

OPAL HORIZON LIMITED
ABN 98 095 974 762

**General Purpose Financial Report
for the year ended 31 December 2009**

OPAL HORIZON LIMITED

ABN 98 095 974 762

DIRECTORS' REPORT

Your Directors present their report on the company for the year ended 31 December 2009.

Directors

The following persons were Directors of the company during the whole of the financial year and continue in office at the date of this report:

A J Fawdon
D J Horton
L J Litzow
D H Hall

Principal Activities

The principal continuing activities of the company has been the exploration for opals in Australia by the identification of target areas, and the mining of precious opals.

During the year exploration and mining activities were kept to a minimum while the company sought:

- (a) funding to provide working capital for its activities; and
- (b) international markets for its opal products.

Dividends

No dividend has been paid since the end of the previous financial year and the Directors do not recommend the payment of any dividend for the financial year ended 31 December 2009.

Review of Operations

The loss of the company for the financial year ended 31 December 2009 was \$429,472. (2008: loss \$1,234,045).

The company was incorporated in February 2001. It is a vertically integrated company involved, and intending to become involved, in all aspects of the opal industry from exploration through to mining, purchasing, processing, wholesaling and marketing.

The Directors and management of the company have a collective total in excess of 140 years experience in mineral exploration, mining and financing. The company's Managing Director is a geologist who is one of Australia's leading researchers on practical aspects of opal exploration. The company has developed exploration methodologies specifically targeting large deposits of precious opal in central Australia.

Opal Horizon Limited began mining its Raindance deposit near Jundah, southwest Queensland in April 2008 using contract miners. This was one of two deposits found by the company in 2006. Also in April 2008, the company purchased a purpose-built truck-mounted RAB (Rapid Air Blast) for the purpose of exploration and near-mine development.

On 20 May 2008, the company lodged a prospectus with ASIC to raise up to \$6 million. The company also lodged an application to list on ASX in anticipation of meeting minimum subscription (10 million shares).

On 24 October 2008, following the development of the global financial crisis, the prospectus and the application to list on ASX were withdrawn.

In September 2008, the company temporarily ceased mining operations. In late 2008, its exploration projects were rationalised and most of its equipment and personnel were seconded to other companies to preserve working capital.

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By May 2009, financial markets had recovered and the sum of \$434,600 was raised during the year to provide working capital to continue operations which were primarily focused on securing international markets for opal products in China, Southeast Asia, the Middle East, Japan and the USA. Following approaches by numerous small opal miners throughout Australia to purchase their product and sell it overseas, the company felt that it had a strong case for developing new overseas markets.

In August 2009, the company briefly re-opened the Raindance Mine and produced a small quantity of stone which is currently being cut into gemstones.

The company is currently seeking private funding to provide working capital and develop international markets for its products. Opal Horizon Limited will remain an unlisted public company for the immediate future. Beyond what is required to maintain its exploration and mining tenements, the company will not recommence exploration or mining activities until sufficient working capital has been raised to support such activities.

The company's current projects as of 31 December 2009 are detailed below:

Lina Glen Project (ML 95542, EPM Application 15970)

Following bulk testing of the Raindance deposit in late 2007, mining began in April 2008 and continued intermittently until September 2008 when all mining operations were suspended just prior to the withdrawal of the company's 2008 prospectus. In many respects, mining undertaken during 2008 was an extension of the bulk testing program except that the specific aim of the 2008 program was to locate controls to high-grade mineralisation. An area of 450 m², equivalent to roughly four times that of the 2007 bulk testing program was mined to a depth of 8m in five trenches during 2008.

The mining confirmed the highly erratic nature of opal mineralisation with the bulk of the exceptionally high quality pipe and boulder opal found in only two of these trenches. Geological mapping of the trenches has shown that the major controls to mineralisation at Raindance are the edges of palaeo-channels and there is evidence of some rich opal patches in shallower ground. When mining resumes, initial trenching will be along the edges of the palaeo-channels identified to date.

A small EPM surrounds the mining lease and this was granted in February 2010. Exploration will begin during 2010.

Kurran Project (EPM 14310)

The Kurran project area is situated 170 kilometres northwest of Windorah in western Queensland. This area was selected on the basis of the widespread high quality boulder opal occurrences found there by previous explorers and miners.

Infill drilling of the Sunrise and Sunset deposits, which were found by the company in 2007, occurred in late 2008. While this drilling did not locate any significantly rich areas of mineralisation, considerably more drilling is still required at the Sunset deposit and environs.

Thylungra Project (EPM Application 15991)

The Thylungra project area lies 80km southeast of Windorah in southwest Queensland. The area was selected for attention because digital elevation modelling suggested that erosion had been minimal in this opal-bearing domal area and that consequently there was a good possibility of buried opal orebodies suitable for detection by the company's exploration methodologies.

Once the large exploration permit application has been granted, the company intends to conduct a detailed reconnaissance of the entire project area likely to be followed by drilling.

Opalton Project (EPM Applications 17045 and 17046)

Situated 130km south-southwest of Winton and immediately southwest of the township of Opalton, the Opalton project area consists of two small contiguous exploration permit applications in a region renowned for the large number of boulder opal occurrences. The objective of this project area is to look for possible sub-surface extensions or repetitions of the Opalville mineralisation.

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Energy Project (EPM Application 17863)

Situated 40km north of Jundah, this area was selected because of its similarity in terms of geological setting and style of mineralisation to that of the Lina Glen project, 65km to the southwest. The EPM application covers numerous old opal workings in this area.

Significant Changes in State of Affairs

Significant changes in the state of affairs of the company during the financial year were as follows:

| | 2009 \$ |
|--|------------------|
| An increase in contributed equity of \$434,600 (from \$3,738,511 to \$4,173,111) as a result of: | |
| Placement of 7,948,001 fully paid ordinary shares | 434,600 ----- |
| Less: Transaction costs arising on share issues, net of current income tax | - |
| Net increase in share capital | 434,600 ===== |

Matters Subsequent to the end of the Financial Year

No matters or circumstances have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the company; the results of those operations; or the state of affairs of the company, in financial years subsequent to 31 December 2009.

Likely developments and expected results of operations

In March 2010, Opal Horizon Limited commissioned the development of an international marketing strategy for Opal Horizon Limited, specifically and for precious opal, generally through jewellery and gemstone consultants in Australia and Switzerland. The development of a marketing strategy will assist the company in securing the level of private equity funding it requires to (a) resume exploration activities, (b) resume mining, (c) purchase stone from other parties, (d) process both mined and purchased stone, (e) begin to consolidate the highly fragmented Australian opal industry, (f) implement an international opal marketing campaign and (g) establish a positive cash flow for the company.

These activities will commence on receipt of adequate working capital from private investors.

The company may also investigate the possibility of listing on an appropriate stock exchange, either domestic or foreign, although this is a secondary goal of the company at this point in time.

Environmental Regulation

The company is not subject to any significant environmental regulation (apart from normal requirements under its exploration and mining tenements) in respect of its operations.

The following policy has been adopted as the official Environmental Policy of the company:

Opal Horizon Limited is committed to being an efficient and effective mineral exploration / mining company embracing sound environmental management practices and world best practices.

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It is the company's policy to:

- abide by the concepts and principles of sustainable development;
- carry out operations in an environmentally responsible manner having consideration for individual and community welfare;
- ensure that, at a minimum, business is conducted in compliance with existing environmental legislation and regulations; and
- educate staff and employees in the importance of understanding their environmental responsibilities for the sensitive implementation of all company operations.

Information on Directors

Anthony John Fawdon FAICD, FAus IMM. *Chairman – Executive.* Age 66

Experience and expertise

Mr Fawdon has been active in the Australian mining and exploration industry for 35 years, working until 1982 in various management levels for multinational companies. He then became founder and director of several listed mineral explorers.

Other current directorships

Executive director of Diatrema Resources Limited since 2001.

Former directorships in last 3 years

None.

Special responsibilities

Chairman of the Board.

Interests in shares and options

4,050,001 ordinary shares in Opal Horizon Limited.
2,975,000 options over ordinary shares in Opal Horizon Limited.

David John Horton M.Sc, MGSA, MAIG, MSEG. *Managing Director – Executive.* Age 59

Experience and expertise

Mr Horton has 35 years experience in mineral exploration, project and prospect generation, management and resource evaluation.

Other current directorships

Non-executive director of Superior Resources Limited since 2005.

Former directorships in last 3 years

None.

Special responsibilities

Managing Director.

Interests in shares and options

5,511,722 ordinary shares in Opal Horizon Limited.
4,655,861 options over ordinary shares in Opal Horizon Limited.

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Lawrence James Litzow FCA. *Non-executive director. Age 75*

Experience and expertise

Mr Litzow is a Chartered Accountant who consults in specialist accounting and corporate matters. He holds positions as corporate secretary with a number of public and private companies. His background includes tenure as Managing Partner of Douglas Heck & Burrell, Chartered Accountants, member of the Small Business Council, Chairman of the Small Business Taxation Group (Canberra) and State Chairman of the Taxation Institution of Australia.

Other current directorships

Non-executive director of Diatreme Resources Limited since 2001.
Non-executive Chairman of Superior Resources Limited since 2007.
Non-executive Director of Hillston Grove Vineyards Limited since 2008.

Former directorships in last 3 years

Former Non-executive Director of Garimperos Limited until April 2009.
Former Non-executive Director of Xtreme Resources Limited until April 2009.
Former Non-executive Director of Tamawood Limited until November 2006.
Former Non-executive Director of Ask Funding Limited until August 2009.

Special responsibilities

Company secretary.

Interests in shares and options

4,000,001 ordinary shares in Opal Horizon Limited.
3,000,000 options over ordinary shares in Opal Horizon Limited.

David Hugh Hall B.Sc(Geol)., GDESc. *Non-executive director. Age 56*

Experience and expertise

Mr Hall is a geologist with over 29 years experience in both field exploration and office administration. During this time, he has developed skills and experience in exploration and corporate management. He has specialist experience in project maintenance and tenement administration, government / landholder / native title liaison and public / private company dealings.

Other current directorships

Executive director of Diatreme Resources Limited since 2001.

Former directorships in last 3 years

None

Special responsibilities

None.

Interests in shares and options

4,100,001 ordinary shares in Opal Horizon Limited.
3,000,000 options over ordinary shares in Opal Horizon Limited.

Company Secretary

The Company Secretary is Mr L J Litzow. Mr L J Litzow was appointed to the position of company secretary in 2001. Details of Mr Litzow's qualifications and experience are set out in Information on Directors.

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Meetings of Directors

The number of meetings of the company's board of directors held during the year ended 31 December 2009, and the number of meetings attended by each director were:

| <i>Director</i> | <i>Meetings held whilst a director</i> | <i>Meetings attended</i> |
|-----------------|--|------------------------------|
| A J Fawdon | 8 | 6 |
| D J Horton | 8 | 8 |
| L J Litzow | 8 | 6 |
| D H Hall | 8 | 8 |

The activities of the company do not require the formation of Board committees.

Shares under option

Unissued ordinary shares of Opal Horizon Limited under option at the date of this report are as follows:

| Date options granted | Expiry date | Issue price of shares | Number under option |
|-----------------------------|--------------------|----------------------------------|--------------------------------|
| Various dates during: | | | |
| 2001 | 30/06/2013 | \$0.20 | 10,450,000 |
| 2002 | 30/06/2013 | \$0.20 | 981,445 |
| 2003 | 30/06/2013 | \$0.20 | 1,100,750 |
| 2004 | 30/06/2013 | \$0.20 | 340,640 |
| 2005 | 30/06/2013 | \$0.20 | 68,385 |
| 2006 | 30/06/2013 | \$0.20 | 3,502,203 |
| 2007 | 30/06/2013 | \$0.20 | 2,880,627 |
| 2007 | 30/06/2014 | \$0.50 | 5,800,000 |
| 2008 | 30/06/2014 | \$0.50 | 750,000 |
| 2008 | 30/06/2013 | \$0.20 | 169,500 |
| 2009 | 30/06/2013 | \$0.20 | 3,974,000 |

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Shares issued on the exercise of options

No ordinary shares of Opal Horizon Limited were issued during the year ended 31 December 2009 on the exercise of options. No shares have been issued since that date.

Extension of Expiry Date of Options

At a General Meeting of the company on 27 November 2009, resolutions were passed which extended the expiry date of the 20 cent 2010 options to 30 June 2013 and the expiry date of the 50 cent 2011 options to 30 June 2014.

Insurance of officers

During the financial year Opal Horizon Limited has not paid a premium to insure the directors and secretaries of the company.

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Proceedings on behalf of the Company

No person has applied to the Court under Section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under Section 237 of the Corporations Act 2001.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

Auditor

Hacketts DFK continues in office in accordance with section 327 of the *Corporations Act 2001*.

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

D J Horton
Managing Director

Brisbane, 31 March 2010

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AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF OPAL HORIZON LIMITED

In relation to the audit of Opal Horizon Limited's financial report for the year ended 31 December 2009, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001, and
- b) no contraventions of any applicable code of professional conduct.

Hacketts DFK

**L Murphy
Partner**

Brisbane, 31 March 2010

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DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 10 to 30:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's financial position as at 31 December 2009 and of its performance, as represented by the results of its operations and its cash flows, for the financial period ended on that date.

In the Directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) having regard to those matters described in Note 1 (a) to the financial statements, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

D J Horton
Managing Director

Brisbane, 31 March 2010

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STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

| | Note | 2009 \$ | 2008 \$ |
|---|------|---------------------------|-----------------------------|
| Revenue from operations | 5 | 401,201 | 199,510 |
| Expenditure | | | |
| Cost of gems sold | | (15,476) | - |
| Exploration expenditure written off | | (4,076) | (182,869) |
| Mining operations | | (23,931) | (333,414) |
| Drill rig operating costs | | (32,504) | (61,926) |
| Employment costs | | (307,902) | (245,730) |
| Consulting fees | | - | (2,700) |
| Professional services | | (49,710) | (63,305) |
| Depreciation and amortisation expense | | (177,769) | (123,195) |
| Borrowing costs | | (7,832) | (6,109) |
| Occupation costs | | (28,995) | (34,588) |
| Capital raising costs | | (5,063) | (264,207) |
| Administration costs | | (177,415) | (115,512) |
| Loss before income tax from operations | 6 | <u>(429,472)</u> | <u>(1,234,045)</u> |
| Income tax expense | 7 | - | - |
| Loss after income tax | 19 | <u>(429,472)</u> | <u>(1,234,045)</u> |
| <i>Other comprehensive income</i> | | | |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income | | <u>(429,472)</u> ===== | <u>(1,234,045)</u> ===== |
| Loss after income tax and total comprehensive income attributable to owners of the company | | <u>(429,472)</u> ===== | <u>(1,234,045)</u> ===== |
| | | Cents | Cents |
| Earnings per share for profit attributable to the ordinary equity holders of the company | | | |
| Basic earnings per share | 27 | (0.8) | (2.4) |
| Diluted earnings per share | 27 | (0.8) | (2.4) |

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

| | Note | 2009 \$ | 2008 \$ |
|---|------|---------------------------|---------------------------|
| Current Assets | | | |
| Cash and cash equivalents | 8 | 252,631 | 210,340 |
| Receivables | 9 | 28,455 | 68,194 |
| Inventories | 10 | 92,856 | 42,300 |
| Total Current Assets | | <u>373,942</u> | <u>320,834</u> |
| Non-Current Assets | | | |
| Property, plant and equipment | 11 | 321,058 | 389,550 |
| Exploration costs and mine properties | 12 | 754,645 | 828,837 |
| Other assets | 13 | 17,300 | 22,300 |
| Total Non-Current Assets | | <u>1,093,003</u> | <u>1,240,687</u> |
| Total Assets | | <u>1,466,945</u> ===== | <u>1,561,521</u> ===== |
| Current Liabilities | | | |
| Payables | 14 | 55,642 | 76,335 |
| Short term interest bearing liabilities | 15 | 26,793 | 31,037 |
| Short term borrowings | 16 | - | 50,000 |
| Total Current Liabilities | | <u>82,435</u> | <u>157,372</u> |
| Non-Current Liabilities | | | |
| Long term interest bearing liabilities | 17 | 28,264 | 53,031 |
| Total Non-Current Liabilities | | <u>28,264</u> | <u>53,031</u> |
| Total Liabilities | | <u>110,699</u> ===== | <u>210,403</u> ===== |
| Net Assets | | <u>1,356,246</u> ===== | <u>1,351,118</u> ===== |
| Equity | | | |
| Contributed equity | 18 | 4,173,111 | 3,738,511 |
| Accumulated losses | 19 | (2,816,865) | (2,387,393) |
| Total Equity | | <u>1,356,246</u> ===== | <u>1,351,118</u> ===== |

The above Statement of Financial Position should be read in conjunction with the accompanying notes

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STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

| | Ordinary shares \$ | Retained earnings \$ | Total \$ |
|------------------------------------|--------------------------|----------------------------|------------------|
| Balance at 1 January 2008 | 3,690,511 | (1,153,348) | 2,537,163 |
| Loss for the period | - | (1,234,045) | (1,234,045) |
| Total other comprehensive income | - | - | - |
| Total comprehensive income | - | (1,234,045) | (1,234,045) |
| Shares issued during the period | 48,000 | - | 48,000 |
| Sub total | 48,000 | (1,234,045) | (1,186,045) |
| Dividends paid or provided for | - | - | - |
| Balance at 31 December 2008 | <u>3,738,511</u> | <u>(2,387,393)</u> | <u>1,351,118</u> |
| Balance at 1 January 2009 | 3,738,511 | (2,387,393) | 1,351,118 |
| Loss for the period | - | (429,472) | (429,472) |
| Total other comprehensive income | - | - | - |
| Total comprehensive income | - | (429,472) | (429,472) |
| Shares issued during the period | 434,600 | - | 434,600 |
| Sub total | 434,600 | (429,472) | 5,128 |
| Dividends paid or provided for | - | - | - |
| Balance at 31 December 2009 | <u>4,173,111</u> | <u>(2,816,865)</u> | <u>1,356,246</u> |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

| | Note | 2009 \$ Inflows/ (Outflows) | 2008 \$ Inflows/ (Outflows) |
|---|------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Receipts (GST inclusive) | | 496,757 | 114,716 |
| Payments to suppliers and employees (GST inclusive) | | (787,114) | (840,119) |
| Exploration expenditure | | (26,601) | (152,496) |
| Interest received | | 9,654 | 60,082 |
| Borrowing costs paid | | (7,832) | (5,955) |
| Net cash flows from operating activities | 23 | <u>(315,136)</u> | <u>(823,772)</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (12,561) | (218,711) |
| Payments for security deposits | | (2,500) | (2,500) |
| Refund of security deposits | | 7,500 | - |
| Net cash flows from investing activities | | <u>(7,561)</u> | <u>(221,211)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 417,000 | 33,000 |
| Refund of share issue proceeds | | - | (67,000) |
| Capital raising costs | | - | (220,031) |
| Repayment of borrowings | | (52,012) | (27,518) |
| Proceeds of borrowings | | - | 9,022 |
| Net cash flows from financing activities | | <u>364,988</u> | <u>(272,527)</u> |
| Net increase/(decrease) in cash held | | 42,291 | (1,317,510) |
| Cash at beginning of the year | | 210,340 | 1,527,850 |
| Cash at the end of the year | 8 | <u>252,631</u> ===== | <u>210,340</u> ===== |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements cover Opal Horizon Limited as an individual entity. The Company is an unlisted public company incorporated and domiciled in Australia.

(a) Basis of preparation

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

(i) *Going concern*

The company has reported a loss of \$429,472 (2008 : loss of \$1,234,045) and cash outflows from operations and investing of \$315,136 (2008 : \$823,772) and \$7,561 (2008 : \$221,211) respectively. Given the losses and net cash outflow of the company the ability of the company to continue as a going concern, including the ability of the company to pay its debts as and when they fall due, needs to be considered.

The continuation of the company as a going concern is dependent upon its ability to obtain either finance facilities or additional capital, and the generation of future cash inflows to enable the funding of cash requirements. The Directors are of the opinion that the operations of the company can be structured so as to retain the company's assets, satisfy its current liabilities and fund expenditure obligations. It is on this basis that the Directors have prepared the financial statements on a going concern basis.

The financial statements have been prepared on a going concern basis which assumes that the company will realise its assets and extinguish its liabilities in the normal course of business. Given the past losses, the current financial environment of reduced liquidity and difficulty to refinance funding facilities or raising of additional share capital, there is significant uncertainty that the company will continue as a going concern, and, therefore, whether its will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the going concern basis of the preparation of the financial statements not be appropriate.

(ii) *Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the financial statements comply with International Financial Reporting Standards ("IFRS").

(iii) *Historical cost convention*

These financial statements have been prepared on an accrual basis under the historical cost convention.

(iv) *Critical accounting estimates*

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Summary of Significant Accounting Policies (continued)

(v) *Accounting Standards not previously applied*

The company has adopted the following new and revised Australian Accounting Standards issued by the Australian Accounting Standards Board ("AASB") which applies to annual reporting periods beginning on or after 1 January 2009. Disclosures required by these Standards that are deemed material have been included in this financial report on the basis that they represent a significant change in the information from the previously made available.

(vi) *Presentation of Financial Statements*

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognized in profit of loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- the adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income; and
- other financial statements are renamed in accordance with the Standard.

(vii) *Segment information*

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or review by, the company's chief operating decision maker, which is considered to be the Board of Directors. The Directors consider that whilst exploration activities are monitored by tenement that the segment in which the company operates is exploration and mining.

(viii) *New Accounting Standards for application in future periods*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2009 reporting periods. The company's assessment of the impact of these new standards and interpretations is set out below.

AASB 2009-4 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual periods beginning on or after 1 July 2009). The AASB has made amendments to AASB 2 *Share-based payment*, AASB 138 *Intangible Assets* and AASB Interpretations 9 *Reassessment of Embedded Derivatives* and 16 *Hedges of a Net Investment in a Foreign Operation* as a result to the IASB's annual improvements project. The company will apply the amendments from 1 January 2010. The company does not expect that any adjustments will be necessary as a result of applying the revised rules.

AASB 2009-7 *Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]* (applicable for annual reporting periods commencing on or after 1 July 2009). This standard reflects editorial changes made to a number of accounting standards by the IASB. No changes are expected to materially affect the company.

(b) Income Tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Summary of Significant Accounting Policies (continued)

(c) Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes deposits at call, which are readily convertible to cash on hand, and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

(d) Inventories

Inventories are stated at net realisable value. Net realisable value represents the estimated wholesale selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Stock on hand represents stocks of cut opals. Uncut opals are not recognised as stock due to the uncertainty regarding the quality and the value of the opal until it is cut.

(e) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

(f) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs.

(g) Depreciation of property, plant and equipment

Depreciation on fixed assets has been calculated on diminishing value basis. Estimates of remaining useful lives are made on a regular basis for all assets.

The depreciation rates used for each class of assets are as follows:

| | | |
|------------------|-------------|-------------------|
| Office equipment | 37.5% | Diminishing value |
| Field equipment | 20% - 37.5% | Diminishing value |
| Motor vehicles | 20% | Diminishing value |

(h) Exploration Expenditure

Expenditure is accumulated separately for each area of interest until such time as the area is abandoned or sold. The realisation of the value of the expenditure carried forward depends on any commercial results that may be obtained through successful development and exploitation of the area of interest or alternatively by its sale. If an area of interest is abandoned or is considered to be of no further commercial interest the accumulated exploration costs relating to the area are written off against income in the year of abandonment. Some exploration expenditure may also be written off where areas of interest are partly relinquished. In cases where uncertainty exists as to the value, provisions for possible diminution in value are established.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Summary of Significant Accounting Policies (continued)

(i) Mine Properties Expenditure

Mine properties expenditure represents exploration and evaluation expenditure accumulated in respect of tenement or area of interest subject to mine development and or mining activities. Mine properties expenditure is accumulated separately for each tenement or area of interest and amortised over the estimated life of the mining activities for the tenement or area of interest.

Costs associated with mining operations are expensed in the income statement as incurred.

(j) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which remain unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(k) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(l) Earnings per share

(i) *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 financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) *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.

(m) Employee benefits

(i) *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) *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 estimate future cash outflows.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Summary of Significant Accounting Policies (continued)

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(o) Revenue recognition

Revenue is measured at the fair value of consideration received or receivable. The company recognised revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the company's activities as described below.

(i) Equipment rental

Equipment rental income is recognised in the accounting period in which the equipment has been provided to the customer for their use.

(ii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iii) Provision of services

Provision of services income is recognised in the accounting period in which the service has been provided to the customer for their use.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

2. Financial risk management

The company's activities expose it to a variety of financial risks; liquidity risk and cash flow interest rate risk.

Cash flow and fair value interest rate risk

As the company has no significant interest-bearing assets or borrowings, the company's income and operating cash flows are not materially exposed to changes in market interest rates.

Liquidity risk

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company maintains controls which provides for continual monitoring of future cash flow requirements allowing it to put in place appropriate facilities and strategies to ensure that sufficient funds are available to fund the company's activities in the short and medium term. The company has access to \$252,631 (2008: \$210,340) in cash and cash equivalents at the end of the year.

3. Critical Accounting Estimates and Judgements

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

Recoverability of non-current assets

The company has capitalised exploration costs and mine properties of \$416,630 (2008: \$394,730) and \$338,015 (2008: \$434,107) respectively in accordance with the accounting policy set out in note 1(i). Given that exploration and mining activities do not permit a reasonable assessment of the existence or otherwise of recoverable opals and the difficulty in forecasting cash flows to assess the fair value of exploration costs and mine properties there is uncertainty as to the carrying value of exploration costs and mine properties. Changes to management's judgement as to the prospective nature, assessment of the existence of otherwise of opals, technical feasibility and / or commercial viability of the relevant tenements and the company's intentions with respect to the relevant tenements, could affect the assessment of the assets recoverable amount. The ultimate recovery of the carrying value of exploration costs and mine properties is dependent upon the successful development, mining and commercial exploitation or, alternatively, sale of the interest in the tenements. The Directors are of the opinion that the exploration costs and mine properties are recoverable for the amount stated in the financial report.

4. Segment Information

The company operates in only one business segment, being the mining of precious opal in Australia.

| | 2009 | 2008 |
|---------------------|----------------|----------------|
| | \$ | \$ |
| 5. Revenue | | |
| Sale of gems | 16,236 | - |
| Interest | 7,779 | 58,038 |
| Equipment rental | 226,562 | 75,797 |
| Other | 502 | 1,012 |
| Management services | 150,122 | 64,663 |
| | <u>401,201</u> | <u>199,510</u> |
| | ===== | ===== |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

| | 2009 \$ | 2008 \$ |
|--|------------|------------|
| 6. Expenses | | |
| Loss before income tax expense includes the following specific expenses: | | |
| Exploration expenditure written off | 4,076 | 182,869 |
| Amortisation expense | 96,717 | 64,478 |
| Depreciation expense charged | 81,052 | 58,717 |
| Interest and finance charges paid/payable | 7,832 | 5,955 |

7. Income Tax Expense

(a) The prima facie tax on profit/(loss) differs from the income tax provided in the financial statements as follows:

| | | |
|---|-----------|-------------|
| Net profit / (loss) before income tax expense | (429,472) | (1,234,045) |
| | ===== | ===== |
| Income tax expense (benefit) calculated at 30% | (128,842) | (370,214) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income | - | - |
| | ----- | ----- |
| | (128,842) | (370,214) |
| Net adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised | 128,842 | 370,214 |
| | ----- | ----- |
| Income tax expense | - | - |
| | ===== | ===== |

(b) Unrecognised net deferred tax assets

| | | |
|--|-----------|-----------|
| Unused tax losses for which no deferred tax asset has been recognised | 3,400,473 | 2,909,091 |
| Temporary differences for which no deferred tax asset/(liability) has been recognised: | | |
| - Property, plant and equipment | (27,751) | - |
| - Employee entitlements | 10,050 | 6,813 |
| - Accruals | 20,673 | 40,164 |
| - Prepayments | - | (18,202) |
| - Capital raising costs | 161,709 | - |
| - Exploration expenditure | (416,630) | (813,837) |
| - Interest receivable | (1,578) | (3,453) |
| - Pooled project expenditure | 17,289 | - |
| - Mine properties expenditure | (337,390) | - |
| | ----- | ----- |
| | 2,826,845 | 2,120,576 |
| | ===== | ===== |
| Potential tax effect at 30% | 848,054 | 636,173 |
| | ===== | ===== |

The deferred tax asset has not been brought to account. The future income tax benefit of the income tax losses carried forward will only be obtained if:

- (i) the entity derives future assessable income of a nature and an amount sufficient to enable the losses to be realised;
- (ii) the entity continues to comply with the conditions for deductibility imposed by legislation; and
- (iii) no changes in tax legislation adversely affect the entity in realising the losses.

NOTES TO THE FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2009

| | 2009 | 2008 |
|--|---------|---------|
| | \$ | \$ |
| 8. Current Assets – Cash and cash equivalents | | |
| Cash at bank and on hand | 252,631 | 210,340 |
| | ===== | ===== |
| 9. Current Assets – Trade and other receivables | | |
| Trade receivables | 7,273 | 3,378 |
| Other receivables | 6,638 | 46,614 |
| Prepayments | 14,544 | 18,202 |
| | ----- | ----- |
| | 28,455 | 68,194 |
| | ===== | ===== |
| 10. Current Assets – Inventories | | |
| Finished goods | | |
| - at net realisable value | 92,856 | 42,300 |
| | ===== | ===== |

Inventories of cut opals have been independently valued by Roy Beattie FGAA, DipDT to have a wholesale value of \$61,600. The net realisable value of opals represents the wholesale valuation less expected costs of selling which have been estimated at 10%. The balance of inventory represents Opal jewellery held in stock and is carried at \$37,416.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

11. Non-Current Assets – Property, plant and equipment

| | <i>Office equipment</i> | <i>Field equipment</i> | <i>Motor vehicle</i> | <i>Total</i> |
|------------------------------------|-----------------------------|----------------------------|--------------------------|--------------|
| At 1 January 2008 | | | | |
| Cost | 11,022 | 80,135 | 159,621 | 250,778 |
| Accumulated depreciation | (5,628) | (16,201) | (25,514) | (47,343) |
| Net book amount | 5,394 | 63,934 | 134,107 | 203,435 |
| Year ended 31 December 2008 | | | | |
| Opening net book amount | 5,394 | 63,934 | 134,107 | 203,435 |
| Additions | 2,682 | 49,227 | 218,602 | 270,511 |
| Disposals | - | - | - | - |
| Depreciation charge | (2,736) | (27,666) | (53,994) | (84,396) |
| Closing net book amount | 5,340 | 85,495 | 298,715 | 389,550 |
| At 31 December 2008 | | | | |
| Cost | 13,704 | 129,362 | 378,223 | 521,289 |
| Accumulated depreciation | (8,364) | (43,867) | (79,508) | (131,739) |
| Net book amount | 5,340 | 85,495 | 298,715 | 389,550 |
| Year ended 31 December 2009 | | | | |
| Opening net book amount | 5,340 | 85,495 | 298,715 | 389,550 |
| Additions | 7,643 | 427 | 4,490 | 12,560 |
| Disposals | - | - | - | - |
| Depreciation charge | (2,698) | (20,938) | (57,416) | (81,052) |
| Closing net book amount | 10,285 | 64,984 | 245,789 | 321,058 |
| At 31 December 2009 | | | | |
| Cost | 21,347 | 129,790 | 382,713 | 533,850 |
| Accumulated depreciation | (11,062) | (64,806) | (136,924) | (212,792) |
| Net book amount | 10,285 | 64,984 | 245,789 | 321,058 |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

| | 2009 \$ | 2008 \$ |
|--|----------------|----------------|
| 12. Non-Current Assets – Exploration costs and mine properties | | |
| Exploration phase property costs | | |
| Deferred geological, geophysical, drilling and other expenditure - at cost | 416,630 | 394,730 |
| Mine properties – at cost | 499,210 | 498,585 |
| Less: Accumulated amortisation | (161,195) | (64,478) |
| | <u>338,015</u> | <u>434,107</u> |
| Total mine properties | 338,015 | 434,107 |
| Total exploration costs and mine properties | <u>754,645</u> | <u>828,837</u> |

The above capitalised expenditure carried forward above has been determined as follows:

| | | |
|--|----------------|----------------|
| Exploration expenditure | | |
| Opening balance | 394,730 | 887,596 |
| Expenditure incurred during the year | 25,976 | 188,588 |
| Expenditure transferred to mine properties | - | (498,585) |
| Exploration abandoned | (4,076) | (182,869) |
| | <u>416,630</u> | <u>394,730</u> |
| Closing balance as shown above | <u>416,630</u> | <u>394,730</u> |
| Mine properties | | |
| Opening balance | 434,107 | - |
| Expenditure transferred from exploration expenditure | - | 498,585 |
| Expenditure incurred during the year | 625 | - |
| Amortisation during the year | (96,717) | (64,478) |
| | <u>338,015</u> | <u>434,107</u> |
| Closing balance as shown above | <u>338,015</u> | <u>434,107</u> |

13. Non-Current Assets – Other assets

| | | |
|-------------------|---------------|---------------|
| Security deposits | 17,300 | 22,300 |
| | <u>17,300</u> | <u>22,300</u> |

14. Current Liabilities – Payables

| | | |
|----------------|---------------|---------------|
| Trade payables | 5,368 | 14,101 |
| Other payables | 50,274 | 62,234 |
| | <u>55,642</u> | <u>76,335</u> |
| | <u>55,642</u> | <u>76,335</u> |

15. Current Liabilities – Short term interest bearing liabilities

| | | |
|--------------|---------------|---------------|
| Finance loan | 26,793 | 31,037 |
| | <u>26,793</u> | <u>31,037</u> |

Net carrying value of motor vehicles subject to finance arrangements totals \$87,827 (2008: \$108,429)

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

| | 2009 \$ | 2008 \$ |
|--|------------|------------|
| 16. Current Liabilities – Short term borrowings | | |
| Loan from non-related party | - | 50,000 |
| | ===== | ===== |
| Unsecured interest free loan repayable by the delivery of opal product arising from commercial mining operations | | |

17. Non-Current Liabilities – Long term interest bearing liabilities

| | | |
|--------------|--------|--------|
| Finance loan | 28,264 | 53,031 |
| | ===== | ===== |

18. Equity – Contributed equity

| | 2009 Shares | 2008 Shares | 2009 \$ | 2008 \$ |
|----------------------------|----------------|----------------|------------|------------|
| (a) Share capital | | | | |
| Ordinary shares Fully paid | 59,715,259 | 51,767,258 | 4,173,111 | 3,738,511 |
| | ===== | ===== | ===== | ===== |

(b) Movements in ordinary share capital:

| Date | Details | Number of Shares | Issue Price | \$ |
|------------------|-----------------|---------------------|----------------|-----------|
| 1 January 2008 | Opening balance | 51,428,258 | | 3,690,511 |
| 28 April 2008 | Shares issued | 75,000 | \$0.20 | 15,000 |
| 13 November 2008 | Shares issued | 264,000 | \$0.125 | 33,000 |
| 31 December 2008 | Balance | 51,767,258 | | 3,738,511 |
| 5 January 2009 | Shares issued | 496,000 | \$0.125 | 62,000 |
| 11 May 2009 | Shares issued | 500,000 | \$0.05 | 25,000 |
| 14 May 2009 | Shares issued | 600,000 | \$0.05 | 30,000 |
| 26 May 2009 | Shares issued | 552,001 | \$0.50 | 27,600 |
| 27 May 2009 | Shares issued | 800,000 | \$0.05 | 40,000 |
| 28 May 2009 | Shares issued | 1,000,000 | \$0.05 | 50,000 |
| 3 August 2009 | Shares issued | 4,000,000 | \$0.05 | 200,000 |
| 31 December 2009 | Closing balance | 59,715,259 | | 4,173,111 |

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

18. Equity – Contributed equity (continued)

(d) Options

Unissued ordinary shares under option as at 31 December 2009 are as follows:

| Grant date | Expiry date | Exercise price | Balance at the start of the year Number | Granted during the year Number | Exercised during the year Number | Forfeited during the year Number | Balance at the end of the year Number | Vest and exercisable at the end of the year Number |
|--|-------------|----------------|---|--------------------------------|----------------------------------|----------------------------------|---------------------------------------|--|
| 2001 | 30/6/13 | \$0.20 | 10,450,000 | - | - | - | 10,450,000 | 10,450,000 |
| 2002 | 30/6/13 | \$0.20 | 981,445 | - | - | - | 981,445 | 981,445 |
| 2003 | 30/6/13 | \$0.20 | 1,100,750 | - | - | - | 1,100,750 | 1,100,750 |
| 2004 | 30/6/13 | \$0.20 | 340,640 | - | - | - | 340,640 | 340,640 |
| 2005 | 30/6/13 | \$0.20 | 68,385 | - | - | - | 68,385 | 68,385 |
| 2006 | 30/6/13 | \$0.20 | 3,502,203 | - | - | - | 3,502,203 | 3,502,203 |
| 2007 | 30/6/13 | \$0.20 | 2,880,627 | - | - | - | 2,880,627 | 2,880,627 |
| 2008 | 30/6/13 | \$0.20 | 169,500 | - | - | - | 169,500 | 169,500 |
| 2009 | 30/6/13 | \$0.20 | - | 3,974,000 | - | - | 3,974,000 | 3,974,000 |
| <i>Issued under employee option plan</i> | | | | | | | | |
| 2/4/07 | 30/6/14 | \$0.50 | 5,000,000 | - | - | - | 5,000,000 | 5,000,000 |
| 9/4/07 | 30/6/14 | \$0.50 | 1,000,000 | - | - | (200,000) | 800,000 | 800,000 |
| 28/2/08 | 30/6/14 | \$0.50 | 1,000,000 | - | - | (250,000) | 750,000 | 750,000 |
| | | | <u>26,493,550</u> | <u>3,974,000</u> | <u>-</u> | <u>(450,000)</u> | <u>30,017,550</u> | <u>30,017,550</u> |

Information relating to the Opal Horizon Employee Share Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 26.

Capital risk management

The company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The company's strategy to capital risk management is unchanged from prior years.

The capital structure of the company includes cash and cash equivalents, equity attributable to equity holders, comprising of contributed equity, reserves and accumulated losses. In order to maintain or adjust the capital structure, the company may issue new shares, sell assets to reduce debt or adjust the level of activities undertaken by the company.

The company monitors capital on the basis of cash flow requirements for operational, and exploration and evaluation expenditure, and mining operations. The company's exposure to borrowings as at 31 December 2009 totals \$55,057 (2008: \$134,068). The company will continue to use capital market issues to satisfy anticipated funding requirements.

| | 2009 \$ | 2008 \$ |
|--|--------------------|--------------------|
| 19. Accumulated losses | | |
| Accumulated profit/(loss) at the beginning of the financial year | (2,387,393) | (1,153,348) |
| Profit/(loss) for the year | (429,472) | (1,234,045) |
| Accumulated profit/(loss) at the end of the financial year | <u>(2,816,865)</u> | <u>(2,387,393)</u> |
| | ===== | ===== |

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

20. Key management personnel disclosures

(a) Directors

The following persons were directors of Opal Horizon Limited during the financial year:

A J Fawdon – *Executive Chairman*
D J Horton – *Executive director*
L J Litzow – *Non-executive director*
D H Hall – *Non-executive director*

(b) Equity instrument disclosures relating to key management personnel

(i) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Opal Horizon Limited and other key management personnel, including their personally related parties, are set out below.

| 2009 | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|--|----------------------------------|---|---------------------------|-------------------------------|--------------------------------|---|
| Name | | | | | | |
| Directors of Opal Horizon Limited | | | | | | |
| A J Fawdon | 2,975,000 | - | - | - | 2,975,000 | 2,975,000 |
| D J Horton | 4,655,861 | - | - | - | 4,655,861 | 4,655,861 |
| L J Litzow | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 |
| D H Hall | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 |

| 2008 | Balance at the start of the year | Granted during the year as compensation | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|--|----------------------------------|---|---------------------------|-------------------------------|--------------------------------|---|
| Name | | | | | | |
| Directors of Opal Horizon Limited | | | | | | |
| A J Fawdon | 2,975,000 | - | - | - | 2,975,000 | 2,975,000 |
| D J Horton | 4,655,861 | - | - | - | 4,655,861 | 4,655,861 |
| L J Litzow | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 |
| D H Hall | 3,000,000 | - | - | - | 3,000,000 | 3,000,000 |

(ii) Share holdings

The number of ordinary shares in the company held during the financial year by each director of Opal Horizon Limited and other key management personnel, including their personally related parties, are set out below. There were no shares granted during the year as compensation.

| 2009 | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|--|----------------------------------|---|-------------------------------|--------------------------------|
| Name | | | | |
| Directors of Opal Horizon Limited | | | | |
| A J Fawdon | 4,050,001 | - | - | 4,050,001 |
| D J Horton | 5,511,722 | - | - | 5,511,722 |
| L J Litzow | 4,000,001 | - | - | 4,000,001 |
| D H Hall | 4,100,001 | - | - | 4,100,001 |

| 2008 | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|--|----------------------------------|---|-------------------------------|--------------------------------|
| Name | | | | |
| Directors of Opal Horizon Limited | | | | |
| A J Fawdon | 4,050,001 | - | - | 4,050,001 |
| D J Horton | 5,511,722 | - | - | 5,511,722 |
| L J Litzow | 4,000,001 | - | - | 4,000,001 |
| D H Hall | 4,100,001 | - | - | 4,100,001 |

NOTES TO THE FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2009

20. Key management personnel disclosures (continued)

(c) Other transactions with key management personnel

| | 2009 | 2008 |
|---|---------|---------|
| | \$ | \$ |
| Payment of management or consultant fees to a Director related entities on normal commercial terms and conditions | 123,206 | 141,010 |
| Advances to Directors to be refunded | 815 | (162) |

21. Remuneration of Auditors

During the year the following fees were paid or payable for services provided by the auditor of the company, its related practices and non-related audit firms:

| | 2009 | 2008 |
|--|--------|--------|
| | \$ | \$ |
| <i>The Company's former auditor – Pitcher Partners</i> | | |
| Other assurance services | - | 5,000 |
| <i>The Company's current auditor – Hacketts DFK</i> | | |
| Audit or review of the financial report | 18,500 | 10,000 |
| Other assurance services | - | - |

22. Commitments and Contingent Liabilities

No provision has been made for the following in the financial statements of the company:

(i) The possibility of native title claim applications at some future time, under the provisions of the Native Title Act (1993), may impact on exploration tenements under application. Any substantiated claim may have an effect on the value of the tenement application affected by the claim.

(ii) So as to maintain current rights to tenure of various exploration and mining tenements, the company will be required to outlay amounts in respect of tenement rent to the relevant governing authorities and to meet certain annual exploration expenditure commitments. These outlays (exploration expenditure and rent), which arise in relation to granted tenements, inclusive of tenement applications granted subsequent to 31 December 2009, are as follows:

| | 2009 | 2008 |
|-------------------------------------|--------------|----------------|
| | \$ | \$ |
| Exploration expenditure commitments | | |
| Payable within 1 year | 1,200 | 150,500 |
| Payable within one and five years | - | - |
| | <u>1,200</u> | <u>150,500</u> |
| | ===== | ===== |
| Rental on granted tenements | | |
| Payable within 1 year | - | 2,730 |
| Payable between one and two years | - | 10,920 |
| | <u>-</u> | <u>13,650</u> |
| | ===== | ===== |

Outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished. Cash security bonds totalling \$17,300 (2008 : \$22,300) are currently held by the relevant governing authorities to ensure compliance with granted tenement conditions.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

| | 2009 \$ | 2008 \$ |
|--|---------------------------|---------------------------|
| 23. Reconciliation of net profit / (loss) to net cash flows from operating activities | | |
| Profit / (loss) for the year | (429,472) | (1,234,045) |
| Depreciation and amortisation | 177,770 | 123,195 |
| Capital raising costs expensed | - | 264,207 |
| Changes in operating assets and liabilities: | | |
| Decrease / (increase) in receivables | 8,169 | 38,771 |
| Decrease / (increase) in inventories | (50,556) | (42,300) |
| Decrease / (increase) in exploration interests | (22,525) | 30,373 |
| Increase / (decrease) in payables | 1,478 | (3,973) |
| Net cash flows from operating activities | <u>(315,136)</u> ===== | <u>(823,772)</u> ===== |

Reconciliation of cash

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

| | | |
|--------------------------|---------|---------|
| Cash at bank and on hand | 252,631 | 210,340 |
| | ===== | ===== |

Non cash investing and financing activities

| | | |
|---|--------|-------|
| Settlement of borrowings by issuance of ordinary shares | 17,600 | - |
| | ===== | ===== |

24. Related party transactions

(a) Key management personnel

Disclosures relating to key management personnel are set out in note 20.

(b) Transactions with related parties

The following transactions occurred with related parties:

| | | |
|---|---------|--------|
| <i>Purchase of goods</i> | | |
| Rent and outgoings | 28,995 | 35,180 |
| Administration cost | - | 2,781 |
| <i>Other transactions</i> | | |
| Recoupment of salary and wages from related parties | 149,572 | 64,663 |
| Drill rig income received from related parties | 226,562 | - |

(c) Other transactions with related parties

The total number of shares Diatrema Resources Limited, a Director related entity, has in the company as at 31 December 2009 is 2,644,009 shares (2008 : 2,644,009) and 1,322,004 options (2008 : 1,322,004).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

25. Events occurring after the balance sheet date

No matters or circumstances have arisen since the end of the financial year that has significantly affected, or may significantly affect the operations of the company; the results of those operations; or the state of affairs of the company, in financial years subsequent to 31 December 2009.

26. Share-based payments

(a) Employee Option Plan

Options are granted under the Opal Horizon Limited Employees and Officers Option Plan 2007 which was approved by shareholders at the 2007 Annual General Meeting. All employees, Directors and consultants are eligible to participate in the plan. To determine who is eligible to participate in the plan, the Board may consider, amongst other things, the position held by the employee or contractor, their length of service and the contribution made to the Company. Each option entitles the holder to subscribe for, and be issued, one fully paid share. Options are to be issued for free. The number of options to be issued under the plan shall not exceed 10,000,000. The exercise price of the options are \$0.50 and the options issued under the Option Plan shall be exercisable at any time from six months after the date of issue up to the expiry date of 30 June 2014. Options will lapse if not exercised after the expiry date of 30 June 2014 or where an employee is found guilty of gross misconduct, gross negligence, wilful disobedience or any other cause or action that entitle the company to dismiss the employee. Options will lapse within 90 days of cessation of the employee's employment, however the Board has a discretion to extend the period in which the options may be exercised if warranted by the circumstances.

A participant may assign the options subject to the rules of the plan. The options do not entitle the holders to participate in rights issues or bonus issues.

Options granted under the plan carry no dividend or voting rights and when exercisable, each option is convertible into one ordinary share.

Set out below are summaries of options granted under the plan:

| Grant date | Expiry date | Exercise price | Balance at start of the year Number | Granted during the year Number | Exercised during the year Number | Forfeited during the year Number | Balance at end of the year Number | Exercisable at end of the year Number |
|------------|-------------|----------------|-------------------------------------|--------------------------------|----------------------------------|----------------------------------|-----------------------------------|---------------------------------------|
| 02/04/2007 | 30/06/2014 | \$0.50 | 6,000,000 | - | - | (200,000) | 5,800,000 | 5,800,000 |
| 28/02/2008 | 30/06/2014 | \$0.50 | 1,000,000 | - | - | (250,000) | 750,000 | 750,000 |

The weight average remaining contractual life of share options outstanding at the end of the period was 4.5 years (2008 – 1.50 years).

Fair value of options granted

The assessed fair value at grant date of options granted to the individuals is included in the remuneration tables above as the grant date is also the vesting date. Fair value at grant date was independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 31 December 2008 included:

- (a) options were granted for no consideration, all options vested immediately and are exercisable immediately
- (b) exercise price \$0.50
- (c) grant date: 28 February 2008

NOTES TO THE FINANCIAL STATEMENTS

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26. Share-based payments (continued)

- (d) expiry date: 30 June 2011
- (e) share price at grant date: \$0.10
- (f) expected price volatility of the shares: 10%
- (g) expected dividend yield: 0%
- (h) risk-free interest rate: 7%

At a General Meeting of the company on 27 November 2009, a resolution was passed which extended the expiry date of the 50 cents 2011 options to 30 June 2014.

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year was nil.

| 27. Earnings per share | 2009 Cents | 2008 Cents |
|---|---------------------|----------------------|
| (a) Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the company | (0.8) ===== | (2.4) ===== |
| (b) Diluted earnings per share | | |
| Profit attributable to ordinary equity holders of the company | (0.8) ===== | (2.4) ===== |
| 2009 | | |
| \$ | | |
| (c) Reconciliation of earnings used in calculating earnings per share | | |
| <i>Basic earnings per share</i> | | |
| Profit from operations | (429,472) ===== | (1,234,045) ===== |
| <i>Diluted earnings per share</i> | | |
| Profit from operations | (429,472) ===== | (1,234,045) ===== |
| (d) Weighted average number of shares used as the denominator | | |
| | 2009 | 2008 |
| | Number | Number |
| <i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i> | 56,025,878 | 51,514,422 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options | - | - |
| | ----- | ----- |
| <i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i> | 56,025,878 ===== | 51,514,422 ===== |

Note 28 Entity details

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

Level 2, 87 Wickham Terrace
Spring Hill, QLD 4000
Ph (07) 3839 5088

OPAL HORIZON LIMITED

ABN 98 095 974 762

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OPAL HORIZON LIMITED

We have audited the accompanying financial report of Opal Horizon Limited (“the company”). The financial report comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors’ Declaration.

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.

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 in 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.

OPAL HORIZON LIMITED

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OPAL HORIZON LIMITED (continued)

Independence

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

Auditor's Opinion

In our opinion,

- (a) the financial report of Opal Horizon Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 31 December 2009 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Inherent Uncertainty regarding Going Concern and capitalised Exploration Costs and Mine Properties

Without qualification to the audit opinion expressed above, attention is drawn to the following matter:

- a) As a result of the matter described in Note 1(a) to the financial statements, there is significant uncertainty as to whether the company will be able to continue as a going concern and therefore whether the company will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report; and
- b) As a result of the matter described in Note 3 to the financial statements, there is significant uncertainty as to whether the company will be able to recover the carrying value of capitalised exploration costs and mine properties for the amounts recorded in the financial report.

Hacketts DFK

L J Murphy
Partner

Brisbane, 31 March 2010