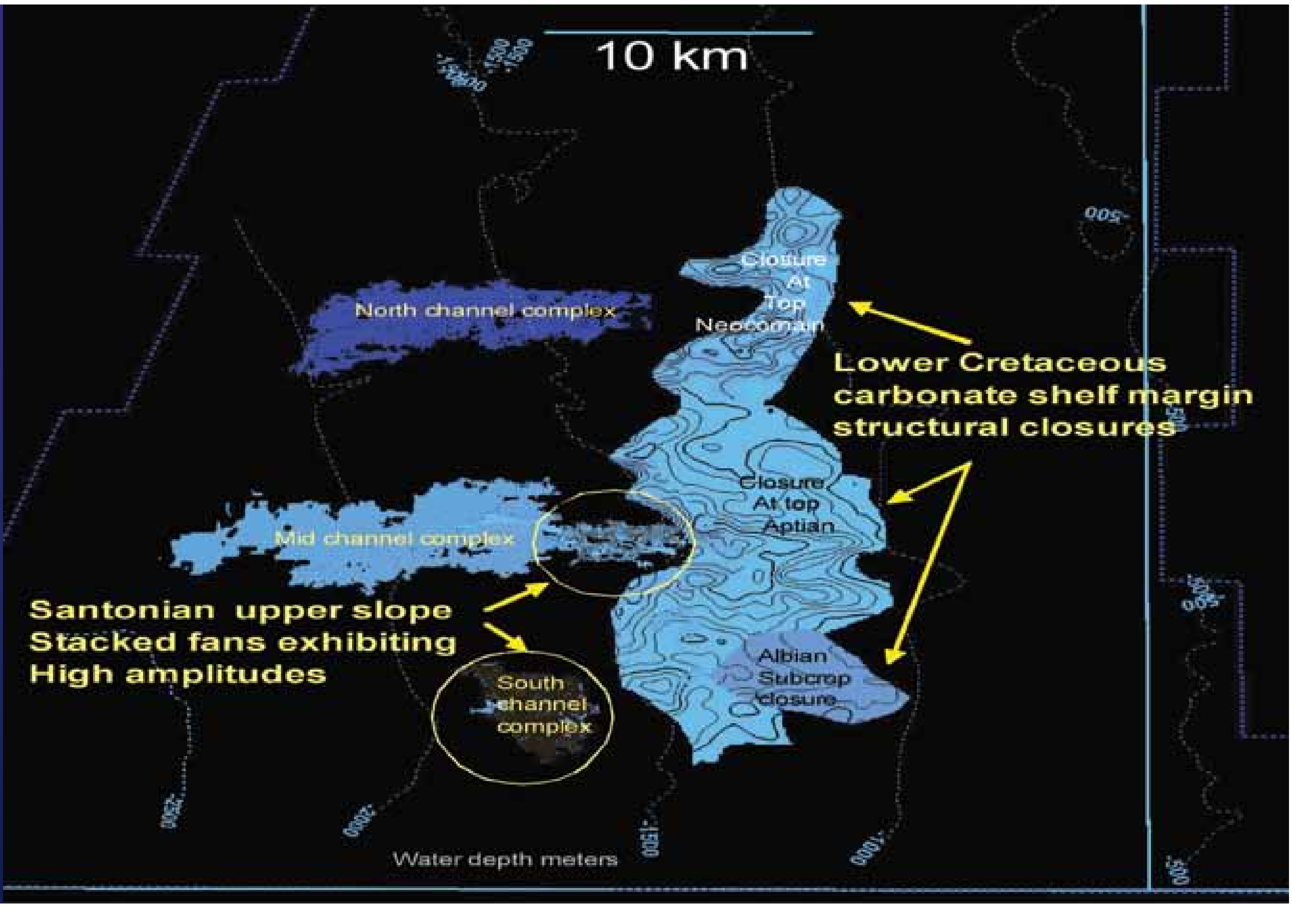
The marketing campaign was temporarily interrupted while a one year extension of the licence to 22 November 2009 was sought and granted. Concurrent with this process FAR increased its interest to 90 percent and assumed the position as Operator of the blocks.

During March 2009, FAR executed an Agreement with Shell Exploration Company B.V. (Shell) to fund a CSEM Data Acquisition and Geophysical Evaluation Programme over part of the Licence Area, the objective of which was to enable Shell to determine whether or not to exercise an Option to acquire a 70 percent interest in the block and enter the second renewal period that includes a well commitment.

The results of the CSEM study were inconclusive and in August 2009 Shell advised its intention not to exercise its Option.

Following Shell's decision FAR sought and was granted an extension to the Licences of one year until 23 November 2010 and immediately commenced marketing the Licence area to other potential farminees seeking an exploration carry through one or more wells.

CSEM study



FAR has provided data packages to several large international exploration and production companies, certain of whom approached FAR following the Shell decision. The potential farminee group includes companies with existing operations and/or production in West Africa's deep water play. Detailed technical reviews are ongoing. As was the case in the previous farmout round this process may take several months while companies undertake technical due diligence.

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

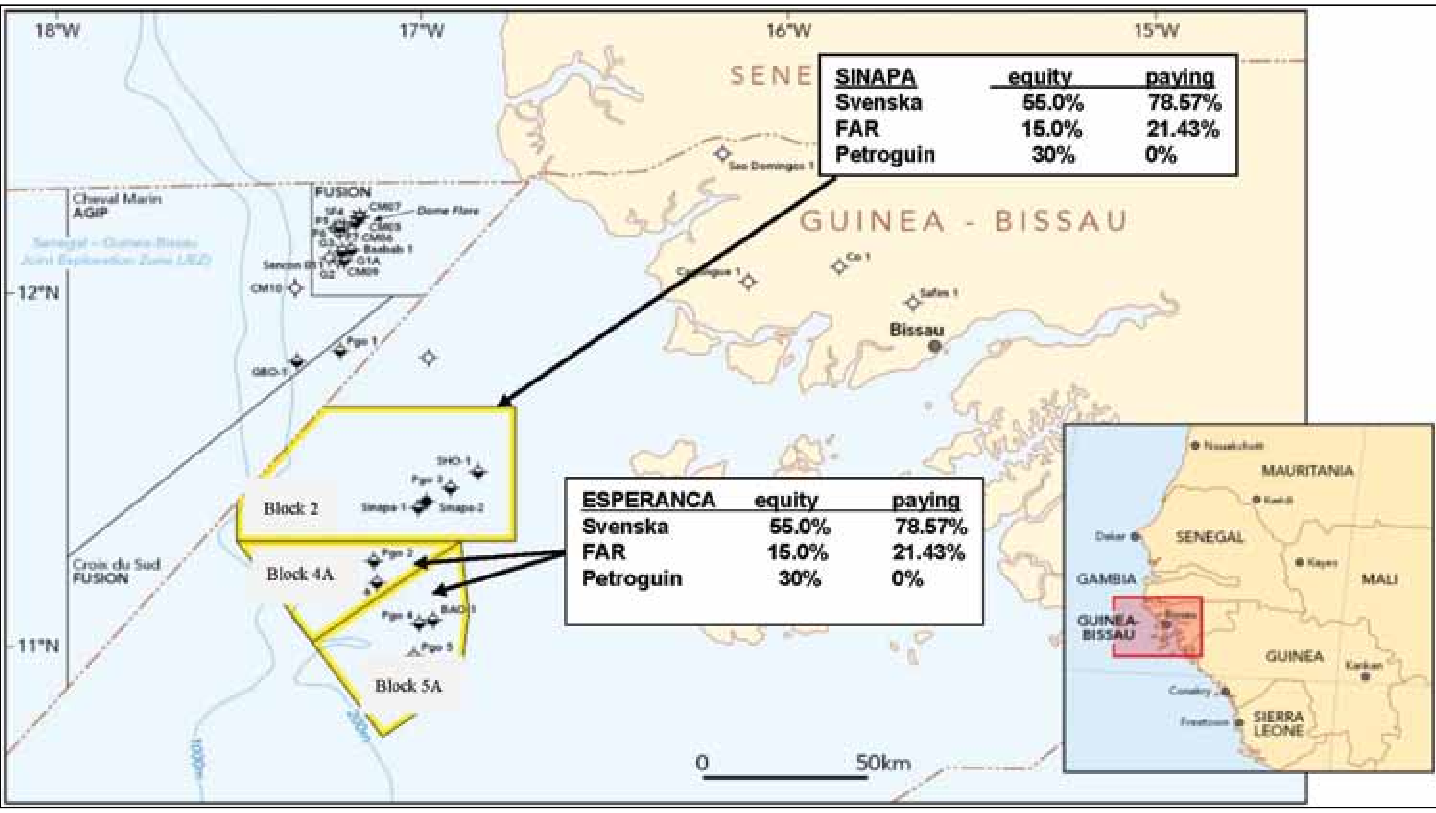
Significant progress has also been made in reducing the time and therefore cost to drill exploration wells in the deep water of West Africa. In a paper presented at the 16th Africa Oil Week Conference during November 2009, Ophir Energy reported having drilled 5 wells in 86 days in water depths up to 1,716 metres. In November 2009 Anadarko reported drilling a well to a depth of 4,556 metres in 1,876 metres of water off the Ivory Coast in less than 20 days.

The forgoing activity is significant in that it improves the likelihood for enhanced activity offshore Senegal where FAR is strategically positioned.

FAR is the only ASX listed entity exploring offshore Senegal. The magnitude of prospects and leads identified to date provides significant leverage to any future exploration success.

Under the terms of the licence granted by Senegal a decision to enter into the drilling phase is due during late September 2010 unless otherwise extended.

Operations Review



GUINEA BISSAU

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

(FAR 15%)

OPERATOR: SVENSKA

In December, the Company reached agreement with Delek International Energy Ltd (Delek) to acquire a 15 percent participating interest in three Licenses located offshore Guinea Bissau, a nation which lies immediately south of Senegal. The agreement is subject to approval by Petroguin, the National Oil Company, of Guinea Bissau and the Minister of the Republic of Guinea Bissau.

The entry into these blocks expands FAR's footprint offshore West Africa and provides excellent synergy with the Company's offshore Senegal blocks.

GUINEA BISSAU EXPLORATION OPPORTUNITY

A shallow water play with large hydrocarbon potential in the Guinea Bissau portion of the productive Mauritania-Senegal-Guinea Bissau-Conakry Basin. There are large closures identified in Albian aged prospects located adjacent to a prolific Cenomanian Turonian oil kitchen. The area remains lightly explored, however, of the wells drilled to date nearly all have recorded live oil shows and one tested oil.

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

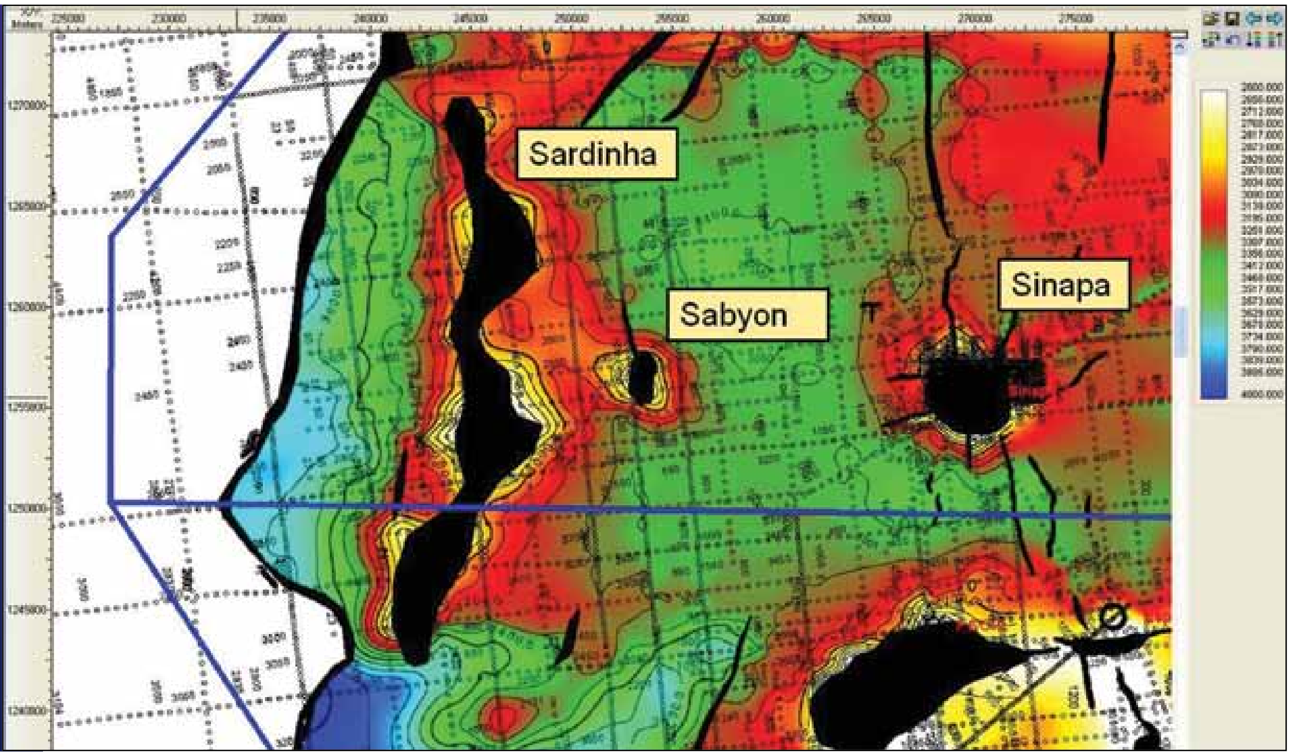
The Sinapa and Esperanca offshore licences cover an area of approximately 5,832 sq km and lie in water depths ranging from 10 metres to in excess of 1,000 metres. Immediately to the north lies the billion barrel Dome Flore discovery. The Licences being acquired are Sinapa (Block 2) and Esperanca (Blocks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

The Licences are currently in Phase 2 of the exploration term, which was recently extended by Gazetted Decree for one year to 25 November 2010. A further optional four year Phase 2 exploration period has a work commitment that includes a single exploration well.

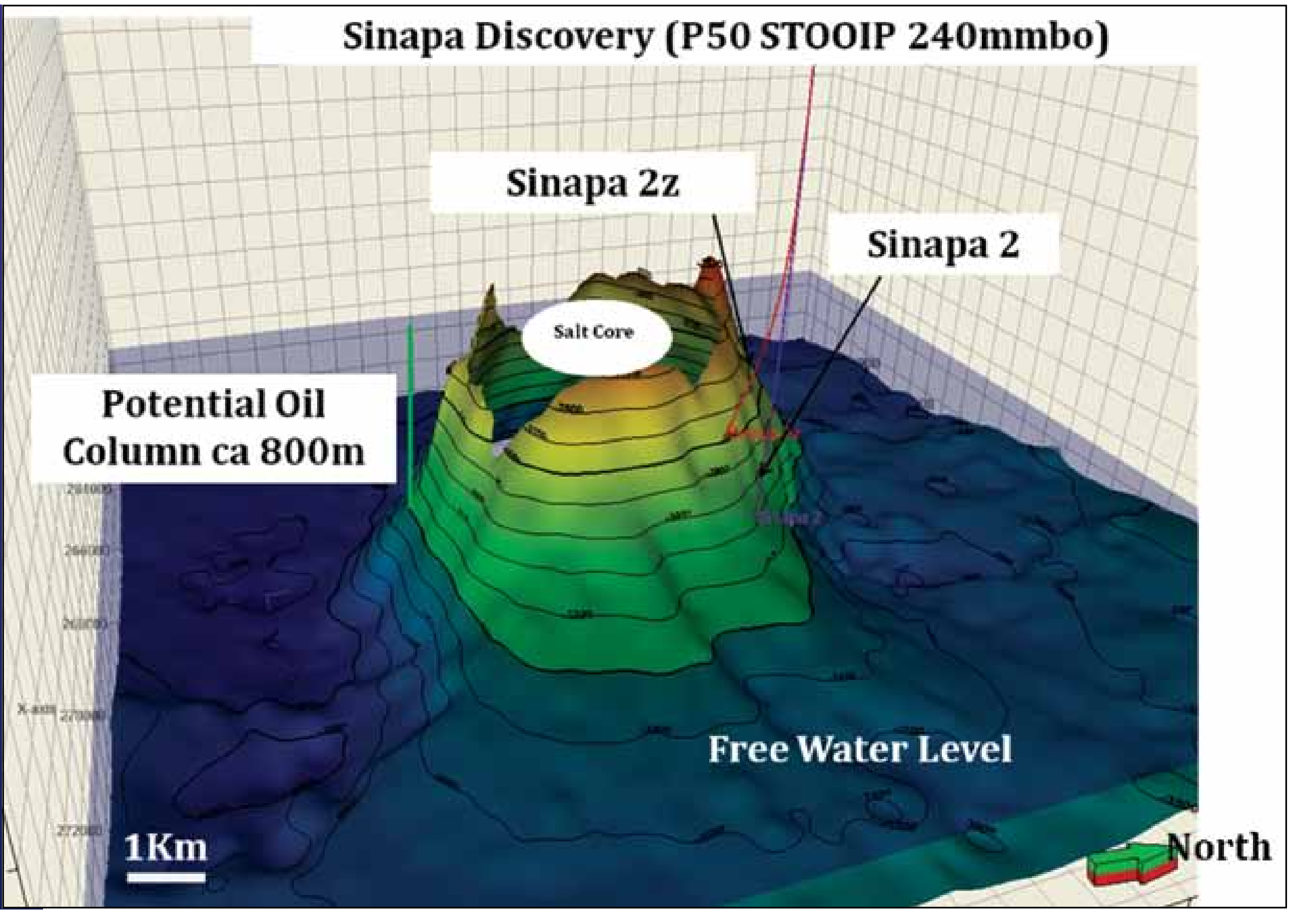
FAR will partner with the operator, Svenska Petroleum Exploration Guinea Bissau AB (Svenska), in evaluating this opportunity, by assuming the exploration obligations of Delek for the year 2009 capped at US$600,000 plus forward obligations arising from the date of the agreement. In the event of commercial production Delek is entitled to recover past costs capped at US$13 million.

Plans are advanced for a 3D seismic acquisition program commencing late third quarter 2010. The proposed survey

Guinea Bissau Prospects and Leads



Sinapa Discovery



Operations Review

is designed to follow up an earlier 200 sq km 3D survey over Sinapa (1997) and a more recent (November 2009) 2D survey. Appraisal drilling could follow as early as 2011 and move the Sinapa oil discovery closer to commerciality.

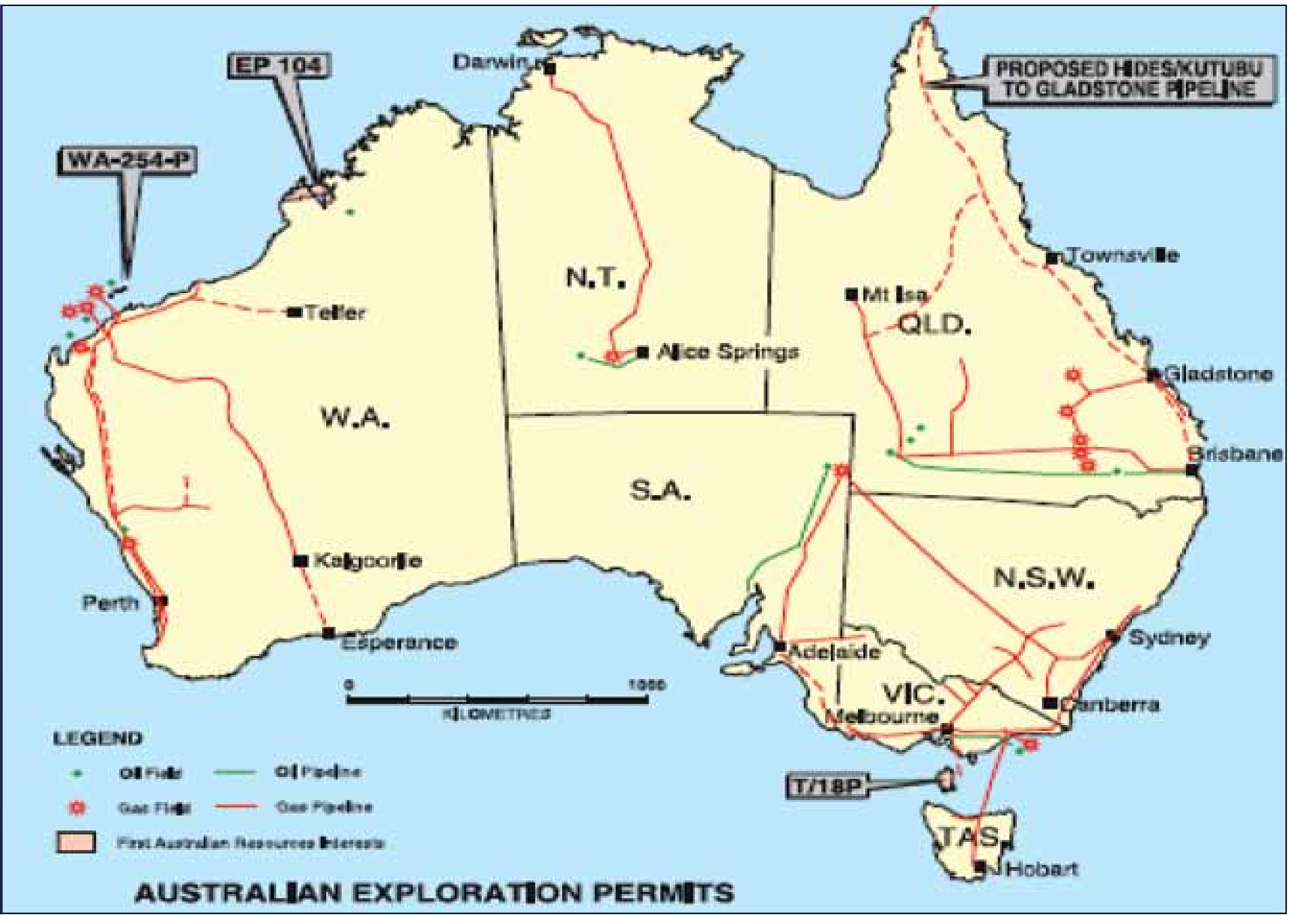
SINAPA OIL DISCOVERY

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

During December 2009 Svenska reported acquiring some 250 kms of long offset 2D seismic the purpose of which is to improve data quality over the Sinapa discovery as well as over several undrilled prospects in the blocks.

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

Operations Review



AUSTRALIA

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

OPERATOR: APACHE

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

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

During the year FAR continued with Victoria Petroleum (VPE) and Sun Resources (SUR) an equity divestment program designed to market a significant interest (29.8 percent) in the Sage Oilfield.

The permit prospect and lead inventory comprises Duomonte, Dr Zeus, Janus 2, Helly Belly, Jayasuriya and Little Joe. Ongoing work by Apache has been directed towards maturing the first three mentioned prospects for drilling.

The Operator continues interpretation of the deeper stratigraphic levels in the permit from reprocessed 3D seismic data.

Studies continue over the Sage Oilfield. The Sage structural trap was tested by Sage 1 in 1999 and flowed 2,155 barrels of 48 degree API oil per day. The Operator continues to monitor technological advances that may lead to smaller discoveries like Sage being developed.

WA-254-P was renewed on the 12 June 2006 for a further term of five years.

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

WEST KORA APPLICATION – CANNING BASIN (FAR 12%)

OPERATOR: BURU ENERGY LTD

EP 104 occupies an area of 740 sq km. The permit was renewed for a term of five years with effect from 4 April 2005. Retention Lease R1 occupies an area of 250 sq km and was awarded on 29 August 2003.

These tenements plus the West Kora Application contain the original Point Torment gas discovery and the West Kora oil discovery both of which are currently shut in.

Operations Review

In February 2010 the Joint Venture sought an extension of the term of EP104 for a further 2 years and concurrently offered to surrender four of the nine graticular blocks making up the permit. A formal response is pending.

Testing of the Stokes Bay-1 well was completed during 2008. The well was drilled by the Joint Venture in 2007 in the EP104/R1 Permits located in the Canning Basin, near the town of Derby, in Western Australia.

The testing was an attempt to provide a positive test of the reservoir fluid and character and flow capacity of the cavernous reef system in the Nullara Formation encountered by the Stokes Bay-1 well and the extent of the reservoir parameters. With large mud losses in the Stokes Bay-1 well, the reservoir potential and fluid character was not positively defined during the 2007 drilling program.

The 2008 testing programme was inconclusive and early 2010 the Joint Venture resolved to undertake a study to identify an effective way to perform a definitive test of Stokes Bay -1. The Study is currently in progress.

WEST KORA

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

During February 2010 the Minister for Mines and Petroleum advised that the above Application would be granted for a term of 21 years subject to certain conditions. The applicants have resolved to accept the Licence offer.

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

OPERATOR: ORIGIN

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

As a royalty holder, First Australian Resources Limited does not receive information on activities within the block and relies on public domain information.

During 2004 a new wildcat discovery was declared on the Trefoil Prospect. According to reports lodged with the ASX by AWE, a significant volume of gas has now been proven at Trefoil. The most likely “in-place” resource has been reported to lie in the range of 200 to 300 billion cubic feet of gas and 14 to 21 million barrels of liquids.

The Trefoil-2 appraisal well, which was drilled in T18/P in Q4 2009, was reported by the operator as having intersected several gas-bearing sandstones. On 4 January 2010, the operator Origin Energy Limited announced that the Rockhopper-1 exploration well in T18/P had been confirmed as a new field oil and gas discovery. Further work is required to determine commerciality.

ASX reports also state the nearby Yolla field has been designed to allow the easy tie-in of Trefoil. The White Ibis gas and condensate field (also within T18P) is a potential “add on” in an overall development. Several exploration prospects within T18P have also reportedly been upgraded.

The most likely development scenario is to tie Trefoil into production facilities at the Yolla platform, where capacity exists to transport an additional 10Bcf of gas per annum to the gas treatment facilities. As a royalty holder FAR would be free carried in any development.

Gas production could begin during this decade providing the Bass Gas partners with differing equities across the two permits can reach agreement.

A standalone development for gas reserves in T/18P to produce up to 28Pj of gas per annum is also possible; however this would require a long period of planning and financing.

The royalty interest was created by a Deed of Assignment and Grant of Royalty dated 19 March 1986 made between First Australian Resources NL et al and Amoco Australia Petroleum Company (“Amoco”) and South Australian Oil & Gas Corporation Pty Limited (“SAOG”) pursuant to which a participating interest in T18P was assigned in exchange for an over-riding royalty interest.

The Deed establishing the royalty interest was registered by the relevant authority under the Petroleum (Submerged Lands) Act on 23 March 1986. The overriding royalty is based on a share of gross production net of Government royalty and resource rent tax.

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

Operations Review

CHINA

BEIBU GULF BLOCK 22/12

OPERATOR: ROC

In order to allow capital to be focused on the Company's key projects, the directors of FAR resolved to pursue a sale of the Company's 5% interest in the Beibu Gulf Project and executed a Sale Agreement in April 2009.

The sale price of US$8 million is payable in three tranches

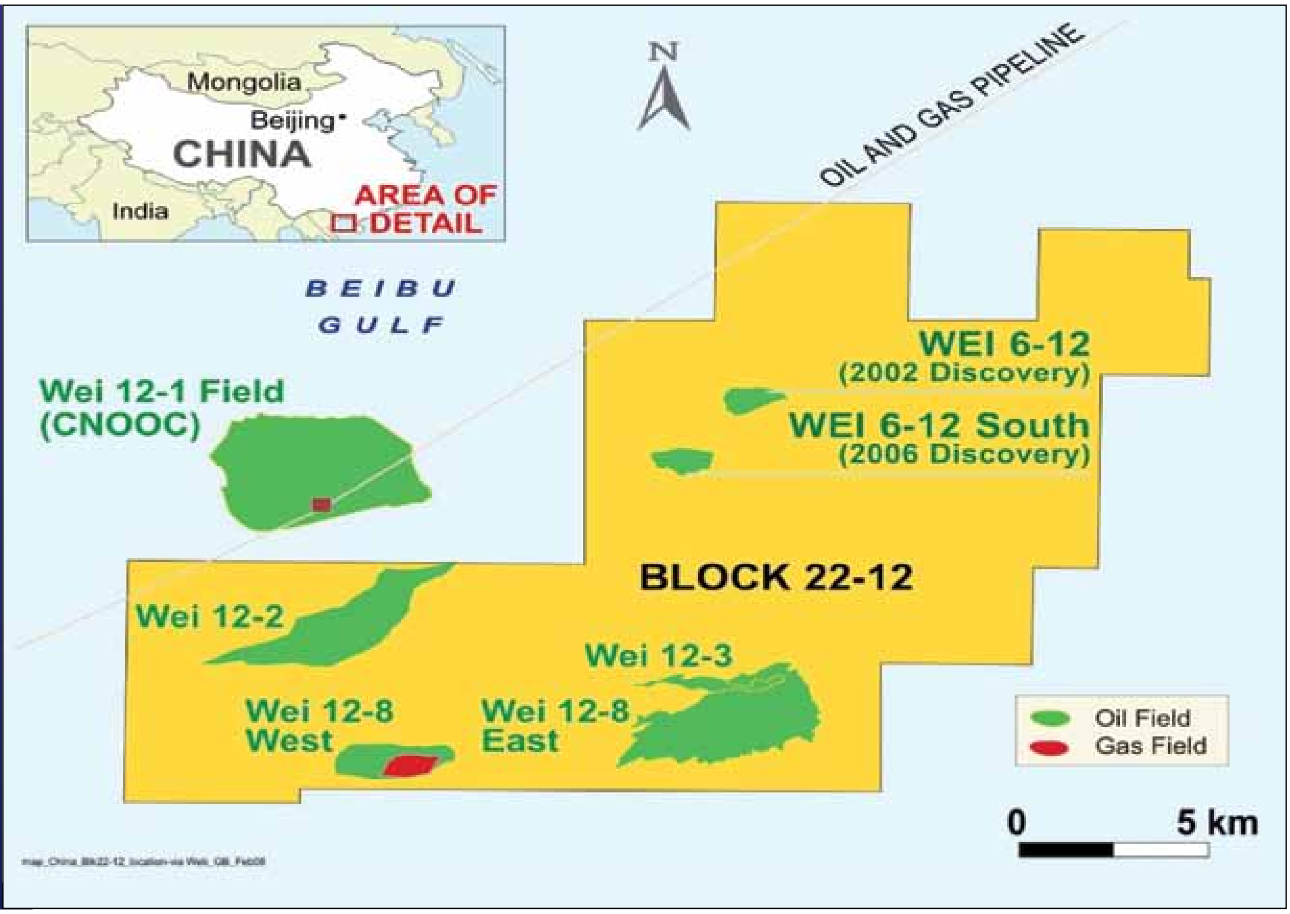
1. US$2 million was received during April 2009.
2. US$3 million upon approval of an Oilfield Development Program ("ODP") or if commercial development of the project proceeds.
3. US$3 million once the project has produced 1 million barrels of oil (gross).

Given the staged nature of the sale agreement, FAR will continue closely monitoring the future plans for the development of the Wei 6-12, Wei 6-12S, and Wei 12-8 Oil Fields.

Recent reports to the ASX from participants in the Joint Venture state that a CNOOC approved ODP is expected to be lodged during Q2 2010.

Block 22/12 is situated approximately 60 km off the coast of China, northwest of Hainan Island.

China



NORTH AMERICA

The 2009 year saw a continuation of subdued North American natural gas prices caused not only by economic factors but also the impact of non conventional energy in the form of coal bed methane and shale gas.

As a result, FAR has adopted a conservative strategy of limiting expenditures to the maintenance of current production whilst continuing to seek partners to carry FAR on expenditures in exploration programs in NE Waller, Texas and Wild River, Alberta. This is consistent with earlier policies designed to leverage off 3D seismic programs undertaken in earlier periods.

Oil sales during the year were 9,015 barrels (2008 – 12,240 barrels) for an average of 25 barrels per day at an average price of US$58.01 per barrel (2008 - US$101.92 per barrel) before production taxes. Gas sales during the year were 120.3 million cubic feet (2008 - 139.4 million cubic feet) or an average of 330 thousand cubic feet per day at an average

Operations Review

price of US$4.09 per thousand cubic feet (2008 - US$8.93 per thousand cubic feet) before production taxes.

Production volumes represented natural decline as no new drilling was undertaken. Revenues were impacted by significant falls in the prices fetched for both oil and gas.

Lake Long Field, Lafourche Parish, South Louisiana (varying %)

Operator: Kriti Exploration Inc

S.L. 328 #9 well, (FAR 10.1875%) Lake Long, South Louisiana

The #9 well has been on production since September 2007 and has produced continuously during 2009 with a gross average rate of 3.04mmscgd gas and 24bopd during December 2009.

The Upper Hollywood Sands (where 13 feet of additional net pay has been logged) will be produced at a later date.

S.L. 328 #28 ST well, (FAR 31.375% (14 Sand) and 1.375% (Shallow sands)

After detailed analysis of risk versus reward using sharply revised oil pricing applied to the primary target FAR elected not to participate in this well.

Kriti S.L. 328 #10 (Formerly Palace S.L. 328 #1)

On 30 January 2009 the above well loaded up and died. A wire line run in the well indicated sand had partly invaded the well bore covering some or all of the perforations. Kriti took over operations from Palace and based on an independent estimate of remaining reserves (157MMCFG + 138MBO) recommended a work over.

FAR elected to participate in the work over and increased its working interest from 4.09375 percent to 7.1663 percent. Subsequent to the end of the first quarter, sand in the well was cleaned up using a coiled tubing unit and production in the well restored.

All working interests at Lake Long are subject to State and other minor royalties. The Lake Long Field is operated by Kriti Exploration Inc.

South Grosse Tete Project, Iberville Parish, South Louisiana. (0-14,500 feet 5%) (>14,500 feet 17.7%)

Operator: Spartan Operating Company

The geological data provided by the Schwing 002 well have generated an offset prospect at Upper and Lower Nodosaria levels which the Operator has advised plans to drill. Following a risk review FAR has elected not to participate in any further wells and has withdrawn from the project.

NE Waller, Onshore US Gulf Coast (FAR 34%)

Operator: Ayco

FAR and partners recorded a 42 square mile proprietary 3D survey in 2007 to evaluate a lightly explored area in northwest Harris and adjacent Waller counties, Texas. The area is on trend with significant Yegua and Wilcox production. Evaluation of this data set aided by purchased 2D seismic data has resulted in the identification of two potentially large prospects in the underlying Cretaceous section, Kickapoo Creek Prospect and Spring Creek Prospect.

These prospects are associated with Cretaceous shelf margin development. A substantial leasehold has been assembled on both Spring Creek and Kickapoo Creek prospects and a participant is being sought to earn an interest in both or either prospect by payment of a finder's fee and drilling and completing a test well under mutually agreeable terms.

Kickapoo Creek Prospect

Interpretation of 3D seismic data has delineated an untested channelized depositional system of approximately 4,000 acres in size. This feature is located at the basinward edge of the Lower Cretaceous shelf margin. The updip channelized system has two erosional feeder channels that coalesce downdip into a depositional fan morphology. Seismic events display strong amplitudes and AVO effect. A 20,500' well is required to evaluate this prospect.

Spring Creek Prospect:

An untested 4- way dipping anticlinal structure approaching 900 acres in size has been delineated. This feature is a promontory located at the edge of a shelf margin adjacent to a paleotopographic slope. The depositional setting and morphology of the anticline is suggestive of a shoal or possibly a reef development. A well of 17,500' depth will be required to test this feature.

Dependent upon farmout, these drill targets may form part of FAR's 2010 drilling program. Prospects are being farmed down to reduce risk and cover costs and others may be drilled at existing working interest levels.

The Operator, AYCO, has a successful track record of generating prospects and driving 3D programs in the Gulf Coast area. Importantly this early entry and significant equity in the program will enable FAR to farm out certain of the future drilling risk on favourable terms, should it so desire.

Eagle Project, San Joaquin Basin, California. (FAR 15%)

During Q3 2009 FAR received advice that Vicpet USA had been sold to R&M Oil and Gas, an entity controlled by Tim Hoops a US based geologist.

Operations Review

Following this change FAR agreed to a proposal put forward by the new operator of the Eagle project to participate in a 3D seismic survey over the prospect area. The objective of the survey is to determine the potential for shale resource plays within the prospect area by tying into the Zodiac Jaguar 3D shoot to the south. For various logistical reasons this now looks unlikely and the 3D work over Eagle may be deferred to April 2010.

FAR has also agreed to a new study that will focus on these emerging shale resource plays in the Eagle prospect area. In 2007 the USGS released a comprehensive study on the oil generating capacity of the shales in this part of the San Joaquin. The Eagle group will now look at this study in detail and apply the information to the data at Eagle. This USGS study was a prime selling point in getting the adjacent, 80,000 acre, Jaguar prospect sold. The Jaguar play is a shale resource play and is estimated in third party reports to contain up to 250 million barrels.

The study will help determine if oil is trapped in the shales in the Eagle area. Based on the log analysis already done at Eagle North, there appears strong evidence for oil in the Monterey. The Eagle Study Group will study that log show and see if any other wells exhibit this same character and then determine what reserves might be contained in these targets.

The Eagle Oil Pool remains a valid target given the established presence of oil in the target zone over 177 metres of horizontal extent, coupled with the known ability to flow oil and gas to surface from this zone from the nearby Mary Bellocchi-1 vertical well (223 barrels of oil per day and 0.7 million cubic feet per day flow from a 12 metre interval of lower Mary Bellocchi sand).

CANADA

Wild River Project, Alberta, Canada (FAR 29.12%)

Operator: Suncor

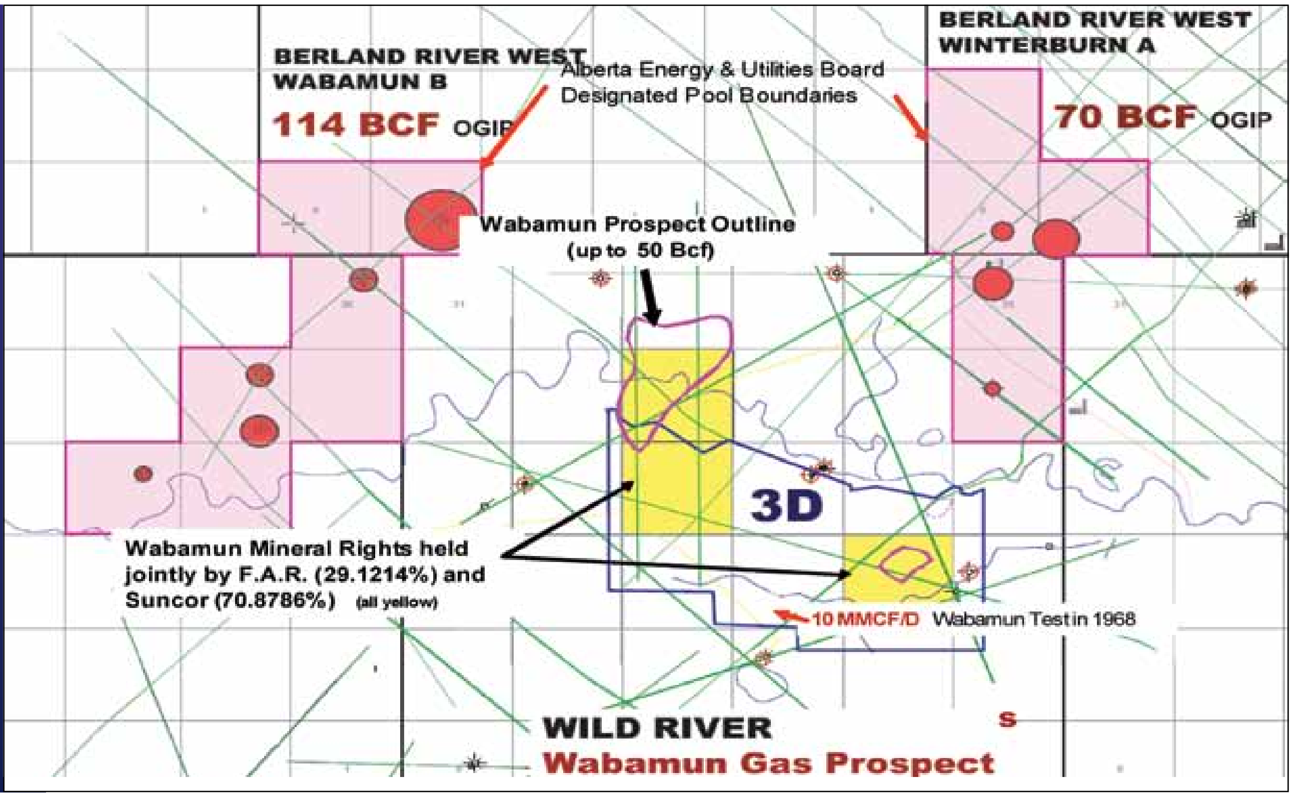
Following completion of processing of a 3D seismic survey acquired during 2007 FAR, with Suncor, commenced a marketing campaign during 2008 to locate partners for the drilling of a significant Wabamun drilling prospect with potential up to 50BCF which lies within 4.5 km of existing infrastructure and in proximity to a well that tested 10 million cubic feet of gas per day.

During 2009 activity on this project was adversely affected following a merger between Suncor and PetroCanada which saw a number of key personnel changes.

FAR has initiated correspondence to redress this position particularly in light of the fact that current acreage over parts of the Wild River Area is due to expire in March 2010.

FAR's interest in the venture is determined on an expenditure equalisation formula that has been determined at 29.12 percent.

Wild River Prospects



Operations Review

RESERVE SUMMARY

An assessment of estimated recoverable reserves effective 31 December 2009 based on existing discoveries provided by various sources is set out below. Coutret and Associates are independent USA based petroleum engineers. Other estimates are those published by Operators, Joint Venture participants or industry analysts.

COUNTRY		OIL (Barrels)	GAS (Billion cubic feet)	SOURCE OF DATA
USA	Gross	643 320	13.72	Coutret and Associates
Multiple Properties	Net (various)	40 997	0.64	
AUSTRALIA				
(Sage Oilfield)	Gross	3 000 000 – 5 000 000		Internal JV papers
	Net (11.25%)	337 500 – 562 500		
(Trefoil/White Ibis)	Gross	23 000 000	300.0	Strachan Corporate Pty Ltd
	Net (0.09375% ORRI)	64 686	0.84	(note: ORRI converted to rule of thumb working interest on 3:1 basis)
GUINEA BISSAU				
Sinapa	Gross	40 000 000 – 59 000 000		Based on operator estimate of potential recovery from 240 MMBO STOOIP and subject to further appraisal drilling
	Net (15%)	6 000 000 – 8 850 000		
TOTAL	Gross	66 643 320 - 87 643 320	313.72	
	Net	6 443 183 - 9 518 183	1.48	

Notes:

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

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

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

The acquisition of Guinea Bissau is subject to approval by Petroguin, the National Oil Company of Guinea Bissau and the Minister of the Republic of Guinea Bissau.

Permit Listing

Permit/Well/Lease	County/Basin	Area Gross Acres	FAR Interest % Working	FAR Interest % Net Revenue	
United States Of America					
Texas					
Loveless Langford 3HT	Hardeman	80	18.25	13.0416	
Bligh Loveless E #1	Hardeman	80	16.25	12.1875	
	Hardeman	80	Royalty	0.3021	
Bligh Loveless F	Hardeman	80	11.375	8.8547	
Bligh Loveless G	Hardeman	80	15.2917	SWD	
Trio Loveless I #1	Hardeman	125	20.00	15.00	undeveloped
JD McClellan #1,2	Hardeman	165	20.8203	16.1194	
Corda Joe McClellan #1	Hardeman	40	4.7694	3.6584	BPO
			7.0413	5.401	APO
Mulkey A #1-B	Hardeman	40	12.7969	9.5977	
Trio Parker #1	Hardeman	80	16.7677	12.8158	
Trio-Crawford Drieschner	Wilbarger	80	24.7509	18.3075	
Trio-Crawford Drieschner	Wilbarger	80	Royalty	0.5455	
Thompson-Sawyer Library	Hardeman	80	25.9103	19.6918	
Bligh Wofford Unit	Hardeman	60	15.75	11.8125	
Sitta “A”	Hardeman	40	5.5173	4.2069	
Phillips Grange D-1	Hardeman	40	11.25	8.6906	
Pursley Grange #1	Hardeman	40	2.10	1.6328	
BB Thrash #3	Hardeman	80	5.1383	3.751	
Barnes #2	Lipscomb	646	20.00	16.00	
Lindsey Trust 109 A-1	Dawson	440	4.64	3.5726	
Talkington #1	Dawson	160	6.6667	5.1339	
Rainosek #1	Lavacca	640	21.5766	16.1658	
Rainosek #3	Lavacca	640	20.00	15.00	
Bujnoch #1	Lavacca	640	20.00	15.20	
Vaquero #1	Victoria	320	9.00	6.6877	
Vaquero #2	Victoria	320	9.00	6.21	
NE Waller	Waller	14 454	34.00	25.50	undeveloped
Louisiana					
Pecan Lake Field					
Miami Corp. #2	Cameron	1 280	Royalty	0.7089	
Miami Corp. #2D	Cameron	1 280	Royalty	0.7089	
Miami Corp. #3	Cameron	1 280	Royalty	0.4431	
Miami Corp. #3D (Cutler)	Cameron	1 280	Royalty	0.4431	
Miami Corp #5	Cameron	1 280	Royalty	0.0071	undeveloped
Miami Corp #6	Cameron	1 280	5.3167	4.0472	undeveloped
Ada Field					
Youngblood #1D	Bienville		6.75	4.9894	
Johnson #1 Alt	Bienville	160	10.41	7.7625	
Hooks #1Alt	Bienville	160	5.8524	4.4806	
Canterbury #1Alt	Bienville	160	12.00	9.1873	
Clear Branch					
Terry Ewing No 1	Jackson	425	9.375	0.69375	
Ivan Field					
Gray RA SUN:USA	Bossier	720	1.65	APO	
Kitchens #1	Bossier	720	11.125	7.8242	
			Royalty	0.1953	
Placid #1	Bossier		12.2587	8.7476	
S. Lake Raccourci					
SL 3258 #1	Lafourche	3 200	5.2238	4.3056	

Permit Listing

Permit/Well/Lease	County/Basin	Area Gross Acres	FAR Interest % Working	Net Revenue	
Lake Long					
SL 328 well No.1	Lafourche	1 325	4.09375	2.9066	
SL 328 well No.6	Lafourche	1 325	31.375	23.0899	
SL 328 well No.7	Lafourche	1 325	16.375	12.408	
SL 328 well No.2ST	Lafourche	1 325	12.625	9.4496	
SL 328 well No.27	Lafourche	1 325	1.375	1.1246	
SL 328 well No.30	Lafourche	1 325	1.375	1.1246	
SL 328 well No.28	Lafourche	1 325	1.375	1.136	
SL 328 well No.8	Lafourche	1 325	1.375	1.1246	
SL 328 well No.9	Lafourche	1 325	10.1875	7.2941	
Isle St. Jean Charles					
Dupont 38 #1	Terrebone	364	5.4072	4.1958	
Dupont 38 #1D	Terrebone	364	5.4072	4.174	
South Grosse Tete					
Schwing	Iberville	1 360	19.30	13.725	BPO
					undeveloped
Kicker					
Marceaux #1	Vermilion	1 017	5.00	3.25	BPO
					undeveloped
California					
Eagle	Kings	4 360	15.00	11.7	undeveloped
Wyoming/Montana					
Lund #1 /Plentywood	Sheridan	10 800	2.08		undeveloped
Indian Tree Unit-Lois	Campbell	600	Royalty	0.0615	
Indian Tree Unit 6A	Campbell	600	0.4591	0.4027	
Canada					
Kakwa	Alberta	640	15.00	completion	AMI
Clear Hills	Alberta	4 480	15.00	completion	AMI
Wild River	Alberta	1 920	29.1214	earning	undeveloped
China	Beibu Gulf	20 287	5.00	CNOOC Back-in (51%)	
Australia					
WA-254-P	Offshore Carnarvon	80 028	10.7143		
EP 104	Canning Basin	1 160 406	8.00		
T/18 P	Bass Basin	967 000	0.0938	Royalty	
Senegal					
Sangomar-Rufisque	MSGB Basin	1 851 059	90.00		
Guinea Bissau					
Sinapa/ Esperanca	MSGBC Basin	1 441 119	15.00		

Notes:

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

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

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

(IV) The acquisition of Guinea Bissau is subject to approval by Petroguin, the National Oil Company of Guinea Bissau and the Minister of the Republic of Guinea Bissau.

Corporate Governance Statement

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

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

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

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

Principle 1

Lay solid foundations for management and oversight.

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

Role of the Board

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

Evaluation of Executive Performance

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

Principle 2

Structure the Board to add value.

Board Composition

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

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

- There is an inherent acceptance by investors that Mr. Evans was responsible for founding the Company and establishing FAR's United States Office and US operations that provide the oil and gas sales revenue stream of the group.
- Mr. Evans status within FAR has been a key component to establishing deal flow and the quality of projects being offered.

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

- Established clear protocols for handling conflicts of interest.
- Provided the opportunity for the non executive Directors to meet without any executive present on an annual basis on the day of the AGM and encouraged discussion between non executive directors at any other time as required.
- Established an undertaking to review this position should the Company achieve a market capitalisation exceeding $100 million.

Corporate Governance Statement

Director's Independence

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

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

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

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

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

Meetings

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

Board Committees

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

Nomination Committee

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

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

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

Performance Evaluation

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

Corporate Governance Statement

Principle 3

Promote Ethical and responsible decision making

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

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

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

Principle 4

Safeguard integrity in financial reporting

Audit Committee

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

- The Chief Financial Officer is required to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operating results and are in accordance with relevant accounting standards.
- The Chief Financial Officer is formally qualified in the field of financial reporting and is a member of the Institute of Chartered Accountants of Scotland.
- Personnel responsible for generating financial reports within the group must hold appropriate tertiary qualifications in the field of accounting and finance and are required to undertake continuing professional education.
- A policy has been adopted to constitute a formal audit committee upon the group reaching a market capitalisation of $100 million or upon reaching annual sales exceeding A$10 million.

Principle 5

Make timely and balanced disclosure

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

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

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

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

Corporate Governance Statement

Principle 6

Respect the rights of shareholders

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

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

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

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

Principle 7

Recognise and manage risk

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

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

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

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

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

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

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

Corporate Governance Statement

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

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

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

Principle 8

Remunerate fairly and responsibly

Remuneration Policy

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

Disclosure of Remuneration

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

Remuneration Committee

Recommendation 8.1 provides that the Board should establish a remuneration committee. The Board of FAR has not formed a remuneration committee. The full Board considers those matters that would usually fall to a remuneration committee as it is considered no efficiencies would be achieved by establishing a separate committee given the Company's size and the number of personnel.

The broad policy calls for executives to be remunerated on terms that are competitive with those offered by entities of a similar size within the same industry. Packages are reviewed annually by the executive chairman and allowance is made as a minimum for CPI adjustment to maintain purchasing power.

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

A policy has been adopted to constitute a formal remuneration committee upon the group reaching a market capitalisation of $100 million or upon reaching annual sales exceeding A$10 million.

Directors' Report

The directors of First Australian Resources Limited submit herewith the Annual Financial Report for the year ended 31 December 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Michael John Evans - Chairman and Chief Executive Officer

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

Charles Lee Cavness - Non-Executive Director

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

Albert Edward Brindal - Non-Executive Director

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

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

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
M J Evans	Monaro Mining NL	December 2004 to October 2007

Company Secretaries

Colin John Harper

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

Albert Edward Brindal

See above for details.

Principal Activities

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

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

Operating Results

The profit of the Consolidated Entity for the year ended 31 December 2009 after income tax was $2,142,343 (2008: loss $9,665,758).

Dividends

The directors recommend that no dividend be paid for the year ended 31 December 2009 nor have any amounts been paid or declared by way of dividend during the year.

Directors' Report

Review of Operations

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

Changes in State of Affairs

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

Subsequent Events

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

Future Developments

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

Indemnification of officers and auditors

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

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

Environmental Regulations

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

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

Proceedings on Behalf of the Company

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

Remuneration Report - Audited

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of First Australian Resources Limited's directors and its senior management for the year ended 31 December 2009.

The directors of the Company and Consolidated Entity during the year were:

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

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

Directors' Report

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

Remuneration Policy

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

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

The Consolidated Entity does not have a remuneration committee however the remuneration of directors and executives is dealt with at full board level.

Relationship Between the Remuneration Policy and Company Performance

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

The tables below set out summary information about the Consolidated Entity's earnings and movements in shareholder wealth for the five years to 31 December 2009:

	31 December 2005 $	31 December 2006 $	31 December 2007 $	31 December 2008 $	31 December 2009 $
Revenue	3 778 664	3 861 149	2 679 260	3 086 217	1 496 168
Net profit/(loss) before tax	(906 778)	(4 382 426)	(3 713 500)	(9 665 758)	2 142 343
Net profit/(loss) after tax	(906 778)	(4 382 426)	(3 713 500)	(9 665 758)	2 142 343

	31 December 2005 cents	31 December 2006 cents	31 December 2007 cents	31 December 2008 cents	31 December 2009 cents
Share price at start of year	6.2	12.0	14.0	12.0	2.8
Share price at end of year	12.0	14.0	12.0	2.8	6.2
Dividend	-	-	-	-	-
Basic earnings/(loss) per share	(0.36)	(1.18)	(0.82)	(1.90)	0.34
Diluted earnings/(loss) per share	(0.36)	(1.18)	(0.82)	(1.90)	0.34

Director and Executive Remuneration

Remuneration packages contain the following key elements:

- Short-term employee benefits – salary/fees and non monetary benefits including provision of motor vehicles and health benefits.
- Post employment benefits – superannuation.
- Share based payments – share options granted as disclosed in note 31 of the financial statements.
- Other benefits.

Directors' Report

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

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

2008	Short-term employee benefits		Post-employment	Share-based payment	Total	
Name	Salary and Fees $	Other $	Super $	Options $	$	% consisting of options
Directors						
M J Evans	293 969	25 793	48 541	-	368 303	-
C L Cavness	33 000	-	-	-	33 000	-
A E Brindal	34 086	-	-	-	34 086	-
W R Grigor (i)	31 186	-	2 807	-	33 993	-
Executives						
C J Harper	126 000	-	12 600	-	138 600	-
J A Atling	96 228	-	35 200	-	131 428	-
R Adessa	82 768	13 614	-	-	96 382	-
Total	697 237	39 407	99 148	-	835 792	

(i) Resigned 1 April 2008. Remuneration includes public relations fees of $25,000 disclosed further in note 33.

Options Granted to Directors and Executives

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

During the financial year the following options were granted to directors and executives:

Name	No. Granted	No. Vested	Expiry Date	Exercise Price	Value of Grant $
M J Evans	6 000 000	6 000 000	30 June 2012	7 cents	343 000
C J Harper	1 800 000	1 800 000	30 June 2012	7 cents	54 000

The value of the options granted in the period has been calculated using the Black Scholes model and has been recognised in full in the current year.

Directors' Report

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

	2009 No:	2008 No:
Exercisable at 15 cents on or before 31 July 2010	9 500 000	9 500 000
Exercisable at 7 cents on or before 30 June 2012	7 800 000	-

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

Bonus Payments

During the year, a one off bonus payment of $10,000 was made to Mr Harper. This bonus payment was made at the discretion of the Board.

Employment Contracts

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

Termination Benefits

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

Directors' Shareholdings

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

	Fully Paid Ordinary Shares	Options Over Ordinary Shares
M J Evans	6 225 450	11 000 000
C L Cavness	1 150 000	1 000 000
A E Brindal	29 000	-

Directors' Meetings

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

	Board of Directors Meetings	
	Held	Attended
M J Evans	4	4
C L Cavness	4	4
A E Brindal	4	4

Share Options

Details of share options over ordinary shares issued by the Company during the period together with details of options converted during the period and on issue at 31 December 2009 are set out in note 20 to the financial statements and form part of this report. Details of options issued since 31 December 2009 can be found at note 34 to the financial statements.

Directors' Report

Non-Audit Services

Details of amounts paid or payable to the auditor for audit and non-audit services provided during the year by the auditor are outlined in note 35 to the financial statements.

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

Auditor's Independence Declaration

The auditor's independence declaration is included on page 31 of the annual report.

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

On behalf of the directors

M. J. Evans
Director

Perth, 30 March 2010.

Auditor's Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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The Board of Directors
First Australian Resources Limited
Suite B1, Tempo Offices
431 Roberts Road
SUBIACO WA 6008

30 March 2010

Dear Board Members

First Australian Resources Limited

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

As lead audit partner for the audit of the financial statements of First Australian Resources Limited for the financial year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ross Jerrard
Partner
Chartered Accountants

Independent Audit Report

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Independent Auditor's Report to the members of First Australian Resources Limited

We have audited the accompanying financial report of First Australian Resources Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, the cash flow statement and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 34 to 78.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Independent Audit Report

Deloitte.

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

(a) the financial report of First Australian Resources Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 29 of the directors' report for the year ended 31 December 2009. 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 First Australian Resources Limited for the year ended 31 December 2009, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ross Jerrard
Partner
Chartered Accountants
Perth, 30 March 2010

Directors' Declaration

The directors declare that:

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

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

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

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

In the directors' opinion, there are reasonable grounds to believe that the Company and the Companies to which the ASIC Class Order applies, as detailed in note 28 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the directors

M. J. Evans
Director

Perth, 30 March 2010

FINANCIAL STATEMENTS

Statement of Comprehensive Income

for the financial year ended 31 December 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
Revenues	6	1 496 168	3 086 217	201 287	403 005
Other income	7	7 967 251	-	7 967 251	-
Direct operating costs		(578 668)	(833 543)	-	-
Depreciation and amortisation expense	9	(622 845)	(716 506)	(23 744)	(28 636)
Exploration expense		(798 792)	(7 836 846)	(748 498)	(1 599 659)
Abandonment expense		(22 326)	(290 223)	-	-
Impairment of loans to subsidiaries		-	-	(635 839)	(5 892 327)
Finance costs	8	(580 878)	(971 030)	(575 211)	(942 665)
Employee benefits expense		(1 811 903)	(837 291)	(1 665 407)	(708 124)
Consulting expense		(691 905)	(584 282)	(593 916)	(381 508)
Foreign exchange (loss)/gain		(1 661 344)	(28 999)	(3 666 072)	3 474 788
Other expenses		(552 415)	(653 255)	(446 525)	(499 774)
Profit/(loss) before income tax		2 142 343	(9 665 758)	(186 674)	(6 174 900)
Income tax expense	10(a)	-	-	-	-
Profit/(loss) attributable to members of First Australian Resources Limited	22	2 142 343	(9 665 758)	(186 674)	(6 174 900)
Other comprehensive income/ (expense)					
Exchange differences arising on translation of foreign operations	21	(1 723 174)	2 205 042	-	-
Total comprehensive income/(expense) for the period attributable to members of First Australian Resources Limited		419 169	(7 460 716)	(186 674)	(6 174 900)
Earnings per share:					
Basic earnings/(loss) (cents per share)	23	0.34	(1.90)		
Diluted earnings/(loss) (cents per share)	23	0.34	(1.90)		

Notes to the financial statements are included on pages 41 to 78.

Statement of Financial Position

as at 31 December 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
CURRENT ASSETS					
Cash and cash equivalents	29(a)	11 710 120	6 761 829	11 482 906	6 535 417
Trade and other receivables	11	3 532 223	425 501	3 372 499	59 366
Other financial assets	12	1 974	29 174	-	26 618
Other	13	89 033	71 001	27 625	10 794
Total Current Assets		15 333 350	7 287 505	14 883 030	6 632 195
NON CURRENT ASSETS					
Other financial assets	12	21 473	21 473	6 785 004	12 043 085
Property, plant and equipment	14	328 312	426 418	107 342	55 338
Oil and gas properties	15	18 839 901	24 477 652	13 961 076	14 437 525
Total Non-Current Assets		19 189 686	24 925 543	20 853 422	26 535 948
TOTAL ASSETS		34 523 036	32 213 048	35 736 452	33 168 143
CURRENT LIABILITIES					
Trade and other payables	16	451 480	1 422 318	207 062	849 223
Borrowings	17	-	5 931 282	-	5 390 000
Provisions	18	855 729	167 031	835 534	167 031
Total Current Liabilities		1 307 209	7 520 631	1 042 596	6 406 254
NON-CURRENT LIABILITIES					
Borrowings	17	2 672 420	-	2 672 420	-
Provisions	19	-	14 400	-	-
Total Non-Current Liabilities		2 672 420	14 400	2 672 420	-
TOTAL LIABILITIES		3 979 629	7 535 031	3 715 016	6 406 254
NET ASSETS		30 543 407	24 678 017	32 021 436	26 761 889
EQUITY					
Issued Capital	20	72 090 504	67 261 038	72 090 504	67 261 038
Reserves	21	1 748 562	2 854 981	2 400 290	1 783 535
Accumulated losses	22	(43 295 659)	(45 438 002)	(42 469 358)	(42 282 684)
TOTAL EQUITY		30 543 407	24 678 017	32 021 436	26 761 889

Notes to the financial statements are included on pages 41 to 78.

Statement of Changes in Equity

for the financial year ended 31 December 2009

Consolidated

		Reserves					
	Share capital $	Option reserve $	Equity component on convertible notes $	Foreign currency translation reserve $	Total $	Accumulated losses $	Total attributable to equity holders of the parent $
Balance at 1 January 2008	62 546 989	1 035 205	496 330	(1 133 596)	397 939	(35 772 244)	27 172 684
Profit/(Loss) for the period	-	-	-	-	-	(9 665 758)	(9 665 758)
Exchange differences arising on translation of foreign operations	-	-	-	2 205 042	2 205 042	-	2 205 042
Total comprehensive income/(expense) for the year	-	-	-	2 205 042	2 205 042	(9 665 758)	(7 460 716)
Share based payments	-	252 000	-	-	252 000	-	252 000
Issue of shares	5 078 000	-	-	-		-	5 078 000
Share issue costs	(363 951)	-	-	-		-	(363 951)
Balance at 31 December 2008	67 261 038	1 287 205	496 330	1 071 446	2 854 981	(45 438 002)	24 678 017
Balance at 1 January 2009	67 261 038	1 287 205	496 330	1 071 446	2 854 981	(45 438 002)	24 678 017
Profit/(Loss) for the period	-	-	-	-	-	2 142 343	2 142 343
Exchange differences arising on translation of foreign operations	-	-	-	(1 723 174)	(1 723 174)	-	(1 723 174)
Total comprehensive income/(expense) for the year	-	-	-	(1 723 174)	(1 723 174)	2 142 343	419 169
Share based payments	-	691 000	-	-	691 000	-	691 000
Issue of shares	4 859 983	-	-	-	-	-	4 859 983
Share issue costs	(283 471)	-	-	-	-	-	(283 471)
Transfer from option reserve	252 000	(252 000)	-	-	(252 000)	-	-
Issue of convertible notes	-	-	178 709	-	178 709	-	178 709
Transfer from equity component on convertible notes reserve	954	-	(954)	-	(954)	-	-
Balance at 31 December 2009	72 090 504	1 726 205	674 085	(651 728)	1 748 562	(43 295 659)	30 543 407

Notes to the financial statements are included on pages 41 to 78.

Statement of Changes in Equity

for the financial year ended 31 December 2009

Company

	Share capital $	Reserves Option reserve $	Equity component on convertible notes $	Foreign currency translation reserve $	Total $	Accumulated losses $	Total attributable to equity holders of the parent $
Balance at 1 January 2008	62 546 989	1 035 205	496 330	-	1 531 535	(36 107 784)	27 970 740
Profit/(Loss) for the period	-	-	-	-	-	(6 174 900)	(6 174 900)
Total comprehensive income/(expense) for the year	-	-	-	-	-	(6 174 900)	(6 174 900)
Share based payments	-	252 000	-	-	252 000	-	252 000
Issue of shares	5 078 000	-	-	-	-	-	5 078 000
Share issue costs	(363 951)	-	-	-	-	-	(363 951)
Balance at 31 December 2008	67 261 038	1 287 205	496 330	-	1 783 535	(42 282 684)	26 761 889
Balance at 1 January 2009	67 261 038	1 287 205	496 330	-	1 783 535	(42 282 684)	26 761 889
Profit/(Loss) for the period	-	-	-	-	-	(186 674)	(186 674)
Total comprehensive income/(expense) for the year	-	-	-	-	-	(186 674)	(186 674)
Share based payments	-	691 000	-	-	691 000	-	691 000
Issue of shares	4 859 983	-	-	-	-	-	4 859 983
Share issue costs	(283 471)	-	-	-	-	-	(283 471)
Transfer from option reserve	252 000	(252 000)	-	-	(252 000)	-	-
Issue of convertible notes	-	-	178 709	-	178 709	-	178 709
Transfer from equity component on convertible notes reserve	954	-	(954)	-	(954)	-	-
Balance at 31 December 2009	72 090 504	1 978 205	675 039	-	2 400 290	(42 469 358)	32 021 436

Notes to the financial statements are included on pages 41 to 78.

Cash Flow Statement

for the financial year ended 31 December 2009

	Note	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1 698 815	2 655 504	223 572	4 650
Payment received under Senegal farm-in option agreement		3 697 313	-	3 697 313	-
Payments to suppliers		(2 547 518)	(2 714 579)	(1 522 813)	(1 358 946)
Interest and other costs of finance paid		(358 448)	(577 646)	(351 976)	(549 697)
Net cash provided by/(used in) operating activities	29(e)	2 490 162	(636 721)	2 046 096	(1 903 993)
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		222 656	383 595	220 846	374 200
Payments for oil and gas properties		(1 614 159)	(6 269 053)	(1 358 759)	(1 790 771)
Recovery of past exploration costs		595 619	-	595 619	-
Payments for property, plant and equipment		(55 981)	(45 021)	(58 203)	(19 155)
Proceeds from sale of oil and gas properties		2 872 389	-	-	-
Proceeds from sale of property, plant and equipment		-	3 112	-	-
Proceeds from sale of subsidiary		-	-	2 872 389	-
Amounts advanced to related parties		-	-	(367 872)	(2 807 123)
Net cash provided by/(used in) investing activities		2 020 524	(5 927 367)	1 904 020	(4 242 849)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		4 850 100	5 078 000	4 850 100	5 078 000
Payment for share issue costs		(348 408)	(294 309)	(348 408)	(294 309)
Proceeds from issue of debt securities		2 987 115	-	2 987 115	-
Payment for debt security issue costs		(236 905)	-	(236 905)	-
Repayment of borrowings		(5 902 540)	(83 207)	(5 390 000)	-
Net cash provided by financing activities		1 349 362	4 700 484	1 861 902	4 783 691
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		5 860 048	(1 863 604)	5 812 018	(1 363 151)
Cash and cash equivalents at the beginning of the year		6 761 829	8 493 536	6 535 417	7 927 569
Effects of exchange rate changes on cash and cash equivalents		(911 757)	131 897	(864 529)	(29 001)
Cash and cash equivalents at the end of the financial year	29(a)	11 710 120	6 761 829	11 482 906	6 535 417

Notes to the financial statements are included on pages 41 to 78.

Notes to the Financial Statements

31 December 2009

1. General information

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

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

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

2. Adoption of new and revised Accounting Standards

In the current period, the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for reporting periods beginning on 1 January 2009.

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements.

(a) AASB 8 Operating Segments

The Consolidated Entity has adopted AASB 8 Operating Segments and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments.

Following the adoption of AASB 8, the identification of the Consolidated Entity's reporting segments remain consistent with prior periods, with management allocating resources to segments on a geographical basis. The only change to the prior period is the inclusion of a 'corporate' segment which captures all head office and administrative income, expenses and assets.

(b) AASB 101 Presentation of Financial Statements (revised 2007)

The Consolidated Entity adopted AASB 101 Presentation of Financial Statements (2007) during the current period. This has resulted in certain presentational changes to the primary financial statements.

(c) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The Consolidated Entity has early adopted AASB 2009-5 with reference to amendments made to AASB 101 Presentation of Financial Statements. Disclosures in these financial statements have been modified to reflect the early adoption of this standard. The impact of the adoption of the standard is that the convertible notes are now classified as current or non-current based on cash settlement, and that settlement through the issue of equity instruments no longer impacts classification in the statement of financial position.

(d) Standards and Interpretations issued but not yet effective

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

Notes to the Financial Statements

31 December 2009

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

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 124 'Related Party Disclosures'(2009), AASB 2009-12 Amendments to Australian Accounting Standards	1 January 2011	31 December 2011
AASB 9 'AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9'	1 January 2013	31 December 2013
AASB 2009-5 'AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process' (excluding amendments relating to AASB 101 which have been early adopted)	1 January 2010	31 December 2010
AASB 3 'Business Combinations' (revised) and AASB 127 'Consolidated and Separate Financial Statements' (revised) and AASB 2008-3 'Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127'	1 July 2009	31 December 2010

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

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

3. Summary of significant accounting policies

Statement of compliance

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

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

The financial statements were authorised for issue by the directors on 30 March 2010.

Basis of preparation

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

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

(a) Basis of consolidation

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

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

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

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

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(b) Borrowings

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

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

(c) Borrowing Costs

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

(d) Cash and cash equivalents

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

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

(e) Fair value estimation

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

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

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

(f) Employee benefits

General

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

Wages and salaries, annual leave and sick leave

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

Long service leave

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

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3. Summary of significant accounting policies (continued)

(g) Financial assets

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

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

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

Loans and receivables

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

Impairment of financial assets

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

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

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

(h) Acquisition of assets and goodwill

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Consolidated Entity's share of the identifiable net assets acquired is recorded as goodwill and not

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amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. If the cost of acquisition is less than the fair value of the business combination, the difference is recognised directly in the statement of comprehensive income.

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

(i) Financial instruments issued by the Company

Debt and equity instruments

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

Transaction costs on the issue of equity instruments

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

Interest and dividends

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

Financial guarantee contract liabilities

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 30.

Compound instruments

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

Other financial liabilities

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

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

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

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3. Summary of significant accounting policies (continued)

(j) Provisions

Provisions are recognised when the Consolidated Entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. Provisions are not recognised for future operating losses.

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

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

(k) Goods and services tax

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

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

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

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

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

(l) Foreign currency translation

Functional and presentation currency

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

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

Transactions and balances

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

Group companies and foreign operations

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign

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operation is sold or borrowings repaid a proportionate share of such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

(m) Payables

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

(n) Income tax

Current tax

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

Deferred tax

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

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

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

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

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

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

Current and deferred tax for the period

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

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3. Summary of significant accounting policies (continued)

Tax consolidation

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

(o) Joint ventures

Jointly controlled assets and operations

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

(p) Leases

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

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

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

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

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

(q) Revenue recognition

Sale of oil and gas and related products

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

Interest revenue

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

(r) Exploration and evaluation costs

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

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

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

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

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

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

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

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

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

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

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

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

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

(t) Impairment of assets

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

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3. Summary of significant accounting policies (continued)

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

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

(u) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 31.

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

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

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

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

(v) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

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Critical judgements in applying the entity's accounting policies

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

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

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

iii) During the year, the Consolidated Entity completed the sale of its interest in the Beibu Gulf Block 22-12 Joint Venture. The total consideration for the sale is US$8,000,000, payable in three tranches on satisfaction of certain conditions precedent. In calculating the gain on sale in the period, only US$5,000,000 of the sales proceeds have been recognised as, in the opinion of the directors, satisfaction of the conditions precedent in the final tranche payment remains uncertain at this point in time. Consequently, as a result of the conditions precedent, the fair value of the final tranche has been assessed at nil for accounting purposes.

5. Segment Information

The Consolidated Entity has adopted AASB 8 Operating Segments and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 8 with effect from 1 January 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Consolidated Entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (AASB 114 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments.

Following the adoption of AASB 8, the identification of the Consolidated Entity's reporting segments remain consistent with prior periods, with management allocating resources to segments on a geographical basis. The only change to the prior period is the inclusion of a 'corporate' segment which captures all head office and administrative income, expenses and assets.

Information regarding these segments is presented below. Amounts reported for the prior period have been restated to conform to the requirements of AASB 8. The accounting policies of the reportable segments are the same as those of the Consolidated Entity.

Segment Assets and Liabilities

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

	Assets		Liabilities	
	2009 $	2008 $	2009 $	2008 $
Australia	55 709	7 000	-	
Canada	-	726 996	-	
China	-	3 126 381	-	131 447
Senegal	13 905 367	13 703 529	-	663 868
USA	5 550 115	7 940 136	264 613	997 330
Corporate	15 011 845	6 709 006	3 715 016	5 742 385
Total assets and liabilities	34 523 036	32 213 048	3 979 629	7 535 031

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5. Segment Information (continued)

Segment Revenue and Results

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

	Revenue		Segment Profit/(Loss)	
	2009 $	2008 $	2009 $	2008 $
Australia	-	-	-	(1 599 299)
Canada	-	-	(748 498)	(359)
China	-	-	4 033 169	(2 206 599)
Senegal	-	-	3 697 313	-
USA	1 294 881	2 683 212	(311 126)	(3 672 371)
Corporate	201 287	403 005	(4 528 515)	(2 187 130)
Consolidated segment revenue and profit / (loss) before tax for the period	1 496 168	3 086 217	2 142 343	(9 665 758)
Income tax expense			-	-
Consolidated segment revenue and profit / (loss) after tax for the period	1 496 168	3 086 217	2 142 343	(9 665 758)

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

Other Segment Information

	Depreciation and Amortisation		Additions to Non-Current Assets	
	2009 $	2008 $	2009 $	2008 $
Australia	-	-	48 709	257 921
Canada	-	-	21 501	17 134
China	-	-	(11 732)	2 537 554
Senegal	-	-	797 457	2 048 281
USA	599 101	687 870	55 367	1 940 854
Corporate	23 744	28 636	90 222	22 538
	622 845	716 506	1 001 524	6 824 282

6. Revenue

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Sales Revenue:				
Oil and gas revenues	1 293 123	2 673 581	-	-
Interest Revenue:				
Bank deposits	196 877	405 825	195 119	396 194
Other Revenue	6 168	6 811	6 168	6 811
	1 496 168	3 086 217	201 287	403 005

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7. Other Income

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Gain on sale of oil and gas interests (i)	4 033 169	-	-	-
Gain on sale of subsidiary (ii)	-	-	4 033 169	-
Senegal farm-in option agreement (iii)	3 697 313	-	3 697 313	-
Rebate under R&D tax concession scheme	217 247	-	217 247	-
Gain on disposal of property, plant & equipment	15 540	-	15 540	-
Miscellaneous other income	3 982	-	3 982	-
	7 967 251	-	7 967 251	-

(i) During the year, the Consolidated Entity completed the sale of its interest in the Beibu Gulf Block 22-12 Joint Venture. The total consideration for the sale is US$8,000,000, payable in three tranches on satisfaction of certain conditions precedent. In calculating the gain on sale in the period, only US$5,000,000 of the sales proceeds have been recognised as, in the opinion of the directors, satisfaction of the conditions precedent in the final tranche payment remains uncertain at this point in time.

(ii) The sale above was effected by selling 100% of the share capital of Oil Australia Pty Ltd, a wholly owned subsidiary of First Australian Resources Limited and holder of the Consolidated Entity's interest in the Beibu Gulf Block 22-12 Joint Venture.

(iii) During the period, FAR executed an Agreement with Shell Exploration Company B.V. ("Shell") allowing Shell to conduct an exploration program in respect of the Sangomar Offshore, Rufisque Offshore and Sangomar Deep Offshore Blocks in Senegal, West Africa in which FAR has a 90 percent interest. The objective of the program was to enable Shell to determine whether or not to exercise an option ("the Option") to acquire a 70 percent interest in the Licence Area. On completion of the program Shell declined to exercise their Option. Under the terms of the Agreement, Shell was required to pay the Company US$3million as compensation for performing the study and also reimburse the Company for past exploration costs totalling US$494,089. All amounts were received in full during the year. The US$3million has been recognised as other income above, while the reimbursement of past costs has been offset against previously capitalised exploration expenditure (refer note 15).

8. Finance costs

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Interest on bank overdrafts and loans	(5 667)	(28 365)	-	-
Interest on convertible notes	(441 658)	(539 000)	(441 658)	(539 000)
Total interest expense	(447 325)	(567 365)	(441 658)	(539 000)
Accretion expense	(113 734)	(388 294)	(113 734)	(388 294)
Other finance costs	(19 819)	(15 371)	(19 819)	(15 371)
	(580 878)	(971 030)	(575 211)	(942 665)

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9. Profit / (loss) for the year

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Depreciation and amortisation:				
- Property, plant & equipment	(100 383)	(130 781)	(23 744)	(28 636)
- Oil & gas properties	(522 462)	(585 725)	-	-
	(622 845)	(716 506)	(23 744)	(28 636)
Impairment of non-current assets:				
- wholly owned controlled entity debt	-	-	(635 839)	(5 892 327)
- exploration costs expensed:				
- Property, plant & equipment	-	(382 403)	-	-
- Oil & gas properties	(798 792)	(7 454 443)	(748 498)	(1 599 659)
	(798 792)	(7 836 846)	(748 498)	(1 599 659)
Operating lease rental expenses: - Rental expense on operating lease	(156 104)	(176 548)	(91 142)	(119 192)
Share based payments to consultants-equity settled	(294 000)	(252 000)	(294 000)	(252 000)
Employee benefit expense:				
- Post employment benefits:				
Defined contribution plans	(88 018)	(100 639)	(88 018)	(100 639)
- Share based payments-equity settled	(397 000)	-	(397 000)	-
- Other employee benefits	(1 326 885)	(736 652)	(1 180 389)	(607 485)
	(1 811 903)	(837 291)	(1 665 407)	(708 124)

10. Income Taxes

(a) Income tax recognised in profit or loss

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Tax expense/(income) comprises:				
Current tax expense/(income)	125 551	(2 899 727)	91 916	(1 852 470)
Benefit arising from previously unrecognised tax losses of prior periods used to reduce current tax expense	(125 551)	-	(91 916)	-
Tax losses not brought to account	-	2 899 727	-	1 852 470
	-	-	-	-
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	(1 577 356)	(179 679)	(343 486)	212 416
Benefit arising from previously unrecognised tax losses of prior periods used to reduce deferred tax expense	-	-	-	(212 416)
Expense arising from de-recognition of previously recognised tax losses of prior periods used to reduce deferred tax expense	1 577 356	179 679	343 486	-
Total tax expense/(income)	-	-	-	-

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Profit/(loss) from operations	2 142 343	(9 665 758)	(188 674)	(6 174 900)
Income tax expense/(income) calculated at 30%	642 703	(2 899 727)	(56 602)	(1 852 470)
Non-assessable income and non-deductible expenditure	(517 152)		148 518	
Utilisation of carried forward tax losses	(125 551)		(91 916)	
Unused tax losses and tax offsets not recognised as deferred tax assets	-	2 899 727	-	1 852 470
	-	-	-	-

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

(b) Income tax recognised directly in equity

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

(c) Deferred tax balances

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Deferred tax assets comprise:				
Tax losses in the United States	390 925	689 949	-	-
Tax losses in Australia	3 789 089	5 067 421	3 789 089	4 132 575
	4 180 014	5 757 370	3 789 089	4 132 575
Deferred tax liabilities comprise				
Temporary Differences	4 180 014	5 757 370	3 789 089	4 132 575

Notes to the Financial Statements

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10. Income Taxes (continued)

Taxable and deductible temporary differences arise from the following:

Consolidated

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

2008	Consolidated Opening balance $	Recognised in income $	Recognised in equity $	Closing balance $
Oil & gas properties	6 135 963	(133 595)	-	6 002 368
Property, plant & equipment	-	(43 247)	-	(43 247)
Receivables	(148 574)	-	-	(148 574)
Provisions	(50 340)	(2 837)	-	(53 177)
Total	5 937 049	(179 679)	-	5 757 370

Company

2009	Company Opening balance $	Recognised in income $	Recognised in equity $	Closing balance $
Oil & gas properties	4 331 258	(142 935)	-	4 188 323
Receivables	(148 574)	-	-	(148 574)
Provisions	(50 109)	(200 551)	-	(250 660)
Total	4 132 575	(343 486)	-	3 789 089

2008	Company Opening balance $	Recognised in income $	Recognised in equity $	Closing balance $
Oil & gas properties	4 116 005	215 253	-	4 331 258
Receivables	(148 574)	-	-	(148 574)
Provisions	(47 272)	(2 837)	-	(50 109)
Total	3 920 159	212 416	-	4 132 575

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	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Unrecognised deferred tax balances				
The following deferred tax assets have not been brought to account as assets:				
Tax losses in the United States (net)	3 652 111	4 640 965	-	-
Tax losses in Australia (net)	8 075 155	6 707 379	8 075 155	6 707 379
	11 727 266	11 348 344	8 075 155	6 707 379

Tax consolidation

Relevance of tax consolidation to the Consolidated Entity

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2007 and are therefore taxed as a single entity from that date. The Head Entity within the tax consolidated group is First Australian Resources Limited. The members of the tax consolidated group are identified at note 28.

11. Trade and other receivables

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Trade receivables	150 735	353 759	-	-
Interest receivable	15 679	41 405	15 679	41 405
Other receivables	3 861 055	525 583	3 852 066	513 207
Less allowance for doubtful debts	(495 246)	(495 246)	(495 246)	(495 246)
Amount owing from controlled Entity	-	-	656 650	850 100
Less allowance for doubtful debts	-	-	(656 650)	(850 100)
	3 532 223	425 501	3 372 499	59 366

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

Included in other receivables is an amount of US$3million due in respect of the sale of the Consolidated Entity's interest in the Beibu Gulf Block 22-12 Joint Venture (through the disposal of a wholly owned subsidiary). This amount represents the second tranche payment and is dependent upon approval of an Oilfield Development Program ("ODP") or commercial development of the project proceeding. Based on the most recent information available from the operator, the directors expect ODP approval and subsequent receipt of the funds within 12 months of balance date. Refer to note 28 for further details of the transaction.

Other receivables include amounts of $495,246 (2008: $495,246) which were past due at balance date. These amounts have been provided for in full.

Notes to the Financial Statements

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12. Other financial assets

Current

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Other financial assets – security deposit	1 974	29 174	-	26 618

The weighted average interest rate on the security deposit is nil% (2008: 5.60%).

Non-current

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Unsecured loans to controlled entities	-	-	15 021 795	25 928 997
Allowance for doubtful debts	-	-	(9 263 712)	(14 912 834)
	-	-	5 758 083	11 016 163
Other financial assets – security deposit	21 473	21 473	21 473	21 473
Shares in unlisted controlled entities at cost less impairment	-	-	1 005 448	1 005 449
	21 473	21 473	6 785 004	12 043 085

The intercompany receivable is payable on demand and currently attracts no interest.

The weighted average interest rate on the security deposit is nil%.

13. Other current assets

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Prepayments	89 033	71 001	27 625	10 794

Notes to the Financial Statements

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14. Property, Plant and Equipment

	Consolidated		Company	
	Plant and Equipment $	TOTAL $	Plant and Equipment $	TOTAL $
Gross Carrying Amount				
Balance at 1 January 2008	2 203 655	2 203 655	140 342	140 342
Additions	157 842	157 842	22 538	22 538
Disposals	(399 797)	(399 797)	(17 145)	(17 145)
Net foreign currency exchange differences	505 273	505 273	-	-
Balance at 1 January 2009	2 466 973	2 466 973	145 735	145 735
Additions	92 561	92 561	90 221	90 221
Disposals	(75 155)	(75 155)	(75 155)	(75 155)
Net foreign currency exchange differences	(528 498)	(528 498)	-	-
Balance at 31 December 2009	1 955 881	1 955 881	160 801	160 801
Accumulated Depreciation /amortisation and impairment				
Balance at 1 January 2008	1 512 373	1 512 373	78 627	78 627
Disposals	(16 867)	(16 867)	(16 866)	(16 866)
Depreciation expense	130 781	130 781	28 636	28 636
Net foreign currency exchange differences	414 268	414 268	-	-
Balance at 1 January 2009	2 040 555	2 040 555	90 397	90 397
Disposals	(60 682)	(60 682)	(60 682)	(60 682)
Depreciation expense	100 383	100 383	23 744	23 744
Net foreign currency exchange differences	(452 687)	(452 687)	-	-
31 December 2009	1 627 569	1 627 569	53 459	53 459
NET BOOK VALUE				
31 December 2008	426 418	426 418	55 338	55 338
31 December 2009	328 312	328 312	107 342	107 342

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15. Oil and gas properties

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Producing properties Capitalised development costs:				
Balance at 1 January	13 435 364	10 262 141	-	-
Additions	165	531 296	-	-
Disposals	-	(225 235)	-	-
Net foreign currency exchange differences	(3 057 392)	2 867 162	-	-
Balance at 31 December	10 378 137	13 435 364	-	-
Less: accumulated amortisation				
Balance at 1 January	11 179 682	8 304 142	-	-
Amortisation expense	522 462	585 725	-	-
Disposals	-	(87 950)	-	-
Net foreign currency exchange differences	(2 604 765)	2 377 765	-	-
Balance at 31 December	9 097 379	11 179 682	-	-
	1 280 758	2 255 682	-	-
Non-producing properties Exploration and evaluation expenditure:				
Balance at 1 January	22 221 970	21 816 278	14 437 525	13 713 848
Additions	908 798	6 135 144	867 668	2 323 336
Recoveries (i)	(595 619)	-	(595 619)	-
Exploration expensed	(801 360)	(7 454 443)	(748 498)	(1 599 659)
Disposals	(2 975 441)	-	-	-
Net foreign currency exchange differences	(1 199 205)	1 724 991	-	-
Balance at 31 December	17 559 143	22 221 970	13 961 076	14 437 525
Total oil and gas properties	18 839 901	24 477 652	13 961 076	14 437 525

(i) Under the terms of the Senegal farm-in option agreement with Shell, the Company was entitled to recover a portion of costs incurred by the Senegal Joint Venture from 26 November 2008 to the cessation of the Agreement. Refer to note 7 for further details of this Agreement.

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

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

During the year the Company applied for, and was granted, an extension to the exploration licences over the Sangomar Offshore, Rufisque Offshore and Sangomar Deep Offshore Blocks in Senegal. The extension is for a one year period ending 23 November 2010.

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In accordance with the accounting policy above, the Company's ability to continue to carry capitalised exploration costs in respect of the Senegal licences is dependent on the exploration titles being current. In order to retain the exploration licences over the Senegal blocks beyond 23 November 2010, the Joint Venture will be required to commit to the next exploration phase, which includes the drilling of one exploration well, or obtain a further extension prior to this date. The Company is currently seeking a farm-in partner with whom to enter the next exploration phase and detailed technical reviews by interested parties are ongoing.

16. Trade and other payables

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Trade payables	280 879	538 007	38 594	96 359
Other	170 601	884 311	168 468	752 864
	451 480	1 422 318	207 062	849 223

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

17. Borrowings

	Consolidated		Company	
Current	2009 $	2008 $	2009 $	2008 $
Secured loans				
- loan facility	-	541 282	-	-
Unsecured loans				
- convertible notes	-	5 390 000	-	5 390 000
	-	5 931 282	-	5 390 000

	Consolidated		Company	
Non-Current	2009 $	2008 $	2009 $	2008 $
Unsecured loans				
- convertible notes	2 672 420	-	2 672 420	-
	2 672 420	-	2 672 420	-

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

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

The convertible notes outstanding at 31 December 2008 matured on 31 January 2009 and were repaid in full.

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18. Current Provisions

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Employee benefits	855 729	167 031	835 534	167 031

19. Non-current provisions

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Employee benefits	-	14 400	-	-

20. Issued Capital

	Consolidated and Company			
	2009 Number	2009 $	2008 Number	2008 $
Paid up capital:				
Ordinary fully paid shares at beginning of year	547 028 344	67 261 038	483 553 344	62 546 989
Shares allotted during the year	111 204 440	4 859 983	63 475 000	5 078 000
Share issue costs	-	(283 471)	-	(363 951)
Transfer from option reserve	-	252 000	-	-
Transfer from equity component on convertible notes reserve	-	954	-	-
Ordinary fully paid shares at end of year	658 232 784	72 090 504	547 028 344	67 261 038

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

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

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

(i) An allotment of 28,850,000 shares at 2.6 cents per share on 23 January 2009 raising $750,100 before issue expenses.

(ii) An allotment of 61,150,000 shares at 5 cents per share on 8 April 2009 raising $3,057,500 before issue expenses.

(iii) An allotment of 8,850,000 shares at 8 cents per share on 16 April 2009 raising $442,500 before issue expenses.

(iv) Costs associated with the capital raisings above totalled $283,471.

(b) The following shares were allotted during the financial year on the exercise of options:

(i) On 1 July 2009, 6,000,000 consultant options were converted to ordinary shares at an exercise price of 5 cents each raising $300,000.

(ii) On 14 July 2009, 6,000,000 consultant options were converted to ordinary shares at an exercise price of 5 cents each raising $300,000.

(c) The following shares were allotted during the year on the conversion of convertible notes:

(i) On 31 March 2009, 21,000 convertible notes were converted into 210,000 ordinary shares.

(ii) On 30 June 2009, 14,444 convertible notes were converted into 144,440 ordinary share.

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

2,000,000 unlisted options to subscribe for ordinary shares at 30 cents on or before 30 June 2010

9,500,000 unlisted options to subscribe for ordinary shares at 15 cents on or before 31 July 2010

6,000,000 unlisted options to subscribe for ordinary shares at 14 cents on or before 1 March 2011

2,000,000 unlisted options to subscribe for ordinary shares at 5 cents on or before 30 June 2012

7,800,000 unlisted options to subscribe for ordinary shares at 7 cents on or before 30 June 2012

21. Reserves

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
(i) Option reserve				
- opening balance	1 287 205	1 035 205	1 287 205	1 035 205
- options allotted	691 000	252 000	691 000	252 000
- transfer to issued capital	(252 000)	-	(252 000)	-
- balance at end of year	1 726 205	1 287 205	1 726 205	1 287 205

The option reserve represents the value of options issued as share based payments based on the Black Scholes Valuation method. For further details on options issued during the year see note 31.

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
(ii) Foreign currency translation reserve				
- balance at beginning of year	1 071 446	(1 133 596)	-	-
- translation of foreign operations	(1 723 174)	2 205 042	-	-
- balance at end of year	(651 728)	1 071 446	-	-

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

	Consolidated 2009 $	Consolidated 2008 $	Company 2009 $	Company 2008 $
(iii) Equity component on convertible notes				
- balance at beginning of year	496 330	496 330	496 330	496 330
- issue of convertible notes	178 709	-	178 709	-
- transfer to issued capital	(954)	-	(954)	-
- balance at end of year	674 085	496 330	674 085	496 330

The increase in the reserve for the equity component on convertible notes represents the equity component on the issue of 6,638,033 15% convertible notes in February 2009 at an issue price of $0.45 per note. Refer to note 17 for further details.

The equity component of $178,709 was calculated as the face value of the note, less the financial liability component at the date of issue. The financial liability component at date of issue was calculated by discounting the face value of the convertible notes together with the interest payable thereon over the maturity period, followed by an allocation of the debt issue costs between the debt and equity components on a pro-rata basis. The discount rate used was 17.5%, representing the directors' estimate of the interest rate applicable to a debt instrument issued under similar terms with a similar maturity period.

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22. Accumulated Losses

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Balance at beginning of financial year	(45 438 002)	(35 772 244)	(42 282 684)	(36 107 784)
Net profit / (loss)	2 142 343	(9 665 758)	(186 674)	(6 174 900)
Balance at end of financial year	(43 295 659)	(45 438 002)	(42 469 358)	(42 282 684)

23. Earnings Per Share

	2009	2008
	Cents per share	Cents per share
Basic earnings/(loss) per share	0.34	(1.90)
Diluted earnings/(loss) per share	0.34	(1.90)

Basic earnings per share

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

	2009	2008
	$	$
Earnings: Net profit/(loss) for the year	2 142 343	(9 665 758)

	2009	2008
	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	631 410 348	507 662 429

Diluted earnings per share

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

	2009	2008
	$	$
Earnings: Net profit/(loss) for the year	2 142 343	(9 665 758)

	2009	2008
	Number	Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	631 410 348	507 662 429
Shares deemed to have been issued in respect of:		
Unlisted options	6 630 136	-
	638 040 484	507 662 429

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

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	2009 Number	2008 Number
$0.23 June 2009 unlisted options	-	1 500 000
$0.30 June 2010 unlisted options	2 000 000	2 000 000
$0.15 July 2010 unlisted options	9 500 000	9 500 000
$0.14 March 2011 unlisted options	6 000 000	6 000 000
$0.07 June 2012 unlisted options	7 800 000	-
Convertible notes maturing 31 January 2012	6 602 589	
Convertible notes maturing 31 January 2009	-	38 500 000
	31 902 589	57 500 000

24. Commitments for expenditure

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Oil and Gas Properties				
Not longer than 1 year	61 935	549 304	61 935	78 068
Longer than 1 year and not longer than 5 years	-	-	-	-
Longer than 5 years	-	-	-	-
	61 935	549 304	61 935	78 068

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

Not included in the amounts above are commitments in respect of the acquisition of a 15% interest in three blocks offshore Guinea Bissau, which is subject to the receipt of various approvals (refer note 25 below). On receipt of the approvals, the Company will have an immediate commitment of up to US$600,000. Further, on approval, the Company will also have a commitment to meet its share of the budgeted 2010 expenditures, with a minimum forecast spend of approximately US$500,000 (Company share), rising significantly if a planned 3D seismic survey is approved and confirmed.

Non-cancellable operating lease commitments are disclosed in note 26 to the financial statements.

25. Contingent liabilities and contingent assets

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Guinea Bissau - acquisition cost (i)	668 971	-	668 971	-
Guinea Bissau – contingent payment from future production (ii)	14 494 369	-	14 494 369	-
Guarantee on lease premises	-	17 000	-	17 000
	15 163 340	17 000	15 163 340	17 000

(i) On 18 December 2009, the Company entered into an Agreement to acquire a 15% interest in three blocks offshore Guinea Bissau. The acquisition is subject to the approval of Petroguin, the National Oil Company of Guinea Bissau, and the Minister of the Republic of Guinea Bissau. On receipt of the necessary approvals the Company has a commitment to reimburse the vendor's 2009 exploration costs up to a maximum of US$600,000.

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25. Contingent liabilities and contingent assets (continued)

(ii) In addition to the above, under the terms of the Agreement, in the event of future production from the blocks the vendor will be entitled to recover up to US$13million in past exploration costs from the Company's proceeds from production. Any such recovery will be at a rate of 50% of the Company's annual net revenue as defined by the agreement.

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

26. Leases

Operating Leases - Leasing arrangements

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Non-cancellable operating lease payments:				
Not longer than 1 year	172 427	159 837	94 211	90 117
Longer than 1 year and not longer than 5 years	226 321	376 457	226 321	316 798
Longer than 5 years	-	-	-	-
	398 748	536 294	320 532	406 915

27. Interests in Joint Venture Operations

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

	Percentage of Output Interest	
Name	2009 %	2008 %
Australia		
Carnarvon Basin –WA254P	10.71	10.71
Canning Basin – EP104/R1	8.00	8.00
China		
Beibu Gulf Block 22/12	-	5.00
Senegal		
Rufisque Offshore / Sangomar Offshore / Sangomar Deep Offshore	90.00	90.00

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

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Current Assets				
Other assets	60 513	60 207	-	-
Non-Current Assets				
Property, plant and equipment	219 435	366 545	-	-
Oil and gas properties	18 839 901	24 477 652	13 961 076	14 437 525
Current Liabilities				
Trade and other payables	237 654	943 965	-	375 185

Contingent liabilities and capital commitments

The capital commitments arising from the Consolidated Entity's interests in joint ventures are disclosed in note 24.

There are no contingent liabilities in respect of the Consolidated Entity's interest in joint ventures other than as disclosed in note 25.

28. Subsidiaries

Name of Entity	Country of incorporation	Ownership interest	
		2009 %	2008 %
Parent Entity			
First Australian Resources Limited (i)	Australia		
Subsidiaries			
G2 Net Pty Ltd (ii) (iii)	Australia	100	100
Humanot Pty Ltd (ii) (iii)	Australia	100	100
Oil Australia Pty Ltd (ii) (iv)	Australia	-	100
First Australian Resources Inc	USA	100	100

(i) First Australian Resources Limited is the Head Entity within the tax consolidated group.

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

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

(iv) Oil Australia Pty Ltd was sold on 15 April 2009. Refer below for further details.

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28. Subsidiaries (continued)

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

	Consolidated	
	2009 $	2008 $
Statement of Comprehensive Income		
Revenues	201 287	403 005
Other income	7 967 251	-
Depreciation and amortisation expense	(23 744)	(28 636)
Exploration expense	(748 498)	(1 599 659)
Impairment of loans	(635 839)	(5 891 899)
Finance costs	(575 211)	(942 665)
Employee benefits expense	(1 665 407)	(708 124)
Consulting expense	(593 916)	(381 508)
Foreign exchange gain / (loss)	(3 666 072)	3 474 788
Other expenses	(446 525)	(500 216)
Loss before income tax	(186 674)	(6 174 914)
Income tax expense	-	-
Loss for the year	(186 674)	(6 174 914)
Statement of Financial Position		
CURRENT ASSETS		
Cash and cash equivalents	11 482 906	6 535 417
Receivables	3 372 499	59 366
Other financial assets	-	48 091
Other	27 625	10 794
Total Current Assets	14 883 030	6 653 668
NON CURRENT ASSETS		
Trade and other receivables	5 758 083	11 016 163
Other financial assets	1 026 928	1 005 446
Property, plant and equipment	107 342	55 338
Oil and gas properties	13 961 076	14 437 525
Total Non-Current Assets	20 853 429	26 514 472
TOTAL ASSETS	35 736 459	33 168 140
CURRENT LIABILITIES		
Trade and other payables	207 062	849 223
Borrowings	-	5 390 000
Provisions	835 534	167 031
Total Current Liabilities	1 042 596	6 406 254
NON-CURRENT LIABILITIES		
Borrowings	2 672 420	-
Total Non-Current Liabilities	2 672 420	-
TOTAL LIABILITIES	3 715 016	6 406 254
NET ASSETS	32 021 443	26 761 886
EQUITY		
Issued Capital	72 090 504	67 261 038
Reserves	2 400 290	1 783 535
Accumulated losses	(42 469 351)	(42 282 677)
TOTAL EQUITY	32 021 443	26 761 896

Notes to the Financial Statements

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Accumulated Losses

	Consolidated 2009 $	Consolidated 2008 $
Balance at beginning of financial year	(42 282 677)	(36 107 763)
Net Loss	(186 674)	(6 174 914)
Balance at end of financial year	(42 469 351)	(42 282 677)

Disposal of subsidiary

On 15 April 2009 the Consolidated Entity disposed of Oil Australia Pty Ltd, a 100% owned subsidiary. Oil Australia Pty Ltd held the Consolidated Entity's 5% interest in the Beibu Gulf Block 22-12 Joint Venture, offshore China.

The sale proceeds of US$8 million are receivable in three tranches, contingent on the following conditions:

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

In calculating the gain on disposal in the period, only US$5,000,000 of the sales proceeds have been recognised as, in the opinion of the directors, satisfaction of the conditions precedent in the final tranche payment remains uncertain at this point in time.

The profit for the period to 15 April 2009 recognised by Oil Australia Pty Ltd was nil.

The net assets of Oil Australia Pty Ltd at the date of disposal were as follows:

	15 April 2009 $
Exploration assets disposed of	2 975 441
Gain on disposal	4 033 169
Consideration recognised	7 008 610
Satisfied by cash, and net cash inflow arising on disposal	2 872 389

29. Notes to the cash flow statement

(a) Reconciliation of cash and cash equivalents

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Cash and cash equivalents	11 710 120	6 761 829	11 482 906	6 535 417
	11 710 120	6 761 829	11 482 906	6 535 417

(b) Non-cash financing and investing activities

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

29. Notes to the cash flow statement (continued)

(c) Financing facilities

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Secured bank loan facility maturing 31 May 2009 which may be extended by mutual agreement:				
• amount used	-	541 282	-	-
• amount unused	-	-	-	-
	-	541 282	-	-

(d) Cash balances not available for use

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

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Profit/(loss) for the period	2 142 343	(9 665 758)	(188 674)	(6 174 900)
Gain on sale or disposal of non-current assets	(4 048 709)	-	(4 048 709)	-
Depreciation and amortisation of non-current assets	622 845	716 506	23 744	28 636
Foreign exchange (gain)/loss	1 661 344	28 999	3 666 072	(3 474 788)
Equity settled share-based payment	691 000	252 000	691 000	252 000
Exploration expensed	798 792	7 836 846	748 498	1 599 659
Impairment of loans	-	-	635 839	5 892 327
Interest income received	(196 877)	(405 825)	(195 119)	(396 194)
Accretion on convertible note	113 734	388 294	113 734	388 294
(Increase)/decrease in assets:				
Trade receivables	203 024	(57 076)	-	-
Other financial assets	27 200	(21 473)	26 618	(21 473)
Other current assets	(18 032)	(48 555)	(16 831)	10 873
Increase/(decrease) in liabilities:				
Trade and other payables	(180 800)	326 288	(78 579)	(17 884)
Provisions	674 298	13 033	668 503	9 457
Net cash from operating activities	2 490 162	(636 721)	2 046 096	(1 903 993)

30. Financial instruments

(a) Capital risk management

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

(b) Financial risk management objectives

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

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

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

(c) Significant accounting policies

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

(d) Categories of financial instruments

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Financial assets				
Cash and cash equivalents	11 710 120	6 761 829	11 482 906	6 535 417
Loans and receivables	3 555 670	476 148	10 157 503	12 129 069
Financial liabilities				
Amortised cost	3 123 900	7 353 600	2 879 482	6 239 223

(e) Foreign currency risk management

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

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

Foreign currency risk sensitivity

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

At the reporting date, if the Australian dollar had increased / decreased by 10% against the US dollar:

- the Consolidated Entity's net profit after tax would decrease/increase by $496,995.
- the Company's net loss after tax would increase / decrease by $1,020,457.

(f) Commodity price risk management

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

Commodity price sensitivity analysis

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

If the average commodity prices during the year had increased / decreased by 10%:

- the Consolidated Entity's net profit after tax would increase/decrease by $129,312.
- the Company's net loss after tax would decrease / increase by $nil.

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30. Financial instruments (continued)

(g) Liquidity risk management

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

Liquidity and interest risk tables

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

Consolidated

	Weighted average effective interest rate %	Maturity					Total $'000
		Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000	
2009							
Financial assets:							
Non-interest bearing	-	5 992 356	-	3 346 829	21 473	-	9 360 658
Variable interest rate	3.97	1 800 000	4 150 000	-	-	-	5 950 000
		7 792 356	4 150 000	3 346 829	21 473	-	15 310 658
Financial liabilities:							
Non-interest bearing	-	451 480	-	-	-	-	451 480
Variable interest rate	-	-	-	-	-	-	-
Fixed interest rate	15.00	-	111 419	334 257	3 453 978	-	3 899 654
		451 480	111 419	334 257	3 453 978	-	4 351 134
2008							
Financial assets:							
Non-interest bearing	-	1 245 275	-	-	21 473	-	1 266 748
Variable interest rate	5.16	6 029 174	-	-	-	-	6 029 174
		7 274 449	-	-	21 473	-	7 295 922
Financial liabilities:							
Non-interest bearing	-	1 442 318	-	-	-	-	1 442 318
Variable interest rate	3.75	-	-	549 740	-	-	549 740
Fixed interest rate	10.00	5 434 917	-	-	-	-	5 434 917
		6 877 235	-	549 740	-	-	7 426 975

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Company

	Weighted average effective interest rate %	Maturity					Total $'000
		Less than 1 month $'000	1-3 months $'000	3 months to 1 year $'000	1-5 years $'000	5+ years $'000	
2009							
Financial assets:							
Non-interest bearing	-	5 605 418	-	3 344 855	6 785 004	-	15 735 277
Variable interest rate	3.97	1 800 000	4 150 000	-	-	-	5 950 000
		7 405 418	4 150 000	3 344 855	6 785 004	-	21 685 277
Financial liabilities:							
Non-interest bearing	-	207 062	-	-	-	-	207 062
Fixed interest rate	-	-	-	-	-	-	-
Financial guarantee contracts	15.00	-	111 419	334 257	3 453 978	-	3 899 654
		207 062	111 419	334 257	3453 978	-	4 106 716
2008							
Financial assets:							
Non-interest bearing	-	652 728	-	-	12 043 085	-	12 695 813
Variable interest rate	5.16	6 026 618	-	-	-	-	6 026 618
		6 679 346	-	-	12 043 085	-	18 722 431
Financial liabilities:							
Non-interest bearing	-	849 223	-	-	-	-	849 223
Fixed interest rate	10.00	5 434 917	-	-	-	-	5 434 917
Financial guarantee contracts	-		-	-	-	-	
		6 284 140	-	-	-	-	6 284 140

(h) Interest rate risk management

The Consolidated Entity is exposed to interest rate risk as it earns interest at floating rates from a portion of its cash and cash equivalents.

Interest rate sensitivity analysis

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

If the average interest rate during the year had increased / decreased by 10%:

- the Consolidated Entity's net profit after tax would increase/decrease by $19,688.
- the Company's net loss after tax would decrease / increase by $19,512.

(i) Credit risk management

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

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

(j) Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values (2008: net fair value).

31. Share-based payments

Employee share option plan

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

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

	2009 No:	2008 No:
Balance at beginning of the financial year	9 500 000	9 500 000
Exercised during the financial year	-	-
Granted during the financial year	7 800 000	-
Balance at the end of the financial year	17 300 000	9 500 000

(i) Options exercised during the financial year

No options were exercised during the current financial year.

(ii) Options granted during the financial year

On 9 April 2009, the Company granted 1,800,000 unlisted incentive options to an executive. On 28 May 2009, the Company granted 6,000,000 unlisted incentive options to an executive. The options are exercisable at 7 cents on or before 30 June 2012. All options vested on grant date.

The option packages have been valued at $54,000 and $343,000 respectively for accounting purposes using the Black Scholes model. The financial effect of this event has been recognised in the current year as an employee benefits expense. At the date of this report, none of these options have been exercised.

Option pricing inputs	9 April 2009 Issue	28 May 2009 Issue
Number granted	1 800 000	6 000 000
Grant date	9 April 2009	28 May 2009
Grant date share price	5.4 cents	7.9 cents
Exercise price	7 cents	7 cents
Expected volatility	90%	90%
Option life	1 177 days	1 128 days
Risk-free interest rate	3.00%	3.00%
Fair value per option	3.0 cents	4.91 cents

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(iii) Balance at the end of the financial year

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

	2009 No:	2008 No:
Exercisable at 15 cents on or before 31 July 2010	9 500 000	9 500 000
Exercisable at 7 cents on or before 30 June 2012	7,800,000	-

Services Received

On 3 February 2009, the Company issued 14,000,000 unlisted options in lieu of consultancy fees. The options are exercisable at 5 cents on or before 30 June 2012. All options vested on grant date.

The options package has been valued at $294,000 for accounting purposes using the Black Scholes model. The financial effect of the option issue has been recognised as a share-based payments expense in Consulting Expenses in the current financial year statement of comprehensive income. At the date of this report, 12,000,000 of these options have been exercised.

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

Option pricing inputs	
Number granted	14 000 000
Grant date	3 February 2009
Grant date share price	3.8 cents
Exercise price	5 cents
Expected volatility	90%
Option life	1 242 days
Risk-free interest rate	3.00%
Fair value per option	2.1 cents

In addition to the options discussed above, a further 8,000,000 options issued to consultants in prior years as share-based payments remain unexercised at balance date. Further information concerning these options is set out in note 20.

32. Key management personnel compensation

(a) Details of key management personnel

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

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

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32. Key management personnel compensation (continued)

(b) Key management personnel compensation

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

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Short-term employee benefits	753 012	736 644	624 474	607 262
Post employment benefits	56 568	99 148	56 568	99 148
Share-based payment	397 000	-	397 000	-
Total	1 206 580	835 792	1 078 042	706 410

33. Related party disclosures

(a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 28 to the financial statements.

(b) Equity interests in associates and joint ventures

Details of interests in joint ventures are discussed in note 27.

(c) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 32 to the financial statements.

(d) Key management personnel equity holdings

Fully Paid Ordinary Shares

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

2008	Balance 1/1/08	Received on Exercise of Options	Net Other Change (ii)	Balance 31/12/08
Directors				
M J Evans	6 225 450	-	-	6 225 450
C L Cavness	1 150 000	-	-	1 150 000
A E Brindal	29 000	-	-	29 000
W R Grigor (i)	10 080 548	-	(10 080 548)	-
Executives				
C J Harper	-	-	-	-
J A Atling	4 883 575	-	-	4 883 575
R Adessa	2 601	-	-	2 601

Notes to the Financial Statements

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(i) Resigned 1 April 2008.

(ii) Net other changes comprise shares purchased and sold. In respect of W R Grigor, net other change includes his holding at the date of his resignation as a director.

Share Options

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

2008	Balance 1/1/08	Options Granted as Compensation	Options Exercised	Net Other Change	Balance 31/12/08
Directors					
M J Evans	5 000 000	-	-	-	5 000 000
C L Cavness	1 000 000	-	-	-	1 000 000
A E Brindal	-	-	-	-	-
W R Grigor (i)	1 500 000	-	-	(1 500 000)	-
Executives					
C J Harper	1 500 000	-	-	-	1 500 000
J A Atling	-	-	-	-	-
R Adessa	500 000	-	-	-	500 000

(i) Resigned 1 April 2008. Net other change represents holding at the date of resignation as a director.

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

Further details of share options granted to directors and executives during the year have been disclosed at note 31 to the financial statements.

Convertible Notes

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

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33. Related party disclosures (continued)

2008	Balance 1/1/08	Net Other Change (ii)	Balance 31/12/08
Directors			
M J Evans	-	-	-
C L Cavness	-	-	-
A E Brindal	-	-	-
W R Grigor (i)	-	-	-
Executives			
C J Harper	-	-	-
J A Atling	-	-	-
R Adessa	-	-	-

(i) Resigned 1 April 2008.

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

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

(d) Transactions with the Directors of the Consolidated Entity

There were no transactions with directors of the Consolidated Entity in the current year. During 2008, fees of $25,000 were paid to Mr Grigor for the provision of financial advice and public relations representation based on normal terms and conditions.

(e) Controlling Entity

The Parent Entity in the Consolidated Entity is First Australian Resources Ltd. Both the ultimate Parent Entity and the ultimate Australian Entity in the wholly owned group is First Australian Resources Limited. Related party receivable balances are disclosed in notes 11 and 12 of the financial report.

34. Subsequent Events

Subsequent to the financial year end:

(a) On 11 March 2010, the Company issued 9,500,000 options to consultants in lieu of consultancy fees. 4,750,000 options are exercisable at 7.5 cents on or before 31 March 2012 and 4,750,000 options are exercisable at 10 cents on or before 31 March 2013.

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

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

35. Remuneration of auditors

	Consolidated		Company	
	2009 $	2008 $	2009 $	2008 $
Auditor of the Parent Entity:				
Audit or review of the financial report	45 000	44 500	37 753	33 118
Taxation services	-	-	-	-
	45 000	44 500	37 753	33 118

The auditor of the Consolidated Entity is Deloitte Touche Tohmatsu.

Supplementary Information

Pursuant To The Listing Requirements of The Australian Stock Exchange Limited

Number of holders of equity securities

Ordinary shares

At 19 March 2010, the issued capital comprised of 658,232,784 ordinary shares held by 5,377 holders.

Convertible Notes

At 19 March 2010, there were 6,602,589 fully paid 15% convertible notes held by 33 holders. Each note converts to 10 shares. Notes do not carry the right to vote.

Unlisted Options

At 19 March 2010, there were 36,800,000 unlisted options, of various exercise prices and expiry dates, held by 8 holders. Each option converts to one share. Options do not carry the right to vote.

Spread details as at 19 March 2009			Ordinary Shares Number of Holders	Convertible Notes Number of Holders
1	-	1,000	352	0
1,001	-	5,000	505	18
5,001	-	10,000	618	11
10,001	-	100,000	2,783	2
100,001 and over			1,119	2
			5,377	33
Holding less than a marketable parcel			1,122	0

Substantial shareholders

No notifications of substantial shareholders have been received by the Company.

Top Twenty Shareholders	Number of Shares	Percentage
Citicorp Nominees Pty Limited	16,209,754	2.46
National Nominees Limited	14,134,269	2.15
HSBC Custody Nominees (Australia) Limited	9,176,269	1.39
Douglas Michael Grant & Sharon Leigh Grant	6,226,000	0.95
Tevlo Pty Ltd	6,225,450	0.95
Forty Traders Limited	5,756,092	0.87
David John Hanks	5,425,000	0.82
Zarko Nikoloski	5,424,857	0.82
John Daniel Powell	5,400,500	0.82
P J Enterprises Pty Ltd	5,100,000	0.78
ANZ Nominees Limited	5,076,583	0.77
Manotel Pty Ltd	4,550,000	0.69
St. Mellions Inc	4,050,000	0.62
Bond Street Custodians Limited	3,982,756	0.61
Robert Albert Boas	3,704,130	0.56
Peter Vidotto	3,635,000	0.55
Albert Leslie Hodge & Christopher John Hodge	3,450,000	0.52
Nommack (No 255) Pty Ltd	3,400,000	0.52
Bradley John Chapman	3,287,429	0.50
William Douglas Goodfellow	3,281,000	0.50
	117,495,089	17.85

Supplementary Information

Pursuant To The Listing Requirements of The Australian Stock Exchange Limited

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

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