Hawthorn Resources Limited

ABN 44 009 157 439

Financial Report 2011

Year Ended 30 June 2011

Comprising:

The Directors of Hawthorn Resources Limited, a Company listed on the Australian Stock Exchange, present their report for the year ended 30 June 2011.

1. Directors

The Directors of the Company in office since 1 July 2010 and up to the date of this Report are:

Mr Mark G Kerr - LL.B
Chairman and Non-Executive Director – Appointed 22 November 2007

Mr Mark Kerr is a director of Berkeley Consultants Pty Ltd which specializes in public relations and reputation management consultancy.

Mr Kerr was appointed as a director and as Chairman of the Board of Directors of Hawthorn Resources Limited in November 2007 which merged with Ellendale Resources in June 2008.
Mr Kerr is also a director of the ASX listed entity – Contango Microcap Limited.

Mr M E Elliott – LLB BCom FFin
Executive Director – Appointed 22 November 2007

Mr Mark Elliott is the Managing Director and CEO of the Hawthorn Resources Limited Group. Mr Elliott is a former partner of the international law firm Minter Ellison specializing in corporate and securities law and a former director of Spotless Group Limited, E*trade Limited, Oakton Limited and Mineral Deposits Limited and a former director of legal counsel of Computershare Limited. With the increased exploration and corporate activities the Board of Directors appointed Mr Elliott as the Company's Managing Director /CEO effective 29 May 2009. In the 2011 review of director's performance the Board of Directors agreed to offer and Mr Elliott agreed to accept an extension of his Executive Service Agreement to 31 December 2013. Currently Mr Elliott is not a director of any other listed entities.

Dr David S Tyrwhitt - PhD(Geology) BSc(Hons) FSEG(USA) FAusIMM CPGeo
Non-Executive Director – Appointed 11 November 1996

Dr Tyrwhitt has been a Director of the Company since 1996. He has more than 50 years experience in the mining industry. He is currently a Director of Quantum Resources Limited (November 1999 to current), Golden River Resources Corporation (November 1996 to current) and Legend International Holdings Inc., (March 2005 to current) Bassari Resources Limited (October 2010 to current) and a former director of Astro Mines NL. He worked for over 20 years with Newmont Mining Corporation in Australia, South East Asia and the United States. During this time, he was responsible for the discovery of the Telfer Gold Mine in Western Australia. He was Chief Executive of Newmont Australia Limited between 1984 and 1988 and Chief Executive Officer of Ashton Mining Limited between 1988 and 1991. He established his own consultancy in 1991 and worked with Normandy Mining Limited on a number of mining projects in South East Asia.

Directorships

Other than the directorships noted above there have been no other directorships of listed entities held in the past three years.

2. Principal Activities and Review and Results of Operations

Hawthorn Resources Limited ("Hawthorn") is an Australian diversified base metals and gold explorer with strategic and significant tenement holdings throughout the Central Yilgarn Iron Province and the South Laverton Gold Zone of Western Australia.

The principal activity of the Company during the financial year was mineral exploration. There has been no significant change in the nature of that activity during the financial year.

Objective

The Company's objective is to increase shareholder wealth through successful exploration activities whilst providing a safe workplace and ensuring best practice in relation to its environmental obligations.

Statement of Comprehensive Income

As an exploration company, the Company does not have an ongoing source of revenue. On a consolidated group basis its revenue stream is normally from ad-hoc tenement disposals and interest received on cash in bank. In the current year, finance revenue has increased from $120,746 in 2010 to $131,904 in 2011. In both years the revenue has been interest received on surplus funding. There was no Other Income in 2011 (2010: $567,139).

Costs and expenses totalled $1,817,585 in 2011 compared to $3,234,519 in 2010 after allowing for the impairment in carrying value of exploration tenements – refer to Note 10 to the financial statements. Exploration expenditure written off in 2011 was $743,069 compared to $2,169,193 in 2010. A number of granted exploration licences and tenements were forfeited and re-applied for as mining leases, the applications are pending and accordingly the exploration expenditure has been written off. Administration expenses for 2011 were $1,057,780 (2010: $819,650).

The Company had cash in bank at 30 June 2011 of $1,292,284 (2010:$2,841,076), receivables of $105,574 (2010:$135,606), available for sale securities, following impairment testing of carrying values, of $10,169 (2010:$16,985) and current liabilities totalled $277,352 (2010:$726,015).

At 30 June 2011, the Company had working capital of $1,122,755 (2010:$2,252,907) and net assets of $10,171,300 (2010:$10,362,681) after the abovementioned impairment in carrying values.

Cash Flow

During the year, the Company used $1,344,516 (2010:$377,166) in operating activities, paid $1,698,576 (2010:$1,775,807) for exploration activities and raised new equity capital of $1,500,000 (2010:$2,634,781). As a result, the Company has cash in bank at 30 June 2011 of $1,292,284 (2010:$2,841,076).

3. Significant Change in State of Affairs

The Directors are of the opinion that other than as disclosed in the Principal Activities section of the Directors' Report there has not been any significant change in the state of affairs of the Company during the year under review.

4. Dividends

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this Annual Report.

5. Events After The End Of The Financial Year

In the interval between the end of the financial year and the date of this Report and as reported to the ASX the Company has continued and accelerated its exploration activities, most noticeably in Western Australia in the Mount Bevan Iron Ore Project through the Mount Bevan Farm-in Joint Venture with Legacy Iron Ore Limited ("LCY") and the South Laverton Zone Gold tenements:

a) Iron Ore – Mount Bevan Iron Ore Project (100% Hawthorn)

The Farm-in Joint Venture with LCY provides for LCY to expend $3.5 million on exploration to pre-feasibility stage on the Mount Bevan Iron Ore project areas in a 24 month period, October 2010 to October 2012, to earn a 60 per cent interest in the project. At the time of this report LCY is conducting the second drilling programme following on from the highly successful first programme which resulted in LCY announcing in July, 2011 a maiden JORC compliant Inferred Resource of 617 mt at 32.1per cent Fe with the Davis Tube Recovery (DTR) metallurgical tests confirming the high grade magnetite mineralisation at Mount Bevan.

In May 2011 LCY announced that it has entered in to an MOU with National Mineral Development Corporation Limited and on 22 September 2011 announced that it had secured a "…significant cornerstone investment offer from NMDC…" As part of its negotiations with NMDC, Legacy in August 2011 commissioned an independent experts report by SKR Consulting (Australasia) Pty Ltd to determine a fair value for its assets. The Report, in part, attributed a value of $104.5 million to Legacy's interest upon the completion of the 60 per cent earning of interest works programme in the Mt Bevan Iron Ore project. On that basis the independent expert is attributing a total value of $174.2 million to the Mt Bevan Iron Ore Project;

b) Gold Project - South Laverton Zone

The Hawthorn South Laverton Gold Exploration Zone incorporates six project areas where the Company holds, solely or in joint venture, title to over 100 exploration, mining and prospecting licences. The tenement package is surrounded by major gold mines, deposits and resources including the Sunrise Dam, Wallaby, Red October, Carosue Dam, Safari Bore, Deep South, Porphyry and Butchers Well mines.

The gold endowment of the South Laverton Zone is substantial, with over 20 million ounces of gold resources identified to date.

The Company is currently reviewing and assessing the exploration development potential for the Zone incorporating the most recent data gathered in the drilling programmes in the June 2011 half year.

Other than as noted above there are no items, transactions or events of a material and unusual nature which in the opinion of the Directors of the Company, have 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 this financial year.

6. Future Developments and Results

Other than the continued successful exploration of the Mt Bevan Iron Ore Project and the Company's Gold Projects there are no likely developments of which the Directors are aware of which could be expected to significantly affect the results of the Company's operations in subsequent financial years.

7. Issued Securities

(a) Ordinary shares

At the date of this Report the Company has on issue a total of 1,775,595,897 ordinary fully paid shares which are quoted on the official lists of the ASX Limited under the security code of "HAW". During the year ended 30 June 2011 the Company issued an aggregate of 250,000,000 ordinary shares to Legacy Iron Ore Limited under the terms of an October 2011 Subscription Agreement at an issue price of $0.006 a share which raised new equity capital of $1,500,000. There have been no issues of shares since the 30 June 2011 up to the date of this report.

(b) Options

At the date of this Report the Company had on issue the following listed and unlisted options over fully paid ordinary shares.

(i) Listed

Number	Maturity Date	Issue Price	Exercise Price	Exercise Period
13,569,422	30 April 2012	No issue price	$0.20	Anytime on or before 30 April 2012.

During the year and up to the date of this Report, none of these options have been exercised and no new options over fully paid ordinary shares were issued. Optionholders have no rights to participate in an issue of shares unless they exercise their options. The names of all the persons who currently hold options are entered on a register maintained for the Company by Link Market Services. In accordance with the Corporations Act 2001, this register may be inspected free of charge.

Number	Maturity Date	Issue Price	Exercise Price	Exercise Period
165,084,231	28 February 2013	No issue price	$0.10	Anytime on or before 28 February 2013

During the year and up to the date of this Report, none of these options have been exercised and no new options over fully paid ordinary shares were issued. Optionholders have no rights to participate in an issue of shares unless they exercise their options. The names of all the persons who currently hold options are entered on a register maintained for the Company, by Link Market Services. In accordance with the Corporations Act 2001, this register may be inspected free of charge.

(ii) Unlisted

Number	Maturity Date	Issue Price	Exercise Price	Exercise Period
2,500,000	30 June 2018	nil	A$0.10	Under Terms and Conditions of the employee share option plan

Number	Maturity Date	Issue Price	Exercise Price	Exercise Period
10,000,000	25 January 2018	nil	A$0.10	Under Terms and Conditions of the employee share option plan and a resolution of shareholders in the General Meeting held in January 2008

During the year and up to the date of this Report, the Company has not issued options over fully paid ordinary shares.

As at the date of this Report none of the Unlisted options have been exercised.

8. Directors' Interests in Shares and Options

The declared relevant interest of each Director in the number of fully paid ordinary shares and options over fully paid ordinary shares of the Company disclosed by that Director to the ASX Limited as at the date of this Report is:

Director	Relevant Interest		
	Ordinary Shares	Unquoted Options (HAWAM) 25/01/2018	Quoted Options (HAWOB) 28/02/2013
M G Kerr *	50,187,572	5,000,000	9,428,000
M E Elliott *	20,000,000	5,000,000	-
D S Tyrwhitt	-	-	-

*

In October 2010 Messrs M Kerr and M Elliott, as announced to the ASX, entered into a Co-Operation Agreement ("Agreement") with Legacy Iron Ore Limited ("LCY") in relation to their respective entitlements to shares in Hawthorn Resources Limited. As a result of the Agreement each of the parties to the Agreement has a relevant interest in all of the ordinary Hawthorn Resources Limited shares in which each has a declared interest:

- Mr M G Kerr 50,187,572
- Mr M E Elliott 20,000,000
- Legacy Iron Ore Limited 250,000,000
- Total 320,187,572

The Agreement is for a period which commenced on the date of the Agreement (3 October 2010) and will end on the first to occur of the following:

a. the earliest date that neither Mr Kerr or Mr Elliott is a director of Hawthorn Resources Limited; and
b. the second anniversary of the date of the Agreement

9. Meetings of Directors

The number of meetings of Directors held including meetings of Committees of the Board during the financial year including their attendance was as follows:

	Board *		Audit Committee **	
	Eligible to Attend	Attended	Eligible to Attend	Attended
M G Kerr	5	5	2	2
D S Tyrwhitt ***	5	3	2	2
M E Elliott	5	5	2	2

Note:
***** In between Board Meetings Directors passed a total of four circulating resolutions which were then noted and ratified at the next occurring Board meeting
** Audit, Compliance and Corporate Governance Committee considerations are, when required, held within Board Meetings and Chaired by Dr Tyrwhitt.
*** Dr Tyrwhitt was granted Leave of Absence from two Board of Directors meetings held whilst he was overseas.

10. Company Secretary

Mr M Garbutt, appointed in May 2008, is the Company Secretary of the Company and its subsidiaries. Mr Garbutt is a Fellow of Chartered Secretaries Australia Ltd. and is a Justice of the Peace in Victoria. He has over 30 years commercial experience and currently conducts a corporate compliance and company secretarial company providing such services to a number of public and listed companies in Australia including Hawthorn Resources Limited group. As such, Mr Garbutt is not a direct employee of the Company and does not receive remuneration from the Company.

11. Directors and Officers' Indemnity and Auditor Indemnity

Directors:

The Company has entered into an Indemnity Deed with each of the Directors and with certain former Directors which will indemnify them against liability incurred to a third party (not being the Company or any related company) where the liability does not arise out of conduct including a breach of good faith. The Indemnity Deed will continue to apply for a period of 10 years after a Director ceases to hold office and a Director's Access and Insurance Deed with each of the Directors pursuant to which a Director can request access to copies of documents provided to the Director whilst serving the Company for a period of 10 years after the Director ceases to hold office. There will be certain restrictions on the Directors' entitlement to access under the deed.

Auditors:

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify an auditor of the Company or of any related body corporate against a liability incurred as an auditor

12. Environment

The exploration activities of the Hawthorn group are conducted in accordance with and controlled principally by Australian state and territory government legislation. The group has extensive exploration land holdings in Australia. The Company employs a system for reporting environmental incidents, establishing and communicating accountability, and rating environmental performance. During the year data on environmental performance was reported as part of the monthly exploration reporting regime. In addition, as required under state legislation, procedures are in place to ensure that the relevant authorities are notified prior to the commencement of ground disturbing exploration activities.

The Company is committed to minimising the impact of its activities on the surrounding environment at the same time aiming to maximise the social, environmental and economic returns for the local community. To this end the environment is a key consideration in our exploration activities and during the rehabilitation of disturbed areas. Generally rehabilitation occurs immediately following the completion of a particular phase of exploration. In addition the Company continues to develop and maintain mutually beneficial relationships with the local communities affected by its activities.

13. Non- Audit Services

During the year, other than as noted below, PKF, the Company's auditor, has not performed other services in addition to their statutory duties.

Details of the amounts paid to the auditor of the Company, PKF, and its related practices for audit and non-audit services provided during the year are set out below.

	2011 $	2010 $
Statutory audit		
Auditors of the Company - PKF		
- audit and review of financial reports	40,000	38,000
Other Services - PKF		
- other non-audit services (i)	7,500	27,000
Total fees	47,500	65,000

(i) Non-Audit Services

During the year PKF, the Company's auditor, discussed with and provided tax compliance services to the Company. The fees for these non-audit services amounted to $7,500 (2010: $27,000). The directors are satisfied that the provision of such time and services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 and does not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

14. Remuneration Report - Audited

(i) Management Services – Berkeley Consultants Pty Ltd

The Company entered into a service arrangement with Berkeley Consultants Pty Ltd ("Berkeley Consultants") effective from 1 April 2008 to replace the AXIS Consultants Pty Ltd agreed services, on substantially the same terms and conditions.

Initially Berkeley Consultants, pursuant to the management agreement provided to all group companies the services previously provided by AXIS Consultants Pty Ltd. Such services included providing the Company with its registered corporate head office facilities in Melbourne, as well as staff to carry out management and administrative charges. The Company paid Berkeley a fixed fee of $25,000 per month plus GST for executive serviced office facilities; and a 10 per cent management and administrative charge on expenditures managed on behalf of the Company – this management and administrative charge ceased on 1 July 2009.

Total fees and reimbursements paid or due during the 30 June 2011 financial year amounted to $300,000 plus GST (2010: $316,278), comprising $300,000 (2010: $300,000) for the provision for rent, $Nil (2010: $16,278) for the management and administrative charge.

This arrangement with Berkeley Consultants represented a related party transaction with both Mr Elliott and Mr M Kerr having a material personal interest in the transactions through their interests in Berkeley Consultants Pty Ltd.

Given the nature of the related party interest in this matter Dr D Tyrwhitt, as a non-related non-executive director, has reviewed the provision of serviced office facilities and executive functions offered to the Hawthorn Resources group of companies by Berkeley Consultants Pty Ltd noting the terms and procedures set out in Section 195 of the Corporations Act and has approved an extension to the term of the arrangement to 31 December 2013.

In considering the extension of the Agreement to 31 December 2013 and the services to be provided by Berkeley Consultants Pty Ltd to the Hawthorn Resources group of companies Dr Tyrwhitt noted the following:

(i) the terms proposed are similar to the previous arrangements being on arms length commercial terms;

(ii) the proposal includes provision of serviced offices with reception, boardroom and other facilities as required payable quarterly in advance.

(ii) Overview of Company Performance on Remuneration Structures

The Company's performance, during the current year and over the past four years, has been as follows:

	2011 **$** consolidated	**2010** **$** consolidated	**2009** **$** consolidated	**2008** **$** consolidated	**2007** **$** company
Revenue	131,904	687,885	136,439	509,354	89,991
Net profit / (loss)	(1,685,681)	(2,546,634)	(17,175,078)	(386,037)	(1,983,866)
Basic earnings per share	(0.099)	(0.176)	(1.483)	(0.057)	(0.53)
Diluted earnings per share	(0.099)	(0.176)	(1.483)	(0.057)	(0.53)
Net assets	10,171,300	10,362,681	10,393,299	27,325,730	7,759,009

The Directors do not believe the financial or share price performance of the Company is an accurate measure when considering remuneration structures as the Company is in the mineral exploration industry. Companies in this industry do not have an ongoing source of revenue, as revenue is normally from ad-hoc transactions.

The more appropriate measure is the identification of exploration targets, identification and/or increase of mineral resources and reserves and the ultimate conversion of the Company from explorer status to mining status.

(iii) Non-Executive Directors

Total remuneration for all Non-Executive Directors, last voted upon by shareholders at the 1999 AGM, is not to exceed $200,000 per annum. The aggregate of Non-Executive Directors' base fees including the Chairmanship of the Board of Directors, now total $125,000 per annum. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main board activities and membership of board committee. Non-Executive Directors do not receive any benefits on retirement.

However, and as permitted under the Company's Constitution Non-Executive Directors are entitled to receive payment for services provided which are over and above their normal directorial duties and which have been specifically requested by the Board of Directors. To this end the Company has entered into consultancy agreements with both Mr M G Kerr and Dr D S Tyrwhitt to secure their respective professional, consultancy services to 31 December 2013 at an hourly rate of $300. Such additional service, consultancy fees are in addition to directors' fees and are outside of the shareholder approved aggregate for directors' fees.

(iv) Executive Directors Remuneration

The consolidated entity seeks to reward executives with a level of remuneration based upon their position and responsibilities.

The Company's Executive Director, Mr M E Elliott, is remunerated under an Executive Service Agreement. The key elements of the Agreement are:

- (i) Term: to 31 December 2013;
- (ii) Remuneration: $140,000 a year plus government superannuation levy
- (iii) Bonus: the Board of Directors may, in its absolute discretion, set performance criteria which if met will entitle a bonus of 50 per cent of the annual remuneration to be paid in respect of each Financial Year or pro rata Financial Year;
- (iv) Termination: either the Company or the Executive may give notice of termination. In addition the Service Agreement may be summarily terminated by the Company without notice or compensation in lieu of notice where certain events have occurred;
- (v) Termination Benefits: subject to an entitlement to a bonus there are no other amounts payable on Termination

No performance based remuneration was paid or is payable for the 30 June 2011 financial year (2010 : NIL)

(v) Performance-Linked Remuneration

Performance linked remuneration focuses on long-term incentives and is designed to reward key management personnel for meeting or exceeding their objectives.

Long-Term Incentive

2005 Employee Share Option Plan

At the Annual General Meeting of the Company held in November 2005, shareholders of the Company approved the introduction of the Hawthorn Resources Limited 2005 Share Option Plan ("the Plan) and the issue of options under the Plan to the Directors at the time.

The Plan was introduced to assist in the reward, retention and motivation of eligible persons.

The key components of the Plan and conditions imposed by the Board for the initial issue of options were that the options will have no issue price; the exercise price of the options will be an amount as determined by the Board and will be not less than the market price for one share on the date the Board decides to invite a participant to apply for options; the Board can determine the exercise conditions (if any) to apply prior to a participant being able to exercise the options; if the exercise condition is met, the participant (subject to continuing to be an eligible participant) is able to exercise the options at any time for a period of 3 years after the vesting period; the number of options that can be on issue under the Plan is 5% of the issued number of shares in the Company at the date of an invitation or grant of an option (for this purpose, the 5% is calculated as the number of shares the subject of options the Board proposes to issue an invitation or proposes to grant; the number of shares which would be issued if all offers or options to acquire unissued shares pursuant to this Plan or any other employee share option plan were accepted or exercised; the number of shares issued pursuant to the Plan in the last 5 years; and the number of shares issued during the last 5 years pursuant to any other employee share scheme of the Company); if the employment of a participant is terminated before the end of the vesting period, the options held by that participant will lapse, except where a participant has ceased to be employed due to death or mental incapacity (in such circumstances the Board has the ability to allow the legal personal representative of the participant to exercise the option on the terms set by the Board at the time). In the case of termination after the vesting period, the participant has one month to exercise the option otherwise it lapses; the Board will also have the discretion to have the options expire if it determines that a participant has acted fraudulently, dishonestly or in a manner which is in breach of his or her obligations to the Company or a subsidiary of the Company; participants will have their entitlements in respect of options held adjusted to take account of capital reconstructions and bonus issues as if the option has been exercised before the determination of entitlement in respect of these issues. If the Company makes a pro rata rights issue to shareholders, the exercise price of an option will be reduced according to the formula specified in the Australian Securities Exchange ("ASX") Listing Rules; and in the case of a change of control, options are immediately exercisable notwithstanding exercise conditions or the vesting period.

The following table discusses options that have been issued to key management personnel under the Plan.

M G Kerr – Chairman Appointed 22 November 2007	2011	2010
Date of issue	25 January 2008	25 January 2008
Number of options	5,000,000	5,000,000
Issue price	Nil	Nil
Exercise price	$0.10	$0.10
Value of options	$126,000	$126,000
Expiry date	25 January 2018	25 January 2018
Number of options vested during the year	Nil	Nil
% vested in year	0%	0%
% forfeited in year	0%	0%
Value yet to vest (unaudited)		
- minimum	Nil	Nil
- maximum	Nil	Nil
Number of options on issue		
- at 1 July	5,000,000	5,000,000
- at 30 June	5,000,000	5,000,000

M E Elliott– Non-Executive Director Appointed 22 November 2007	2011	2010
Date of issue	25 January 2008	25 January 2008
Number of options	5,000,000	5,000,000
Issue price	Nil	Nil
Exercise price	$0.10	$0.10
Value of options	$126,000	$126,000
Expiry date	25 January 2018	25 January 2018
Number of options vested during the year	Nil	Nil
% vested in year	0%	0%
% forfeited in year	0%	0%
Value yet to vest (unaudited)		
- minimum	Nil	Nil
- maximum	Nil	Nil
Number of options on issue		
- at 1 July	5,000,000	5,000,000
- at 30 June	5,000,000	5,000,000

1. Details concerning the valuation methodology and key assumptions made in the option valuations are set out on the preceding pages.
2. All of the above options vested upon grant pursuant to the resolution of shareholders in General Meeting in January 2008.
3. Unless otherwise disclosed, no options were exercised and no options lapsed in the year.
4. Number of options granted in the 30 June 2011 financial year – NIL (2010: Nil)

(vi) Details of Directors, Executives and Remuneration

The names of the Directors and Executives in office during the year are as follows:-

(a) **Directors**
M G Kerr – Chairman and Non-Executive Directors (appointed 22 November 2007)
M E Elliott – Managing Director / CEO (appointed 22 November 2007)
D S Tyrwhitt – Non Executive Director (appointed 14 November 1996)

(b) **Executives**
M Garbutt – Company Secretary (appointed 5 May 2008)

Details of the nature and amount of each major element of remuneration of each Director of the Company and of each Executive of the Company are:

		Primary		**Post-employment**	**Equity compensation**	Total $	s300A (1)(e)(i) Proportion of remuneration performance related %	s300A (1)(e)(vi) Value of options as proportion of remuneration %
		Salary & fees $	Non-monetary benefits $	Super-annuation $	Value of options $			
Directors								
Executive								
M E Elliott (i)	2011	120,000	-	-	-	120,000	nil	n.a.
	2010	*120,000*	-	-	-	*120,000*	*nil*	*n.a.*
Non-Executive								
M G Kerr (ii)	2011	80,000	-	-	-	80,000	nil	n.a.
	2010	*40,000*	-	-	-	*40,000*	*nil*	*n.a.*
D S Tyrwhitt (iii)	2011	51,000	-	-	-	51,000	nil	n.a.
	2010	*40,000*	-	-	-	*40,000*	*nil*	*n.a.*
Total all Directors	2011	251,000	-	-	-	251,000	-	-
	2010	*200,000*	-	-	-	*200,000*	-	
Executives								
M Garbutt (iv)	2011	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-
Total, all Executives	2011	-	-	-	-	-	-	-
	2010	-	-	-	-	-	-	-
Total all Directors & Executives	2011	251,000	-	-	-	251,000	-	-
	2010	*200,000*	-	-	-	*200,000*	-	-

(i) In May 2009 and as announced to the ASX Mr Elliott was appointed to the position of Managing Director and CEO. Following a review by directors the service agreement with Mr Elliott has been extended to 31 December 2013 on the same terms and conditions

(ii) Mr Kerr has been the Chairman of the Company since November 2007. As such he was entitled to receive an enhanced directors fee for that expanded role over and above the Non-Executive Directors fees of $40,000. The level of increased fee applicable was $20,000 a year which should have been paid from June 2008 following the Scheme of Arrangements with Ellendale Resources. The increased level of fees was not, in error, paid. By agreement, Mr Kerr has been now paid at the increase rate for the Chairman in the current reporting year for both 2010 and 2011. In addition to the above disclosed remuneration, $300,000 (2010: $316,278) was paid to Berkeley Consultants Pty Ltd during the year for serviced office facilities;

(iii) In addition to directors duties ($40,000) Dr Tyrwhitt undertook additional exploration 'field' duties at the request of the Board of Directors and received $11,000 in consulting fees; and

(iv) During the year K R Corporate Compliance Pty Ltd, a firm of which Mr Garbutt is a director, provided secretarial and corporate governance services to the Company. Such time based professional fees as charged by K R Corporate Compliance Pty Ltd amounted to $42,477 (2010 $37,102). In addition, K R Corporate Compliance Pty Ltd was reimbursed at cost a total of $4,389 (2010 $3,745) for expenditures incurred on behalf of and at the request of the Company

There were no short term cash bonuses, post employment prescribed benefits, termination benefits or insurance premiums paid during the 30 June 2011 financial year (2010: Nil).

Auditor's Independence Declaration:

The auditor's independence declaration as required under Section 307 C of the Corporations Act 2001 is set out on page 13.

Signed in accordance with a resolution of the Board of Directors at Melbourne this 23 day of September 2011.

Mark Kerr.

Mark Kerr
Chairman

PKF

Chartered Accountants
& Business Advisers

LEAD AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To: The Directors
Hawthorn Resources Limited and the entities it controlled during the year

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and

- no contraventions of any applicable code of professional conduct in relation to the audit.

David Garvey
Partner
PKF

23 September 2011
Melbourne

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Corporate Governance Statement

Corporate Governance Practices and Conduct

The board of directors of Hawthorn Resources Limited is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The board guides and monitors the business and affairs of Hawthorn Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the CGS's recommendations.

	Recommendation	Comply Yes/No	Reference/explanation	ASX Listing Rule/ Recommendation
	Principle 1 - Lay solid foundations for management and oversight			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	Page[ ]	*ASX LR 1.1*
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page[ ]	*ASX LR 1.2*
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes		*ASX LR 1.3*
	Principle 2 - Structure the board to add value			
2.1	A majority of the board should be independent directors.	No	Page[ ]	*ASX LR 2.1*
2.2	The chair should be an independent director.	No	Page[ ]	*ASX LR 2.2*
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes	Page[ ]	*ASX LR 2.3*
2.4	The board should establish a nomination committee.	No	Page[ ]	*ASX LR 2.4*
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Page[ ]	*ASX LR 2.5*
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes		*ASX LR 2.6*
	Principle 3 - Promote ethical and responsible decision-making			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: _ The practices necessary to maintain confidence in the company's integrity. _ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders. _ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Page ( )	*ASX LR 3.1*
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	Page[ ]	*ASX LR 3.2*
3.3	Companies should provide the information indicated in the guide to reporting on Principle 3	Yes		*ASX LR 3.3*
	Principle 4 - Safeguard integrity in financial reporting			
4.1	The board should establish an audit committee.	Yes	Page[ ]	*ASX LR 4.1*
4.2	The audit committee should be structured so that it: Consists only of non-executive directors Has at least three members _ Consists of a majority of independent directors _ Is chaired by an independent chair, who is not chair of the board	No	Page[ ]	*ASX LR 4.2* *ASX LR 12.7*
4.3	The audit committee should have a formal charter.	No	Page[ ]	*ASX LR 4.3*
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	No		*ASX LR 4.4*

	Principle 5 - Make timely and balanced disclosure			
5.1	Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Page[ ]	*ASX LR 5.1*
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	No		*ASX LR 5.2*
	Principle 6 - Respect the rights of shareholders			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page[ ]	*ASX LR 6.1*
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes		*ASX LR 6.2*
	Principle 7 - Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page[ ]	*ASX LR 7.1*
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	Yes	Page[ ]	*ASX LR 7.2*
7.3	The board should disclose whether it has received assurance from the chief executive officer [or equivalent) and the chief financial officer [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page[ ]	*ASX LR 7.3*
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes		*ASX LR 7.4*
	Principle 8 – Remunerate fairly and responsibly			
8.1	The board should establish a remuneration committee.	No	Page[ ]	*ASX LR 8.1*
8.2	Companies should clearly distinguish the structure of nonexecutive directors' remuneration from that of executive directors and senior executives.	Yes	Page[ ]	*ASX LR 8.2*
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes		*ASX LR 8.3*

Hawthorn Resources Limited's corporate governance practices were in place throughout the year ended 30 June 2011.

Board Functions

The board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. To ensure that the board is well equipped to discharge its responsibilities it has established guidelines for the nomination and selection of directors and for the operation of the board. The responsibility for the operation and administration of the Group is delegated, by the board, to the Managing Director and the executive management team.

The board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the executive management team. Whilst at all times the board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the board. To this end the board has established a Share Allotment Committee and an Audit, Compliance and Corporate Governance Committee (“Audit Committee”). Given that the board has and at the date of this report comprises three directors the functions and considerations of the Committees are dealt with within the Board Meetings and chaired by the chairman of such committees. The Chairman of the Board of Directors does not chair any meetings or considerations of the Committees,

The Directors in office at the date of this statement, their skills, experience, expertise and period of directorship are detailed in the Directors’ Report. In respect of the attendance at Board and Committee Meetings, shareholders are referred to the table of Meeting Attendance contained on page [ ].

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the directors’ report. Directors of Hawthorn Resources Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, “materiality” is considered from both the Group and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Hawthorn Resources Limited are considered to have the following status:

Name	Position and status	Term in Office
Non-executive directors		
Mr Mark G Kerr	Chairman and Non-Executive Director	3.6 years
Dr David S Tyrwhitt	Independent Director	14.6 years
Executive directors		
Mr Mark E Elliott	Managing Director/ CEO	3.6 years

The board recognises the Corporate Governance Council’s recommendation that the Chairman should be an independent director.

Composition of the Board

The Company's Constitution provides for the appointment of a minimum of three Directors and up to a maximum of twelve. At the date of this report, the Company has three Directors comprising one Executive and two Non-Executive Directors. The Chairman of the Board and the Chairman of the Board’s Committees’ are Non-Executive Directors.

In June 2011 the Board of Directors undertook its annual review of the status of each Director and reached the opinion that each Director, apart from Mr Elliott, could be classified as a Non-Executive Director. In addition, this assessment has concluded Dr Tyrwhitt qualified as an Independent Director. Mr Kerr, whilst considered to be a Non-Executive Director, is not regarded as an Independent Director due to the level of entitlement to the Company’s ordinary shares and the ongoing contractual serviced office arrangements with Berkeley Consultants Pty Ltd – a company in which Mr Kerr has a prescribed interest.

Board Responsibilities
The responsibility for the operation and administration of the Company is delegated by the Board to the specifically identified outsourced service providers. The Board ensures that this team of service providers is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess their performance.

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

- Implementation of operating plans and budgets by management and Board monitoring of progress against budget – this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;

- Procedures to allow Directors, in the furtherance of their duties, to seek independent professional advice at the company's expense;

- The review and approval of acquisitions and disposals of businesses and assets, and the approval of contracts and financing arrangements within defined limits; and

- The appointment of an outsourced service provider, which is responsible for managing the Company's public image and communication with shareholders.

In conjunction with an ongoing review of the Board Charter, the Board will consider its responsibilities and delegated authorities to ensure they comply with best practice corporate governance.

Nomination and Membership
Subject to the provisions of the Company's Constitution, Board composition and selection criteria for Directors are addressed by the full Board. Accordingly, a Nomination Committee has not been established.

The Constitution provides for events whereby Directors may be removed from the Board. Similarly shareholders have the ability to nominate, appoint and remove Directors. The Constitution also provides for the regular rotation of Directors, which ensures that Directors seek re-election by shareholders at least once every three years.

Independent Professional Advice
Directors, in carrying out their duties as Directors or as members of Board Committees, may, after prior consultation with the Chairman, seek independent professional advice at the expense of the Company. If appropriate, such advice will be available to all Directors.

Timely and Balanced Disclosure
The Board of Directors has established written policies and procedures designed to ensure compliance and at each meeting of the Board of Directors and specifically monitors the Company's activities and disclosures. On average there are between five and nine Board meetings a year. The Board of Directors has endorsed the principles of best corporate governance practice as set out by the Council.

Performance
The performance of the board and key executives is reviewed periodically against both measurable and qualitative indicators. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Hawthorn Resources Limited.

Trading Policy
The Company in December 2011 in accordance with the requirements of the ASX adopted a Share Trading Policy which was released to the ASX and which can be viewed on the Company's website under the section dealing with "…Corporate Governance…"

Under the Policy, an executive or director must not trade in any securities of the Company at any time when the Company is in a designated 'Blackout Period' being the ten business days immediately preceding the release of the half-year or the full year trading results to the ASX OR for the two consecutive business days following the release of a material announcement to the ASX OR when they are in possession of unpublished, price-sensitive information in relation to those securities.

As required by the ASX listing rules, the Company notifies the ASX of any transaction conducted by directors in the securities of the Company. The Company has in place with each director an agreement in the form required under Listing Rule 3.19B.

Board of Directors and its Committees
The Board of Directors is responsible for the overall governance of the Company inclusive of its strategic development and the direction and the control of operations of the Company. Whilst the Board retains overall responsibility, it has established certain committees to assist in carrying out its responsibilities. Such committees include the Audit, Compliance and Corporate Governance Committee and the Share Allotment Committee.

Audit, Compliance and Corporate Governance Committee ("Audit Committee")
It is the board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit Committee. However, as the Board of Directors comprises three only directors the functions of the committee are carried out within the structure and conduct of Board Meetings but under the Chairmanship of Dr Tyrwhitt. A charter is being prepared for approval by the board.

The committee, as at the date of this statement, comprises:

Chairman	Dr D S Tyrwhitt (Independent Director)
Member	Mr M G Kerr (Non-Executive Director)
Member	Mr M E Elliott (Managing Director/ CEO)

The Company's Auditors are invited to attend meetings and to participate in committee discussions. The Group Financial Officer attends committee meetings.

The duties of the Committee have been established as and include:

- The review of the Audit Programme and all matters relevant to the financial affairs of the Company's activities together with the production of Statutory Financial Reports inclusive of the Reports and Declarations by Directors.
- To review and advise on procedures in place to record the Company's activities and to ensure the safety of the Company's records and assets.
- To review Internal Control Procedures and the Auditor's Management letter.
- To review the half-yearly and yearly reports to the ASX Limited together with a review of the scope and quality of the annual statutory audit and the half-year audit review.
- To monitor Compliance with the provisions of the Corporations Act 2001, Australian Securities and Investment Commission guidelines and practice notes, ASX Listing Rules, taxation requirements and all regulatory bodies.
- Carry out the functions of the Remuneration Committee.
- Group Risk management
- To review the performance of the external auditor and the level of fees charged for audit services

Nomination Committee
The Company does not have a Nomination Committee. The Board believes that with only three Directors on the Board, the Board itself is the appropriate forum to deal with this function.

Share Allotment Committee
Any two Directors will constitute a quorum for this committee, which deals with the allotment of new securities in accordance with the general guidelines and principles as authorised by the Board of Directors.

Internal Control Framework and Ethical Standards
The Board of Directors seeks to identify the expectations of shareholders as well as other regulatory and ethical expectations and obligations.

These matters are undertaken by the full Board together with the audit, compliance and corporate governance committee. In respect of the ethical standards, the full Board regularly discusses the maintenance by the Company of appropriate ethical standards in line with the Council's recommendations.

Risk
The board acknowledges the Revised Supplementary Guidance to Principle 7 issued by the ASX in June 2008 and has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the company's approach to creating long-term shareholder value.

In recognition of this, the board determines the company's risk profile and is responsible for overseeing and approving risk management strategy. The audit, compliance and corporate governance committee reviews policies, internal compliance and internal control.

The Audit Committee, pursuant to the mandate by the Board of Directors, oversees the assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the Chief Executive Officer and Chief Financial Officer, including responsibility for the day to day design and implementation of the company's risk management and internal control system.

Management reports to the Audit Committee on the company's key risks and the extent to which it believes these risks are being adequately managed. The reporting on risk by management is a standing agenda items at board meetings.

Business Risk
The main areas of business risk, which are considered on an ongoing basis by the Board are:

- Failure to develop commercial products from the company's research and development
- Ability to raise capital or generate free cash flow to fund future research and development activities
- Failure to market the company's products
- General economic factors including those affecting interest and exchange rates
- Changes in Corporations and Taxation Laws

Occupational Health and Safety
The Company is committed to providing a safe and healthy working environment for all staff. It considers that safety is a collective responsibility and ensures that regular training in safe working methods is undertaken and encourages participation and involvement in the development of workplace safety programs. Individual employees and employees of contractors are required to practice safe working habits, to take all reasonable care to prevent injury to themselves and their colleagues and to report all hazards and accidents.

New staff and contractors (where appropriate) are required to undergo an induction program to familiarise themselves with policies, procedures and work practices prior to commencing work. All staff are covered against injury under the various Workers' Compensation Acts.

CEO and CFO Certification
In accordance with section 295A of the Corporations Act, the chief executive officer and chief financial officer have provided a written statement to the board that:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the board
- The Company's risk management and internal compliance and control system is operating effectively in all material respects

The board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Managing Director and Chief Financial Officer can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures. In response to this, internal control questions are required to be completed by the key management personnel of all significant business units, including finance managers, in support of these written statements.

Remuneration
The board is responsible for determining and reviewing compensation arrangements for the directors themselves, the chief executive officer and executive team. A Remuneration Committee has not been separately established, rather the function is performed within the Board Meetings given that the Company at this time has a Board comprising three members.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. Where applicable, total remuneration for the Executive Director includes an annual salary and other entitlements. Attendance at and participation in Board and Committee meetings are considered among the duties of the Executive Director. Non-Executive Directors receive fees for attending Board and Committee meetings. Pro-rata fees are paid to Non-Executive Directors who serve for less than a full year. Other than the Managing Director none of the Directors or the Company Secretary have letters of appointment. However, the Company is in the process of considering appropriate letters of appointment.

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the Remuneration Report, which is contained within the directors' report.

Shareholder Communication Policy
Hawthorn's objective is to promote effective communication with its shareholders at all times. Hawthorn Resources Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about Hawthorn's activities in a balanced and understandable way.

- Complying with continuous disclosure obligations contained in applicable the ASX listing rules and the Corporations Act in Australia.

- Communicating effectively with its shareholders and making it easier for shareholders to communicate with Hawthorn Resources Limited.

To promote effective communication with share holders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX
- Through the distribution of the annual report and Notices of Annual General Meeting
- Through shareholder meetings and investor relations presentations
- Through letters and other forms of communications directly to shareholders
- By posting relevant information on the Hawthorn website www.hawthornresources.com.

The Company's website www.hawthornreseources.com has a dedicated Investor Relations section for the purpose of publishing all important company information and relevant announcements made to the market. The Company has also established an e-mail directory for the direct distribution of announcements made to the ASX.

The external auditors are required to attend the Annual General Meeting and are available to answer any shareholder questions about the conduction of the audit and preparation of the audit report.

Annual Reports are provided to all shareholders who have elected to receive the Report. In addition the Company has established an electronic advice directory in which shareholders may register to receive by e-mail copy announcements.

At the meetings of shareholders, Directors are subject to questioning by shareholders about the Directors' stewardship of the Company's affairs and it is shareholders who ultimately vote upon the financial statements and reports, the election of Directors, appointment of Auditors and any matters of Special Business.

The Company does not web-cast shareholder meetings and does not believe that at this stage the cost-benefit of web casting is worthwhile to a Company of its size

The main corporate governance practices that the Board of Hawthorn Resources Limited had in place during the year were:

1. Board of Directors

i. Board Responsibilities

The Board's role is to maximize wealth creation and shareholder value in the Company. It assumes responsibility for overseeing the affairs of the Company by ensuring that they are carried out in a professional and ethical manner and that business risks are effectively managed. The primary responsibilities of the Board include the following:

- To oversee the Company, including its control and accountability systems
- To appoint and remove the Chief Executive Officer (or equivalent)
- To ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer (or equivalent) and the Company Secretary
- To have input into and final approval of management's development of corporate strategy and performance objectives
- To review and ratify systems of risk management and internal compliance and control, codes of conduct, legal compliance and any other regulatory compliance
- To monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available
- To approve and monitor the progress of major capital expenditure, capital management, and acquisitions and divestitures
- To approve and monitor financial and other reporting to shareholders and the market
- To monitor the Board composition, Director selection, Board processes and performance and ensure Directors have an understanding of the Company's business
- To monitor and influence the key standards of the Company including ethical standards, reputation and culture
- To review and approve executive remuneration
- To approve annual budgets

ii. Board Composition

While the Company's Constitution fixes the maximum number of Directors at twelve, the Board currently comprises one Executive Director and two Non-Executive Directors.
The Company does not have a majority of Independent Directors.

The Chairman of the Board, Mr M Kerr, is not considered as independent in accordance with the ASX Corporate Governance Council definitions and recommendations due to the level of entitlement to the Company's ordinary shares and the ongoing contractual serviced office arrangements with Berkeley Consultants Pty Ltd – a company in which Mr Kerr has a prescribed interest.

To ensure that it has the right mix of management skills and technical expertise to meet the challenges of its business, the Board regularly reviews its composition. The Board believes that at the current stage of the Company's development, the composition is adequate. However, it continues to assess the need to enhance the membership of the Board and is cognisant of the ASX Corporate Governance Council definitions and recommendations.

iii. Appointment/retirement of Directors

The Company's Constitution requires that all Directors other than the Managing Director submit themselves for re-election every three years with not less than one third of the Board retiring by rotation. Directors appointed during the period since the last Annual General Meeting of the Company must submit themselves for election at the next Annual General Meeting.

iv. Board Meetings

The full Board meets formally to conduct appropriate business. The Board uses circulating resolutions in writing signed by all Directors to deal with matters requiring decisions between meetings. Such resolutions are then ratified at the next Board meeting.

v. Directors' Remuneration

Where applicable, total remuneration for the Executive Director includes an annual salary and other entitlements. Attendance at and participation in Board and Committee meetings are considered among the duties of the Executive Director. Non-Executive Directors receive fees for attending Board and Committee meetings. Pro-rata fees are paid to Non-Executive Directors who serve for less than a full year. As noted, other than the Managing Director none of the Directors or the Company Secretary have letters of appointment. However, the Company is in the process of considering appropriate letters of appointment.

vi. External Advice to Directors

The Company recognises that in the exercise of their responsibilities there may be occasions when Directors may wish to seek independent professional advice. With the prior consent of the Chairman, advice can be obtained at the Company's expense and is to be made available to the whole Board.

2. Board Committees

The Board has Committees to address the areas of remuneration and audit.

i. Remuneration Committee

The Company does not have a Remuneration Committee. All matters relevant to remuneration are considered within the workings and considerations of the Board of Directors meetings.

ii. Audit , Compliance and Corporate Governance Committee ("Audit Committee")

The Audit Committee comprises two non-executive Directors and one Executive Director and has an independent Chairperson, who is not Chairperson of the Board. It does not have at least three members all of whom are independent, for the reasons set out above. The Company currently only has one independent Director and he is a Chairman of the Audit Committee.

The Audit Committee meets to plan and review annual and half-yearly financial statements and reports prior to their release to the ASX. The Committee also monitors the performance of the Company's Auditors and for evaluation of the adequacy and effectiveness of internal controls. The external Auditor is invited to attend and speak at these meetings. The Audit Committee has a formal charter.

iii. Nomination Committee

The Company does not have a Nomination Committee. The Board believes that with only three Directors on the Board, the Board itself is the appropriate forum to deal with this function.

3. Role of Management

Day to day management of the Company's activities and the implementation of Board strategy, policy and decisions is delegated to management. This includes the following:

- To develop and recommend internal control and accountability systems for the Company and if approved, ensure compliance with such systems.
- To prepare mission systems, corporate strategy and performance objectives for approval by the Board of Directors.
- To prepare systems of risk management and internal compliance and controls, codes of conduct, legal compliance and any other regulatory compliance and if approved, ensure compliance with such systems.
- To monitor employees' performance, recommend appropriate resources and review and approve remuneration.
- To prepare all required financial reports, tax returns, budgets and any other appropriate financial reports, meet all statutory deadlines, monitor performance against budgets.
- Prepare recommendations on acquisitions and divestments of assets.
- To implement decisions of the Board of Directors on key standards of the Company covering such areas as ethical standards, reputation and culture of the Company and influence and provide guidance for employees on these areas.
- To protect the assets of the Company.

4. Risk Management

The Company continues to monitor its operations to identify the greatest areas of potential risk to minimise any adverse effects on the Company's strategic, operational and financial activities.

i. Environment

Details of the environmental policy and other related matters are provided in the Environment section of the Directors' Report.

ii. Occupational Health and Safety

The Company is committed to providing a safe and healthy working environment for all staff. It considers that safety is a collective responsibility and ensures that regular training in safe working methods is undertaken and encourages participation and involvement in the development of workplace safety programs. Individual employees and employees of contractors are required to practice safe working habits, to take all reasonable care to prevent injury to themselves and their colleagues and to report all hazards and accidents.

New staff and contractors (where appropriate) are required to undergo an induction program to familiarise themselves with policies, procedures and work practices prior to commencing work. All staff are covered against injury under the various Workers' Compensation Acts.

iii. Financial Reporting

The Chairman and Company Secretary sign off to the Board of Directors in respect to the annual financial statements and risk management policies as required by law and the ASX Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations".

5. Code of Conduct

i. Ethical Standards

The Company operates under a code of conduct that sets out the ethical standards under which the Company operates when dealing with internal and external parties. This code requires parties to act with integrity, fairness and honesty in all dealings and to treat other parties with dignity at all times. They are required to:

- not discriminate against any staff member or potential employee;
- carry out their duties in respect to the law at all times;
- to use the Company's assets responsibly;
- to respect the confidentiality of the Company's business dealings; and
- take responsibility for their own actions and for the consequences surrounding their own actions.

ii. Share Trading

The Company in December 2011 in accordance with the requirements of the ASX adopted a Share Trading Policy which was released to the ASX and which can be viewed on the Company's website under the section dealing with "…Corporate Governance…"

6. Continuous Disclosure Compliance

The Company's continuous disclosure compliance procedure enables it to meet its obligations and to ensure that all matters, which may require announcement to the Australian Securities Exchange, are brought to the attention of Directors immediately.

7. Communicating with Shareholders

The Board ensures that shareholders are kept informed of all major developments that affect their shareholding or the Company's state of affairs through periodical, half-yearly, annual and ad hoc reports. All shareholders are encouraged to attend the Annual General Meeting to meet the Chairman and Directors and to receive the most updated report on Company activities. The auditors of the Company attend the annual general meeting for the purpose of answering any questions on the annual financial statements and audit thereof, properly brought before the meeting.

The Company maintains a website at www.hawthornresources.com provide shareholders with up to date information on the Company's activities. Shareholders may also communicate with the Company through its e-mail address info@hawthornresources.com

The Company does not web-cast shareholder meetings and does not believe that at this stage the cost-benefit of web casting is worthwhile to a Company of its size. The Company has established an 'email alert' directory which is open to shareholders and interested parties – this service circulates a copy of the announcements made by the Company to the ASX. Interested parties can join this directory by using the form shown on the Company's website.

8 Diversity - New Recommendations

For the financial periods commencing after 1 July 2011 there are amendments to the 2nd edition of the Corporate Governance Principles and Recommendations which amongst other items new includes new principles relating to diversity.

The Hawthorn Board of Directors adopted a policy on diversity in July 2011.
In the 2012 Annual Report information will be provided about the objectives set for achieving gender diversity.

The Company's Diversity Statement can be viewed on the website at www.hawthornresources.com/investors/governance

Hawthorn Resources Limited
Statement of Comprehensive Income for the Year Ended 30 June 2011

	Note	Consolidated 2011 $	Consolidated 2010 $
Revenue from Continuing Operations			
Finance income	3	131,904	120,746
Gain on disposal of available-for-sale investments	3	-	555,862
Gain on disposal of exploration assets	3	-	11,277
		131,904	687,885
Exploration expenditure impaired	10	(743,069)	(2,169,193)
Administration expenses		(1,057,780)	(819,650)
Depreciation expense		(9,920)	(11,057)
Impairment of available-for-sale investments		(6,816)	(229,879)
Share option expense		-	(4,740)
Loss before income tax		(1,685,681)	(2,546,634)
Income tax expense	4	-	-
Loss for the year after tax from continuing operations		(1,685,681)	(2,546,634)
Other comprehensive income		-	-
Total other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,685,681)	(2,546,634)
Loss attributable to members		(1,685,681)	(2,546,634)
Earnings per share		Cents	Cents
Basic loss per share for the year attributable to ordinary equity holders	5	(0.099)	(0.176)
Diluted loss per share for the year attributable to ordinary equity holders	5	(0.099)	(0.176)

The Statement of Cash Flows is to be read in conjunction with the accompanying notes to the attached financial statements.

Hawthorn Resources Limited
Statement of Financial Position as at 30 June 2011

	Note	Consolidated 2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	1,292,284	2,841,076
Trade and other receivables	7	105,574	135,606
Other current assets	8	2,249	2,240
Total Current Assets		1,400,107	2,978,922
Non-Current Assets			
Other financial assets	9	10,169	16,985
Exploration expenditure	10	9,022,585	8,067,078
Plant and equipment	11	15,791	25,711
Total Non-Current Assets		9,048,545	8,109,774
TOTAL ASSETS		10,448,652	11,088,696
LIABILITIES			
Current Liabilities			
Trade and other payables	12	270,462	726,015
Employee benefits		6,890	-
Total Current Liabilities		277,352	726,015
TOTAL LIABILITIES		277,352	726,015
NET ASSETS		10,171,300	10,362,681
EQUITY			
Contributed equity	13	38,063,340	36,569,040
Reserves	14	1,667,974	1,667,974
Accumulated losses		(29,560,014)	(27,874,333)
TOTAL EQUITY		10,171,300	10,362,681

The Statement of Financial Position is to be read in conjunction with the accompanying notes to the attached financial statements

Hawthorn Resources Limited
Statement of Cash Flows for the Year Ended 30 June 2011

	Note	Consolidated 2011 $	2010 $
Cash flows from operating activities			
Payments in the course of operations		(1,476,420)	(497,912)
Interest received		131,904	120,746
Net cash used in operating activities	17 (a)	(1,344,516)	(377,166)
Cash flows from investing activities			
Payments for exploration expenditure		(1,698,576)	(1,775,807)
Proceeds from sale of exploration licence		-	27,500
Proceeds from sale of investments		-	557,362
Net cash used in investing activities		(1,698,576)	(1,190,945)
Cash flows from financing activities			
Proceeds from issue of share capital		1,500,000	2,634,781
Payment of fees in relation to issue of share capital		(5,700)	(123,505)
Net cash provided by financing activities		1,494,300	2,511,276
Net increase/(decrease) in cash and cash equivalents		(1,548,792)	943,165
Cash and cash equivalents at beginning of year		2,841,076	1,897,911
Cash and cash equivalents at end of year	6	1,292,284	2,841,076

The Statement of Cash Flows is to be read in conjunction with the accompanying notes to the attached financial statements.

Hawthorn Resources Limited
Statement of Changes in Equity for the Year Ended 30 June 2011

		Contributed Equity $	Accumulated Losses $	Available For Sale Reserve $	Employee Equity Benefit Reserve $	Total Equity $
CONSOLIDATED	Note					
At 1 July 2009		34,057,764	(25,327,699)	-	1,663,234	10,393,299
Loss for the year		-	(2,546,634)	-	-	(2,546,634)
Other comprehensive income		-	-	-	-	-
Total comprehensive income/(loss) for the year net of tax		-	(2,546,634)	-	-	(2,546,634)
Transactions with owners in their capacity as owners:						
Issue of share capital	13	2,634,781	-	-	-	2,634,781
Share issue costs	13	(123,505)	-	-	-	(123,505)
Share based payment	15	-	-	-	4,740	4,740
At 30 June 2010		36,569,040	(27,874,333)	-	1,667,974	10,362,681
Loss for the year		-	(1,685,681)	-	-	(1,685,681)
Other comprehensive income		-	-	-	-	-
Total comprehensive income/(loss) for the year net of tax		-	(1,685,681)	-	-	(1,685,681)
Transactions with owners in their capacity as owners:						
Issue of share capital	13	1,500,000	-	-	-	1,500,000
Share issue costs	13	(5,700)	-	-	-	(5,700)
At 30 June 2011		38,063,340	(29,560,014)	-	1,667,974	10,171,300

The Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the attached financial statements.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Reporting Entity

Hawthorn Resources Limited (the "Company") is a public company incorporated and domiciled in Australia. The principal activity of the Company during the financial year was mineral exploration. There has been no significant change in the nature of that activity during the financial year.

The consolidated financial report of the Company as at and for the year ended 30 June 2011 comprises the Company and its subsidiaries. The financial report was authorised for issue by the Directors on the date of this report.

The registered office and principal place of business of the entity is Level 2, 90 William Street, Melbourne, Victoria, 3000.

(b) Basis of Preparation

The financial report is presented in Australian dollars. The financial report has been prepared on a historical cost basis, except for the revaluation of available-for-sale financial assets and financial assets at fair value through the profit and loss that have been measured at fair value in accordance with Australian Accounting Standards.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make significant judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Separate financial statements for Hawthorn Resources Limited as an individual entity are no longer presented as a consequence of a change in the Corporations Act 2001, however limited information for Hawthorn Resources Limited as an individual entity is presented at Note 24.

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.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(d)(xix).

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

GOING CONCERN

The financial statements have been prepared on a going concern basis.

The Group incurred a net consolidated loss for the year of $1,685,681 (2010: $2,546,634) and had a net cash consolidated outflow from operations of $1,344,516 (2010: $377,166). At 30 June 2011, the company has net current assets of $1,122,755. The Group does not yet have a source of income sufficient to meet operating costs and is reliant on equity capital to fund its operations. For the period covering the twelve months from the date of the financial report, the Group expects this trend to continue. These conditions indicate a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The ability of the Group to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds. The Company has a history of successfully raising funds and during the 30 June 2011 financial year has raised capital in the amount of $1,500,000 (2010: $2,634,781). It is the Company's intention to raise further capital in the next twelve months. The Group also has the ability to downscale its operations and discontinue programmes should the need arise.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(b) Basis of Preparation (Cont'd)

GOING CONCERN (Cont'd)

Cash flow forecasts prepared by management demonstrate that with a modest fund raising the Group has sufficient funds to meet commitments over the next twelve months based on these factors. For this reason the financial statements have been prepared on the basis that the Group is a going concern, which contemplates normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

Should the Group not be able to continue as a going concern, it may be required to realise its assets and extinguish its liability other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the Group not continue as a going concern.

(c) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

The financial report complies with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board.

(d) Summary of Significant Accounting Policies

(i) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at balance date.

All differences in the financial report are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(ii) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest
Interest revenue is recognised as the interest accrues.

(iii) Finance Costs

Financing costs comprise interest payable on other payables and borrowings. Interest is recognised as an expense when incurred. Hawthorn Resources Limited does not currently hold qualifying assets but, if it did, the borrowings costs directly associated with the asset would be capitalised.

(iv) Leases

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(d) Summary of Significant Accounting Policies (Cont'd)

(v) Cash and Cash Equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, net of bank overdrafts.

(vi) Receivables

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(vii) Impairment of Assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs.

When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset or cash generating unit is impaired and is written down to its recoverable amount.

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. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life. Impairment losses on goodwill are not reversed

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(d) Summary of Significant Accounting Policies (Cont'd)

(viii) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by balance date.

Current tax is the expected tax payable on the taxable income for the period. The Company has not derived taxable income in either the current or previous periods.

Deferred income tax is determined using the balance sheet method which calculates temporary differences on the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity and the same taxation authority.

Hawthorn Resources Limited (the 'head entity') and its wholly-owned Australian controlled entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

(ix) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to the taxation authority.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(d) Summary of Significant Accounting Policies (Cont'd)

(x) Other Financial Assets

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

Held for trading financial assets are those non-derivative financial assets, principally equity securities that are designated as held for trading. After initial recognition, held for trading financial assets are measured at fair value with gains or losses being recognised in the statement of comprehensive income.

Available for sale financial assets are those non-derivative financial assets, principally equity securities that are designated as available-for-sale.

After initial recognition, available-for-sale financial assets, are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of comprehensive income.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Securities Exchange quoted market bid prices at the close of business on the balance date.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Company commits to purchase the asset.

(xi) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses [see accounting policy (vii)].

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful life of the assets. The estimated useful life of motor vehicles and plant and equipment is between 3 and 5 years.

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

When an asset's carrying value is increased as a result of a revaluation, the increase is, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, credited directly to revaluation reserve.

When an asset's carrying amount is decreased as a result of a revaluation, the decrease is, except to the extent of any credit balance existing in the revaluation reserve in respect of that asset, recognised in the statement of comprehensive income.

The revaluation surplus is transferred directly to retained earnings when the asset is derecognised.

(xii) Exploration

Exploration expenditure is capitalised for each separate area of interest where rights to tenure are current and:

(a) such costs are expected to be recovered through successful development and exploitation or by sale; or

(b) where activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

Ultimate recoupment of exploration expenditure carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(d) Summary of Significant Accounting Policies (Cont'd)

(xii) Exploration (Cont'd)
The carrying values of expenditures carried forward are reviewed for impairment at each reporting date when the facts, events or changes in circumstances indicate that the carrying value may be impaired. Accumulated expenditures are written off to the statement of comprehensive income to the extent to which they are considered to be impaired.

The key points that are considered in this review include:
- planned drilling programs and data evaluation;
- environmental issues that may impact the underlying tenements; and
- the estimated market value of assets at the review date.

Information used in the review process is rigorously tested to externally available information as appropriate.

(xiii) Joint Venture Operations
The interest of the Company in unincorporated joint ventures are brought to account by recognising in its financial statements the assets it controls, the liabilities it incurs and the expenses it incurs in relation to the joint venture.

(xiv) Trade and Other Payables
Trade and other payables are stated at cost. Payables due to other entities are recognised at cost. Interest incurred is taken up as a finance cost.

(xv) Interest-Bearing Borrowings
Interest-bearing borrowings are recognised at cost. After initial recognition interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value, if any, being recognised in the statement of comprehensive income over the period of the borrowings on an effective interest basis.

(xvi) Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the risks specific to the liability.

(xvii) Share-Based Payments
Share-based compensation benefits are provided to employees, Directors, officers or consultants of the Company or an associated body corporate and such other persons nominated by the Directors under the Hawthorn Resources Limited 2005 Share Option Plan which allows participants to acquire shares of the Company.

The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the participants become unconditionally entitled to the options. The fair value of the options granted is measured using the black scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest at each balance date.

(xviii) Contributed Equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(d) Summary of Significant Accounting Policies (Cont'd)

(xix) Critical Accounting Estimates and Judgments

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

Management discussed with the Board the development, selection and disclosure of the Company's critical accounting policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Key Estimates

(i) *Impairment*

The Company assesses impairment of non-current assets (other financial assets, exploration expenditure and plant and equipment) at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Where indicators of impairment exist, recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions or fair value less costs to sell.

Key Judgments

(ii) *Exploration and Evaluation Expenditure*

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the statement of comprehensive income in the period when the new information becomes available.

(iii) Key sources of estimation uncertainty

Note 1(d)(xii) contains information about the key points/assumptions that relate to the company's evaluation of exploration expenditure impairment.

(xx) Principles of Consolidation

Subsidiaries

The consolidated financial statements comprise those of the Company, and the entities it controlled at the end of, or during, the financial year. The company and its controlled entities together are referred to in this financial report as the consolidated entity.

The balances and effects of transactions between entities in the consolidated entity included in the financial statements have been eliminated. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The accounting policies adopted in preparing the financial statements have been consistently applied by the entities in the consolidated entity.

The acquisition of Ellendale Resources NL ("Ellendale") on 10 June 2008 was treated as a reverse acquisition in accordance with AASB 3 "Business Combinations" whereby Ellendale is considered the accounting acquirer on the basis that Ellendale is the controlling entity in the transaction. As a result, Ellendale is the continuing entity for consolidated accounting purposes and the legal parent Hawthorn Resources Limited is the accounting subsidiary.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Hawthorn Resources Limited.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(e) Financial Risk Management

The Company's principal financial instruments comprise receivables, payables and cash. These instruments expose the Company to a variety of financial risks: market risk (including interest rate risk, foreign currency risk and price risk), credit risk and liquidity risk.

Although the Company does not have documented policies and procedures, Management manages the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate and foreign exchange risk and by being aware of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, and liquidity risk is monitored through general business budgets and forecasts.

Further detail on Financial Risk Management is set out in Note 21.

(f) Capital Management

The Company's policy in relation to capital management is for management to regularly and consistently monitor future cash flows against expected expenditures. The Board determines the Company's need for additional funding by way of either share placements or loan funds depending on market conditions at the time. Management defines working capital in such circumstances as its excess liquid funds over liabilities, and defines capital as being the ordinary share capital of the Company.

There were no changes in the Company's approach to capital management during the year.

(g) Impact of Adopting New Accounting Standards and Accounting Standards Not Yet Effective

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy.

The adoption of these Accounting Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2 Share-based Payment Transactions - amendments for Group Cash-settled Share-based Payment Transactions

The consolidated entity has applied the amendments to AASB 2 from 1 July 2010. The amendments clarified the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the consolidated entity settles the transaction, and no matter whether the transaction is settled in shares or cash.

Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments

The consolidated entity has applied Interpretation 19 from 1 July 2010. The interpretation clarified that equity instruments issued to a creditor to extinguish a financial liability qualifies as consideration paid. The equity instruments issued are measured at their fair value, or if not reliably measured, at the fair value of the liability extinguished, with any gain or loss recognised in profit or loss.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(g) Impact of Adopting New Accounting Standards and Accounting Standards Not Yet Effective (Cont'd)

AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The consolidated entity has applied AASB 2009-5 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:
AASB 101 'Presentation of Financial Statements' - classification is not affected by the terms of a liability that could be settled by the issuance of equity instruments at the option of the counterparty;
AASB 107 'Statement of Cash Flows' - only expenditure that results in a recognised asset can be classified as a cash flow from investing activities;
AASB 117 'Leases' - removal of specific guidance on classifying land as a lease;
AASB 118 'Revenue' - provides additional guidance to determine whether an entity is acting as a principal or agent; and
AASB 136 'Impairment of Assets' - clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 'Operating Segments' before aggregation for reporting purposes.

AASB 2009-10 Amendments to AASB 132 - Classification of Rights Issues

The consolidated entity has applied AASB 2009-10 from 1 July 2010. The amendments clarified that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendment therefore provides relief to entities that issue rights in a currency other than their functional currency from treating the rights as derivatives with fair value changes recorded in profit or loss.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project
The consolidated entity has applied AASB 2010-3 amendments from 1 July 2010. The amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes had no or minimal effect on accounting. The main changes were:
AASB 127 'Consolidated and Separate Financial Statements' and AASB 3 Business Combinations - clarifies that contingent consideration from a business combination that occurred before the effective date of revised AASB 3 is not restated; the scope of the measurement choices of non-controlling interest is limited to when the rights acquired include entitlement to a proportionate share of net assets in the event of liquidation; requires an entity in a business combination to account for the replacement of acquiree's share-based payment transactions, unreplaced and voluntarily replaced, by splitting between consideration and post combination expenses.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2011. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT'D)

(g) Impact of Adopting New Accounting Standards and Accounting Standards Not Yet Effective (Cont'd)

AASB 2009-12 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 9 Financial Instruments, 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and 2010-7 Amendments to Australian Accounting Standards arising from AASB 9

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any ‘recycling’ of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity’s own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2013 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments are a consequence of the annual improvements project and make numerous non-urgent but necessary amendments to a range of Australian Accounting Standards and Interpretations. The amendments provide clarification of disclosures in AASB 7 'Financial Instruments: Disclosures', in particular emphasis of the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instrument; clarifies that an entity can present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes in accordance with AASB 101 'Presentation of Financial Instruments'; and provides guidance on the disclosure of significant events and transactions in AASB 134 'Interim Financial Reporting'. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-5 Amendments to Australian Accounting Standards

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the International Accounting Standards Board. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS (CONT’D)

(g) Impact of Adopting New Accounting Standards and Accounting Standards Not Yet Effective (Cont’d)

AASB 124 Related Party Disclosures (December 2009)

This revised standard is applicable to annual reporting periods beginning on or after 1 January 2011. This revised standard simplifies the definition of a related party by clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other; entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. This revised standard introduces a partial exemption of disclosure requirement for government-related entities. The adoption of this standard from 1 July 2011 will not have a material impact on the consolidated entity.

AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 July 2011. These amendments add and amend disclosure requirements in AASB 7 about transfer of financial assets, including the nature of the financial assets involved and the risks associated with them. The adoption of these amendments from 1 July 2011 will increase the disclosure requirements on the consolidated entity when an asset is transferred but is not derecognised and new disclosure required when assets are derecognised but the consolidated entity continues to have a continuing exposure to the asset after the sale.

AASB 11 Joint Arrangements

AASB 11 replaces the AASB 131 Interests in Joint Ventures. This Standard applies to annual reporting periods beginning on or after 1 January 2013. The previous standard had 3 types of Joint ventures whereas AASB 11 only has two. These are:

- Joint Operations; and
- Joint Ventures.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Those parties are called joint operators. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Those parties are called joint venturers.

Joint ventures must now be accounted for using the equity method of accounting. The option to proportionately consolidate a joint venture entity has been removed. This will have significant implications for entities that currently use proportionate consolidation. Some entities only have interests in joint ventures and only use proportionate consolidation. Adopting AASB 11 will cause them to use equity accounting and will result in a different presentation in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Cash Flows. The consolidated entity currently does not proportionately consolidate a joint venture.

2. SEGMENT INFORMATION

The principal business and geographical segment of the Company is mineral exploration within Australia.

Business and Geographical Segments

The Group has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a “management approach”, i.e. segment information is provided on the same basis as information used for internal reporting purposes by the board of directors. At regular intervals, the board is provided management information at a group level for the group’s cash position, the carrying values of exploration permits and a group cash forecast for the next twelve months of operation. On this basis, no segment information is included in these financial statements.

3. REVENUE AND EXPENSES

Loss before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the Consolidated Entity:

	Note	Consolidated 2011 $	Consolidated 2010 $
(i) Finance income			
Interest		131,904	120,746
Total finance income		131,904	120,746
(ii) Gain on disposal of available-for-sale investments		-	555,862
(iii) Gain on Disposal of exploration assets		-	11,277
(iv) Director Expenses			
Salaries/Fees		240,000	200,000
(v) Unrealised loss on foreign exchange		1,002	227

4. TAXATION

(a) Income tax recognised in profit or loss

Tax expense / (revenue) comprises:

	2011 $	2010 $
Current tax expense / (revenue)	(505,404)	(694,940)
Deferred tax expense / (revenue) relating to the origination and reversal of temporary differences	-	-
Amounts not recognised	505,404	694,940
Total tax expense / (revenue)	-	-

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:

	2011 $	2010 $
Profit / (loss) from operations	(1,685,681)	(2,316,692)
Income tax expense / (revenue) calculated at 30% (2010: 30%)	(505,704)	(695,008)
Tax Effect of foreign account translations	300	68
Amounts not recognised	505,404	694,940
Tax Expense / (revenue)	-	-

Income Tax Rate
The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by the Australian corporate entities on taxable profits under the Australian tax law. There has been no change in the corporate tax rate when compared with the previous year.

4. TAXATION (Cont'd)

(b) Deferred tax asset liability balances not recognised

	Consolidated 2011 $	Consolidated 2010 $
Non-current deferred tax liability comprises:		
Exploration costs	(2,706,775)	(2,420,123)
Amounts not recognised due to offset of deferred tax assets (detailed below)	2,706,775	2,420,123
	-	-
Non-current deferred tax asset offsetting Deferred tax liabilities comprises:		
Investments	577,093	575,048
Share issue costs	15,170	30,340
Accruals and payables	12,172	11,872
Employee entitlements	2,067	954
Tax Losses – (potential tax benefit at 30%)*	2,100,273	1,801,909
Amounts not recognised	(2,706,775)	(2,420,123)
	-	-

* Unused tax losses for which a benefit has been recognised through offset against deferred tax liability on exploration costs.

In addition to the above tax losses, at 30 June 2011 there are additional potential Group losses of up to $26 million (tax benefit at 30% of $8.4 million), and a further $55.3 million of tax losses (tax benefit at 30% of $16.6 million) that transferred into the Tax Consolidated Group that are subject to the Available Fraction Rules. At 10 June 2008, the consolidated entity formed a tax consolidated group. The transferred losses relate predominately to losses incurred pre-tax consolidation. These losses are subject to further review by the consolidated entity to determine if they satisfy the necessary legislative requirements under the income tax legislation for the carry forward and recoupment of tax losses. Additionally, a deferred tax asset has not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits.

5. EARNINGS PER SHARE

Basic earnings per share
The calculations of basic earnings per share is calculated as follows:

Loss for the year	(1,685,681)	(2,546,634)

	Consolidated 2011 Number of shares	Consolidated 2010 Number of shares
Weighted average number of ordinary shares at the end of the financial year	1,699,920,520	1,445,642,944
Earnings Per Share (cents)	(0.099)	(0.176)

Diluted earnings per share

191,153,653 (30 June 2010: 204,870,366) options at reporting date were not dilutive as the conversion would result in a reduced loss per share.

	Consolidated 2011 $	Consolidated 2010 $
6. CASH AND CASH EQUIVALENTS		
Cash at bank	532,284	831,076
Term deposits	760,000	2,010,000
Total Cash and Cash Equivalents	1,292,284	2,841,076
7. TRADE AND OTHER RECEIVABLES		
CURRENT		
Other (i)	105,574	135,606
8. OTHER CURRENT ASSETS		
CURRENT		
Prepayments	2,249	2,240
9. OTHER FINANCIAL ASSETS		
Available for sale investments at fair value	8,080	15,409
Investments at fair value through profit and loss	2,089	1,576
	10,169	16,985
10. EXPLORATION EXPENDITURE		
Areas in the exploration phase At cost	9,022,585	8,067,078

(i) Other relates to GST receivable. Amounts are current, not past due and not considered impaired.

10. EXPLORATION EXPENDITURE (cont'd)

Movement in the carrying value of exploration expenditure during the year was:

	Consolidated 2011 $	2010 $
Opening balance at 1 July	8,067,078	8,476,914
Costs incurred during the year	1,698,576	1,759,357
Exploration expenditure impaired during the year	(743,069)	(2,169,193)
Balance at 30 June	9,022,585	8,067,078

11. PLANT AND EQUIPMENT

	2011 $	2010 $
Plant, equipment and motor vehicles		
Cost balance at 1 July	68,692	68,692
Acquisitions	-	-
Balance at 30 June	68,692	68,692
Accumulated depreciation		
Balance at 1 July	42,981	31,924
Depreciation charge for the year	9,920	11,057
Balance at 30 June	52,901	42,981
Carrying amounts		
At 1 July	25,711	36,768
At 30 June	15,791	25,711

12. TRADE AND OTHER PAYABLES

	2011 $	2010 $
Payables and accrued expenses	270,462	726,015
	270,462	726,015

13. CONTRIBUTED EQUITY

	Note	Consolidated 2011 $	Consolidated 2010 $
Opening Balance		36,569,040	34,057,764
Issued August 2009 for cash pursuant to share placement (0.70c per share)		-	400,000
Issued September 2009 for cash pursuant to share purchase plan (0.72c per share)		-	2,234,781
Transaction costs on share issue		-	(123,505)
Issued October 2010 for cash pursuant to share placement (0.60c per share)		1,500,000	-
Transaction costs on share issue		(5,700)	-
Balance at Year End		38,063,340	36,569,040

	2011 No. of Shares	2010 No. of Shares
Opening Balance	1,525,595,897	1,158,066,830
Issued August 2009 for cash pursuant to share placement (0.70c per share)	-	57,142,857
Issued September 2009 for cash pursuant to share placement (0.72c per share)	-	310,386,210
Issued October 2010 for cash pursuant to share placement (0.60c per share)	250,000,000	-
Balance at Year End	1,775,595,897	1,525,595,897

Terms and Conditions of Issued Capital

Ordinary Shares (quoted): HAW
Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings. In the event of winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Options (quoted):
(i) HAWOA: 13,716,713 options at an exercise price of $1.25 lapsed automatically at close of business at 22 September 2010 (30 June 2010: 13,716,713 options). None of these options were exercised during the year.

13.CONTRIBUTED EQUITY (CONT'D)

(ii) HAWO: 13,569,422 options are on issue at an exercise price of $0.20 per option which, if exercised, will entitle the option holders to 1 fully paid share in the Company for each option. Options not exercised by 30 April 2012 will lapse. None of these options were exercised during the year.

(iii) HAWOB: 165,084,231 options are on issue at an exercise price of $0.10 per option which if exercised, will entitle the option holders to 1 fully paid share in the Company for each option. Options not exercised by 28 February 2013 will lapse. None of these options were exercised during the year.

Options (unquoted)
(i) 10,000,000 options are on issue at an exercise price of $0.10 per option which if exercised, will entitle the option holders to 1 fully paid share in the Company for each option. Options not exercised by 25 January 2018 will lapse. None of these options were exercised during the year. The options were issued in January 2008, pursuant to a resolution of shareholders, whereby 10,000,000 options in total were issued at an exercise price of $0.10 per option to the directors M. Kerr and M. Elliott.

(ii) 2,500,000 options are on issue at an exercise price of $0.10 per option which if exercised, will entitle the option holders to 1 fully paid share in the Company for each option. Options not exercised by 30 June 2018 will lapse. None of these options were exercised during the year. Further details on options is included in Note 15.

		Consolidated	
	Note	2011 $	2010 $
14. RESERVES			
Option premium reserve		1,459,349	1,459,349
Share based payment reserve		208,625	208,625
Available for sale investments at fair value reserve		-	-
		1,667,974	1,667,974
Movement in reserves			
Share based payment reserve: at 1 July		208,625	203,885
Amortisation of fair value of employee share options		-	4,740
At 30 June		208,625	208,625

Option premium reserve
The option premium reserve represents the amounts contributed for the future right to acquire shares at a pre-determined price. The two listed class of options details are :
HAWO have an exercise price of 20 cents and a latest expiry date of 30 April 2012.
HAWOB have an exercise price of 10 cents and a latest expiry date of 28 February 2013.
HAWOA lapsed on 22 September 2010.

14. RESERVES (CONT'D)

Available for sale investments at fair value reserve
The available for sale investments at fair value reserve represents the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised. No movement has occurred in this reserve in the current financial year (2010: Nil).

Share based payment reserve
The share based payment reserve represents the accumulated amortisation of the fair value of services provided with respect to employee share options issued. Details of the share option plan are outlined in Note 15.

15. SHARE BASED PAYMENTS

At the 2005 Annual General Meeting, the Company established the Hawthorn Resources Limited 2005 Share Option Plan which allows employees, Directors, officers or consultants of the Company or an associated body corporate and such other persons nominated by the Directors to participate in the plan.

Grants of options made under this plan are as follows:

(i) On 1 July 2008, 2,500,000 options were issued at an exercise price of $0.10. Option holders must remain eligible (which would usually mean remaining eligible person although the Board has some discretion to allow continued participation in the event of an eligible person's death, mental incapacity, ill health, accident or redundancy) to participate in the plan throughout the one (1) year vesting period and can be exercised at any time following vesting up to 30 June 2018. All options, if exercised, will be settled by physical delivery of the shares.

(ii) 10,000,000 options were issued in January 2008 at an exercise price of $0.10 per option which if exercised, will entitle the option holders to 1 fully paid share in the Company for each option. Options not exercised by 25 January 2018 will lapse. None of these options were exercised during the year. The options were issued pursuant to a resolution of shareholders at a general meeting, whereby 10,000,000 options in total were issued to directors M. Kerr and M. Elliott. (Refer below for further details on the terms of the options). These options have therefore been granted outside of the share option plan disclosed above.

The number and weighted average exercise price of share options on issue resulting from share based payment expense is as follows:

	2011		2010	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	$0.100	12,500,000	$0.100	12,500,000
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Outstanding at the end of the year	$0.100	12,500,000	$0.100	12,500,000
Exercisable at the end of the year	-	12,500,000	-	12,500,000

The options outstanding at 30 June 2011 have an exercise price of $0.10, with 10,000,000 options having a remaining contractual life of 6.5 years to January 2018, and 2,500,000 options having a remaining contractual life of 7 years to June 2018.

The value of services received in return for employee share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services received is measured based on a black scholes option pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the Black Scholes option pricing model.

15. SHARE BASED PAYMENTS (CONT'D)

The expected volatility is based on the recent historic volatility of comparable listed companies (calculated based on the mid point remaining life of the share options) adjusted for any expected changes to future volatility due to publicly available information.

Employee share options are granted under service conditions. No market or non-market performance conditions are taken into account in the grant date fair value measurement of the services received.

	2011 $	2010 $
Employee expenses		
Total expense recognised as employee cost	-	4,740

16. INTEREST IN JOINT VENTURES

	2011	2010
The Company has an interest in the following joint ventures:		
Edjudina – Pinjin (Avoca Resources Limited)	80%	80%
Trouser Legs (Gel Resources Pty Limited)	70%	70%

The principal activity of the joint ventures is mineral exploration.

Avoca Resources Limited has a 20% interest that is free carried to decision to mine.

During the course of the year the company entered into a Joint Venture agreement with Legacy Iron Ore Limited ('Legacy") where Legacy can earn a 60% interest in the tenants known as the Mount Bevan Iron Ore project by expending a minimum of $3.5m to develop the project to a pre-feasability status on or before 4th October 2012. At 30 June 2011, Legacy had not spent the minimum expenditure requirements. The company's interest in this project is included in exploration expenditure (Note 10)

Included in the assets and liabilities of the Company are the following assets and liabilities employed in the joint ventures:

	Note	Consolidated 2011 $	 2010 $
Non-Current Assets			
Exploration expenditure	(i)	3,520,689	1,965,823
Total Non-Current Assets		3,520,689	1,965,823
Total Assets		3,520,689	1,965,823
Current Liabilities			
Trade and other payables		-	-
Total Non-Current Liabilities		-	-
Total Liabilities		-	-

(i) Mount Bevan Iron Ore project not included as minimum expenditure requirement by Legacy not met at 30 June 2011.

Included in the Company commitments (note 18) are the following commitments in relation to the joint ventures:

Exploration		
Not later than 1 year	404,190	402,550
Later than one year but not later than five years	895,380	1,217,830
Later than five years but not later than twenty one years	70,000	91,300
Total	1,369,570	1,711,680

17. STATEMENT OF CASH FLOWS

	Note	Consolidated 2011 $	Consolidated 2010 $
(a) Reconciliation of loss after tax to net cash used in operating activities			
Loss for the year after tax		(1,685,681)	(2,546,634)
Adjustment for:			
Gain on disposal of investments		-	(555,862)
Gain on disposal of exploration license		-	(11,277)
Impairment of exploration expenditure		743,069	2,169,193
Unrealised loss on foreign exchange		1,002	227
Impairment of available-for-sale investments		6,816	229,879
Depreciation		9,920	11,057
Share option based payments		-	4,740
Net cash used in operating activities before change in assets and liabilities		(924,874)	(698,677)
Change in assets and liabilities:			
(Increase)/decrease in receivables		30,023	(85,415)
(Decrease)/increase in trade and other payables		(456,555)	406,926
Increase in provision for employee benefits		6,890	-
Net cash used in operating activities		(1,344,516)	(377,166)

(b) Reconciliation of cash

For the purpose of the statement of cash flows, cash includes cash on hand and in banks (refer to Note 6)

(c) Non cash financing and investing activities

During the year, there was no non cash financing or investing activities (2010: Nil)

18. COMMITMENTS

(a) Exploration

The Company has to perform minimum exploration work and expend minimum amounts of money on its tenements. The overall expenditure requirement tends to be limited in the normal course of the Company's tenement portfolio management through expenditure exemption approvals and expenditure reductions through relinquishment of parts or the whole of tenements deemed non prospective.

Should the Company wish to preserve interests in its current tenements the amount which may be required to be expended is as follows:

	Consolidated	
	2011 $	**2010 $**
Not later than one year	632,881	1,146,491
Later than one year but not later than five years	2,623,860	5,313,250
Later than five years but not later than twenty one years	221,600	1,082,700
	3,478,341	7,542,441

The terms and conditions under which the Company has title to its various mining tenements oblige it to meet tenement rentals and minimum levels of exploration expenditure as gazetted by the Department of Industry and Resources of Western Australia, as well as Local Government rates and taxes.

The "Later than five years but not later than twenty one years" component represents commitments of up to sixteen years in respect of mining licences which are granted for a period of twenty one years, but in common with prospecting licences and exploration licences may be relinquished or sold by the Company before the expiry of the full term of the licence.

19. RELATED PARTIES

(a) Key Management Personnel Disclosures

The key management personnel for the Company during the year are set out as follows:-

Directors

M Kerr – Chairman and Non Executive Director
D S Tyrwhitt – Non Executive Director
M Elliott – Managing Director & Chief Executive Officer

Other

M Garbutt – Company Secretary

The key management personnel compensation are as follows:

	Consolidated	
	2011 $	**2010 $**
Short-term employee benefits	251,000	200,000
Other long-term benefits	-	-
Post-employment benefits	-	-
Termination benefits	-	-
Share-based benefits	-	-
	251,000	200,000

19. RELATED PARTIES (CONT'D)

(b) Equity Holdings and Transactions

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

2011

	Balance at start of year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Mark Kerr	14,428,000	-	-	-	14,428,000	14,428,000	-
Mark Elliott	5,000,000	-	-	-	5,000,000	5,000,000	-
David Tyrwhitt	-	-	-	-	-	-	-
Mourice Garbutt	-	-	-	-	-	-	-

2010

	Balance at start of year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Mark Kerr	14,428,000	-	-	-	14,428,000	14,428,000	-
Mark Elliott	5,000,000	-	-	-	5,000,000	5,000,000	-
David Tyrwhitt	-	-	-	-	-	-	-
Mourice Garbutt	-	-	-	-	-	-	-

Fully paid ordinary shares issued by Hawthorn Resources Limited:

2011

	Held at 1 July 2010 No.	Granted as compensation No.	Received on exercise of options No.	Other change No. (i)	Held at 30 June 2011
Mark Kerr	50,187,572	-	-	-	50,187,572
Mark Elliott	12,083,333	-	-	7,916,667	20,000,000
David Tyrwhitt	-	-	-	-	-
Mourice Garbutt	-	-	-	-	-

2010

	Held at 1 July 2009 No.	Granted as compensation No.	Received on exercise of options No.	Other change No. (ii)	Held at 30 June 2010
Mark Kerr	46,020,906	-	-	4,166,666	50,187,572
Mark Elliott	10,000,000	-	-	2,083,333	12,083,333
David Tyrwhitt	-	-	-	-	-
Mourice Garbutt	-	-	-	-	-

Note: Other changes relate to directors ceasing to be directors of or commencing as directors of Hawthorn Resources Limited or acquiring or disposing of fully paid ordinary shares.

(i) During the year ended 30 June 2011, Mr Elliott acquired an interest in an additional 7,916,667 ordinary shares through on-market purchases

(ii) Mr Kerr and Mr Elliott, as shareholders, participated in the share purchase plan offering to all shareholders in September 2009 at $0.0072 a share

19. RELATED PARTIES (CONT'D)

(c) Other Key Management Personnel Transactions

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

The following Directors of the Company are also directors of the following entities:

(i)

Name	Position	Entity
Mark Kerr	Current Chairman	Berkeley Consultants Pty Ltd.
Mark Elliott	Current Managing Director & Chief Executive Officer	Berkeley Consultants Pty Ltd.

(ii) Details of transactions with Berkeley Consultants Pty Ltd are as follows:

	Consolidated 2011 $	2010 $
At year end		
Receivable (current)	-	-
Payable (current)	-	-
During the year		
Fees for management services	-	16,278
Fees for fully serviced office and ancillary services	300,000	300,000

The Company entered in to a service arrangement with Berkeley Consultants Pty Ltd ("Berkeley Consultants") effective from 1 April 2008 to replace the previous AXIS Consultants Pty Ltd agreed services. The terms and conditions of the service arrangement provide a fully serviced office, IT and other services to the Company.

Berkeley Consultants Pty Ltd provides to all group companies the services. Further information of the arrangements with Berkeley Consultants Pty Ltd is included in the Remuneration Report in the Directors' Report. The service agreement with Berkeley Consultants has been extended to 31 December 2013.

(d) Wholly Owned Group Transactions

During the year there were no transactions with controlled entities, other than movements in the respective inter-company loan accounts.

As at 30 June 2011, Hawthorn Resources Limited loan balances with its subsidiary companies were:

Payable to Ellendale Resources Pty Ltd	$500,163 (2010: $499,925)
Receivable from Northern Resources Australia Pty Ltd	$258,998 (2010: $256,704)

As at 30 June 2011, Ellendale Resources Pty Ltd loan balances with its subsidiary companies were:

Payable to Sunderland Pty Ltd	$479,925 (2010: $480,143)
Receivable from Northern Resources Australia Pty Ltd	$140,738 (2010: $140,738)

All loan balances have been provided on an interest free basis and have no fixed repayment date.

Movements in loan account during the year relate to payment of expenses. Expenses paid and charged through the loan accounts during the year relate to exploration, tenement costs and company administration expenses.

20. CONSOLIDATED ENTITIES

Name	Country of Incorporation	Ordinary Share Consolidated Equity Interest	
		2011 %	2010 %
Parent entity			
Hawthorn Resources Limited	Australia		
Controlled entities			
Ellendale Resources Pty Limited	Australia	100%	100%
Sunderland Pty Ltd *	Australia	100%	100%
Northern Resources Australia Pty Ltd *	Australia	100%	100%

- * Sunderland Pty Ltd and Northern Resources Australia Pty Ltd are 100% owned subsidiaries of Ellendale Resources Pty Ltd.

21. FINANCIAL RISK MANAGEMENT

The Group's operations expose it to various financial risks including market, credit, liquidity and price risks. Risk management programmes and policies are employed to mitigate the potential adverse effects of these exposures on the results of the Group.

Financial risk management is carried out by the Board on a regular basis by reviewing current and potential sources of funding, cashflow and operating/capital expenditure forecasts, and the Company's investment profile, to manage market, credit, liquidity and price risk.

(a) Market risk

Foreign exchange risk

Foreign currency risk is the risk of exposure to transactions that are denominated in a currency other than the Australian dollar.

The Group's operations are currently solely within Australia, and therefore are not exposed to any material foreign exchange risk.

Interest rate risk

Interest rate risk, is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

The Group currently has minimal exposure to interest rate risk.

As at the reporting date, the Group had no variable rate borrowings, as such the 2011 and 2010 financial statements would not be impacted by changes in interest rates.

Fluctuations in interest rates will not have any material risk exposure to the cash held in bank deposits at variable rates.

Interest rate sensitivity analysis

The group's Interest rate risk is deemed not to have a material effect on its loss after tax and equity and therefore no sensitivity analysis has been performed.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions. For banks and financial institutions, only major Australian banking institutions are used. For customers, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets (refer Notes 6 to 9). The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company and cash assets are held with large Australian banks.

21. FINANCIAL RISK MANAGEMENT (Cont'd)

(c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The company does not have any committed credit lines. As at the reporting date, the company has no significant liquidity risk, as available cash assets significantly exceed amounts payable.

(d) Price Risk

As the company does not derive revenue from sale of products, the effect on profit and equity as a result of changes in the price risk is not considered material. The fair value of the mining projects will be impacted by commodity price changes (predominantly iron ore, nickel and uranium) and could impact future revenues once operational. However, management monitors current and projected commodity prices.

Fluctuation in prices will not have any material risk exposure to the company's other financial assets.

(e) Maturities of Financial Liabilities

The tables below analyse the consolidated entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – 30 June 2011

	Less than 3 months	*3 months to 1 year*	*1 - 5 years*	*5 + Years*	*Total*
	$	$	$	$	$
Non-Interest Bearing	(270,462)	-	-	-	(270,462)

Group 30 June 2010

	Less than 3 months	*3 months to 1 year*	*1 - 5 years*	*5 + Years*	*Total*
	$	$	$	$	$
Non-Interest Bearing	(726,015)	-	-	-	(726,015)

(f) Net Fair Values

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

The carrying value at the balance date of financial assets and financial liabilities, such as receivables and payables, are assumed to approximate fair values due to their short term nature. For other financial assets, such as financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset.

The financial instruments recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

- quoted prices in active markets for identical assets and liabilities (Level 1)
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset and liability that are not based on observable market data (unobservable inputs) (Level 3)

All financial instruments recognised at fair value at 30 June 2011 have been classified within Level 1, and relate to listed investments. The fair value of these financial assets has been based on the closing quoted bid prices at the end of the reporting period, excluding transaction costs.

22. EVENTS AFTER THE BALANCE DATE

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, 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 future financial periods.

23. REMUNERATION OF AUDITORS

The auditor of Hawthorn Resources Limited is PKF.

	Consolidated	
	2011	**2010**
	$	**$**
Amounts received or due and receivable by PKF for:		
An audit or review of the financial report of the Company and any other companies in the consolidated group	40,000	38,000
Other services in relation to the Company and any other companies in the consolidated group – tax compliance	7,500	27,000
Total fees	47,500	65,000

24. PARENT ENTITY INFORMATION

As at, and throughout the financial year ended 30 June 2011, the parent entity of the Group was Hawthorn Resources Limited.

	2011 $	2010 $
Current assets	1,385,374	2,966,645
Non current assets	9,304,443	8,365,273
Total assets	10,689,817	11,331,918
Current liabilities	277,352	726,015
Non current liabilities	241,165	243,221
Total liabilities	518,517	969,236
Net assets	10,171,300	10,362,682
Issued Capital	89,797,630	88,303,330
Reserves	1,038,124	1,041,848
Accumulated Loss	(80,664,454)	(78,982,496)
Total equity	10,171,300	10,362,682
Loss of the parent entity	(1,681,958)	(2,055,564)
Comprehensive loss of the parent entity	(1,681,958)	(2,285,506)

25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities and contingent assets in existence at 30 June 2011.

DIRECTORS' DECLARATION

The directors of Hawthorn Resources Limited declare that:

(a) in the directors' opinion the financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards, the Corporations Regulations 2001and other mandatory professional reporting requirements.

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

1 (c); and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2011, required by Section 295A of the Corporations Act 200.

Signed in accordance with a resolution of the directors.

Dated at Melbourne 23 September 2011

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Mark E Elliott
Managing Director / CEO

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF HAWTHORN RESOURCES LIMITED

PKF

Chartered Accountants
& Business Advisers

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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 Hawthorn Resources Limited is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and 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(c).

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Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT (CONT'D)
TO THE MEMBERS OF HAWTHORN RESOURCES LIMITED

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1(b) in the financial report, which indicates that the consolidated entity incurred a net loss of $1,685,681 during the year ended 30 June 2011 and as of that date, the consolidated entity had negative cash flow from operating cash flows of $1,344,516. These conditions, along with other matters as set forth in Note 1(b), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

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

PKF

PKF

23 September 2011
Melbourne

David Garvey

D J Garvey
Partner