

# **Montezuma Mining Company Limited**

**ABN 46 119 711 929**

## **Annual Financial Report**

for the year ended 30 June 2014

## Corporate Information

ABN 46 119 711 929

### Directors

Seamus Cornelius (Non-Executive Chairman)  
Justin Brown (Executive Director)  
John Ribbons (Non-Executive Director)

### Company Secretary

John Ribbons

### Registered Office

Ground Floor, 20 Kings Park Road  
WEST PERTH WA 6005

### Principal Place of Business

31 Ventnor Avenue  
WEST PERTH WA 6005  
Telephone: +61 8 6315 1400  
Facsimile: +61 8 9486 7093

### Solicitors

Kings Park Corporate Lawyers  
Suite 8, 8 Clive Street  
WEST PERTH WA 6005

### Bankers

National Australia Bank Limited  
1232 Hay Street  
WEST PERTH WA 6005

### Share Register

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
APPLECROSS WA 6153  
Telephone: +61 8 9315 2333  
Facsimile: +61 8 9315 2233

### Auditors

Rothsay Chartered Accountants  
Level 1, Lincoln Building  
4 Ventnor Avenue  
WEST PERTH WA 6005

### Internet Address

[www.montezuma.com.au](http://www.montezuma.com.au)

### Stock Exchange Listing

Montezuma Mining Company Limited shares (Code: MZM) are listed on the Australian Securities Exchange.

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## Directors' Report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Montezuma Mining Company Limited and the entities it controlled at the end of, or during, the year ended 30 June 2014.

### DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

#### Names, qualifications, experience and special responsibilities

##### **Seamus Cornelius**, (Non-Executive Chairman, audit committee member)

Mr Cornelius brings twenty two years' of corporate experience in both legal and commercial negotiations. Mr Cornelius has been based in Shanghai and Beijing since 1993 where he has been living and working as a corporate lawyer.

From 2000 to 2012, Mr Cornelius was an international partner with one of Australia's leading law firms and specialised in dealing with cross border investments, particularly in the energy and resource sectors. Mr Cornelius has for many years advised large international companies on their investments in China and in recent years advised Chinese state owned entities on their investments in natural resource projects outside China, including Australia. Mr Cornelius is also chairman of Buxton Resources Limited. Mr Cornelius has not held any former directorships in the last 3 years.

##### **Justin Brown**, B.Sc. (Hon), (Executive Director, audit committee member)

Mr Brown is a geologist with over fifteen years' experience in minerals exploration and mining in Australia and globally. He has an extensive technical background with broad spectrum experience in project generation, mineral exploration and mining, coupled with strategic and corporate experience and a proven track record in business development and public company management.

Mr Brown is a non-executive director of Exterra Resources Limited. Mr Brown has not held any former directorships in the last 3 years.

Mr Brown was the founding Managing Director of the Company.

##### **John Ribbons**, B.Bus., CPA, ACIS (Non-Executive Director, Chairman of audit committee)

Mr Ribbons is an accountant who has worked within the resources industry for over twenty years in the capacity of company accountant, group financial controller or company secretary.

Mr Ribbons has extensive knowledge and experience with ASX listed production and exploration companies. He has considerable site based experience with operating mines and has also been involved with the listing of several exploration companies on ASX. Mr Ribbons has experience in capital raising, ASX and TSX compliance and regulatory requirements. Mr Ribbons has not held any former directorships in the last 3 years.

### COMPANY SECRETARY

#### **John Ribbons**

#### Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Montezuma Mining Company Limited were:

	Ordinary Shares	Options over Ordinary Shares
Seamus Cornelius	3,064,225	2,500,000
Justin Brown	4,112,500	5,000,000
John Ribbons	500,000	3,000,000

### PRINCIPAL ACTIVITIES

During the year the Group carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying economic mineral deposits.

There was no significant change in the nature of the Group's activities during the year.

### DIVIDENDS

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

## Directors' Report continued

### REVIEW OF OPERATIONS

#### Finance Review

The Group began the financial year with a cash reserve of \$6,771,107. Funds were used to acquire and actively advance the Group's projects located in Australia.

During the year total tenement acquisition and exploration expenditure incurred by the Group amounted to \$1,383,748 (2013: \$2,136,107). In line with the Group's accounting policies, all exploration expenditure was written off at year end. The Group received income of \$3,647,870 (2013: \$200,000) from the sale of tenement interests and subsidiary, and recognised a net fair value gain on financial assets of \$1,000,638 (2013: \$1,183,864 fair value gain). The Group also received Research and Development tax incentive refunds totalling \$378,022 (2013: \$842,983) during the year. Net administration expenditure incurred amounted to \$655,382 (2013: \$833,162). This has resulted in an operating profit after income tax for the year ended 30 June 2014 of \$2,987,400 (2013: \$742,422 loss).

At 30 June 2014 surplus funds available totalled \$8,705,219.

#### Operating Results for the Year

Summarised operating results are as follows:

	2014	
	Revenues	Results
	\$	\$
Consolidated entity revenues and profit from ordinary activities before income tax expense	<b>4,899,217</b>	<b>2,609,378</b>
Shareholder Returns	2014	2013
Basic and diluted earnings/(loss) per share (cents)	4.2	(1.1)

#### Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

- Effective on 31 January 2014 Grosvenor Gold Pty Ltd ("Grosvenor"), a wholly owned subsidiary of Resources and Investment NL ("RNI"), exercised its option to acquire 100% of Peak Hill Metals Pty Ltd ("Peak Hill"), which owns the Peak Hill gold project. Sale proceeds consisted of \$2,800,000 in cash, and the issue of 8,400,000 fully paid ordinary shares in RNI and 2,100,000 options with an exercise price of 35 cents.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 23, have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group expects to maintain the present status and level of operations and hence there are no likely developments in the Group's operations.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to significant environmental regulation in respect to its exploration activities.

The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the year under review.

## Directors' Report continued

### REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

#### Principles used to determine the nature and amount of remuneration

##### **Remuneration Policy**

The remuneration policy of Montezuma Mining Company Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Group's financial results. The board of Montezuma Mining Company Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the Group.

The board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

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

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives (if any) receive a superannuation guarantee contribution required by the government, which was 9.25% for the 2014 financial year (9.5% effective 1 July 2014), and do not receive any other retirement benefits. Some individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the Group and expensed. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$200,000). Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company.

##### **Performance based remuneration**

The Group currently has no performance based remuneration component built into key management personnel remuneration packages.

##### **Group performance, shareholder wealth and key management personnel remuneration**

The remuneration policy has been tailored to increase the direct positive relationship between shareholders investment objectives and key management personnel performance. Currently, this is facilitated through the issue of options to the majority of key management personnel to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth. At commencement of production, performance based bonuses based on key performance indicators are expected to be introduced.

##### **Use of remuneration consultants**

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2014.

##### **Voting and comments made at the Company's 2013 Annual General Meeting**

The Company received approximately 99.3% of "yes" votes on its remuneration report for the 2013 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

#### Details of remuneration

Details of the remuneration of the key management personnel of the Group are set out in the following table.

The key management personnel of the Group include the directors as per page 3 and the following executive officer who has authority and responsibility for planning, directing and controlling the activities of the Group:

- Michael Moore – Chief Executive Officer ("CEO").

## Directors' Report continued

### Key management personnel of the Group

	Short-Term		Post Employment		Share-based Payments	Total
	Salary & Fees	Non Monetary	Superannuation	Retirement benefits	Options	
	\$	\$	\$	\$	\$	\$
<b>Directors</b>						
Seamus Cornelius						
2014	57,000	5,280	-	-	10,200	72,480
2013	58,636	6,621	-	-	90,705	155,962
Justin Brown						
2014	143,486	7,828	13,272	-	20,400	184,986
2013	242,880	8,645	22,116	-	181,410	455,051
John Ribbons						
2014	41,300	5,280	-	-	10,200	56,780
2013	42,000	6,621	-	-	90,705	139,326
<b>Other key management personnel</b>						
Michael Moore						
2014	220,000	-	20,350	-	47,234	287,584
2013	241,538	-	22,013	-	55,584	319,135
<b>Total key management personnel compensation</b>						
2014	461,786	18,388	33,622	-	88,034	601,830
2013	585,054	21,887	44,129	-	418,404	1,069,474

### Service agreements

The details of service agreements of the key management personnel of the Group are as follows:

Justin Brown, Executive Director:

- Term of agreement – 30 June 2014.
- Annual salary from the beginning of the financial year of \$242,880, reduced to \$194,304 effective 1 June 2014 (plus 9.25% statutory superannuation), paid on a pro-rata basis, based on a three day week, plus the provision of income protection insurance, to be reviewed annually.
- Payment of termination benefit on early termination by the Company, other than for gross misconduct, equal to six months total salary.

Michael Moore, Chief Executive Officer:

- Term of agreement – Employment agreement requiring 3 months' notice of termination by either party.
- Annual salary of \$220,000 (plus 9.25% statutory superannuation).

### Share-based compensation

#### Options

Options are issued to key management personnel as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of key management personnel of Montezuma Mining Company Limited to increase goal congruence between key management personnel and shareholders. The following options were granted to or vesting with key management personnel during the year:

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
<b>Directors</b>								
Seamus Cornelius	19/11/2013	500,000	19/11/2013	19/11/2018	20.0	2.0	N/A	14.1
Seamus Cornelius	30/11/2012	750,000	(1)	30/11/2017	38.0	7.7	N/A	(1)
Justin Brown	19/11/2013	1,000,000	19/11/2013	19/11/2018	20.0	2.0	N/A	11.0
Justin Brown	30/11/2012	1,500,000	(1)	30/11/2017	38.0	7.7	N/A	(1)
John Ribbons	19/11/2013	500,000	19/11/2013	19/11/2018	20.0	2.0	N/A	18.0
John Ribbons	30/11/2012	750,000	(1)	30/11/2017	38.0	7.7	N/A	(1)

## Directors' Report continued

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per option at grant date (cents)	Exercised Number	% of Remuneration
<b>Other key management personnel</b>								
Michael Moore	17/10/2013	1,000,000	17/10/2013	30/07/2016	20.0	0.9	N/A	3.3
Michael Moore	17/10/2013	1,000,000	17/10/2013	30/07/2016	30.0	0.4	N/A	1.5
Michael Moore	15/01/2013	1,000,000	30/06/2014	30/06/2017	20.0	3.2	N/A	11.1

(1) These options have a market vesting condition, such that they will vest once the market capitalisation of the Company appreciates 100% from 30 November 2012. The expense was recognised in full at grant date.

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of Montezuma Mining Company Limited and other key management personnel of the Group are set out below:

	Number of ordinary shares issued on exercise of options during the year		Amount paid per ordinary share (cents)	
	2014	2013	2014	2013
<b>Directors</b>				
Justin Brown	-	2,000,000	-	20
John Ribbons	-	500,000	-	20

No amounts are unpaid on any shares issued on the exercise of options.

### Performance Rights

Performance rights are issued to directors and executives as part of their remuneration, following the approval by shareholders of the Company's Performance Rights Plan at the 2012 Annual General Meeting. The Company does not have a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities, but the Board actively discourages key personnel from obtaining mortgages in securities held in the Company.

The following performance rights were granted to or vesting with key management personnel during the year, there were no performance rights forfeited during the year:

	Grant Date	Granted Number	Vested Number	Date Vesting and Exercisable	Expiry Date	Value per right at grant date (cents) <sup>(1)</sup>	% of Remuneration
<b>Other Key Management Personnel</b>							
Michael Moore	15/03/2012	150,000	Nil	(2)	15/03/2017	35.0	0.1
Michael Moore	15/03/2012	150,000	Nil	(3)	15/03/2017	35.0	0.1
Michael Moore	15/03/2012	200,000	Nil	(4)	15/03/2017	35.0	0.2

(1) The value at grant date in accordance with AASB 2: Share Based Payments of performance rights granted during the year as part of remuneration. The value is the closing share price on grant date.

(2) The performance condition for these rights is:

“Delivery to customer of the first commercial shipment of DSO manganese ore from the Project.”

At the reporting date, the Board has determined that the probability of this performance condition being met is 30%.

(3) The performance condition for these rights is:

“Completion of Feasibility Study on the large scale commercial production of beneficiated manganese from the Project.”

At the reporting date, the Board has determined that the probability of this performance condition being met is 30%.

(4) The performance condition for these rights is:

“Delivery to customer of the first commercial shipment of beneficiated manganese ore from the Project.”

At the reporting date, the Board has determined that the probability of this performance condition being met is 30%.

### Equity instruments held by key management personnel

#### Share holdings

The numbers of shares in the Company held during the financial year by each director of Montezuma Mining Company Limited and other key management personnel of the Group, including their personally related parties, and any nominally held, are set out below. There were no shares granted during the reporting period as compensation.



## Directors' Report continued

2014

	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<b>Directors of Montezuma Mining Company Limited</b>				
<b>Ordinary shares</b>				
Seamus Cornelius	3,064,225	-	-	3,064,225
Justin Brown	4,112,500	-	-	4,112,500
John Ribbons	500,000	-	-	500,000
<b>Other key management personnel of the Group</b>				
<b>Ordinary shares</b>				
Michael Moore	25,500	-	-	25,500

### Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Montezuma Mining Company Limited and other key management personnel of the Company, including their personally related parties, are set out below:

2014	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of Montezuma Mining Company Limited</b>							
Seamus Cornelius	5,000,000	500,000	-	(3,000,000)	2,500,000	1,750,000	750,000
Justin Brown	4,000,000	1,000,000	-	-	5,000,000	3,500,000	1,500,000
John Ribbons	2,500,000	500,000	-	-	3,000,000	2,250,000	750,000
<b>Other key management personnel of the Group</b>							
Michael Moore	2,000,000	2,000,000	-	-	4,000,000	4,000,000	-

All vested options are exercisable at the end of the year.

### Performance Right holdings

As part of Mr Michael Moore's employment agreement he will be entitled to be issued with 500,000 fully paid ordinary shares upon achieving performance hurdles. The performance conditions for these rights are in relation to the Butcherbird Manganese Project ("Project") as follows:

- 150,000 will vest on delivery to customer of the first commercial shipment of DSO manganese ore from the Project;
- 150,000 will vest on completion of Feasibility Study on the large scale commercial production of beneficiated manganese from the Project; and
- 200,000 will vest on delivery to customer of the first commercial shipment of beneficiated manganese ore from the Project.

The rights expire on 15 March 2017.

### Loans to key management personnel

There were no loans to key management personnel during the year.

### End of audited Remuneration Report

### DIRECTORS' MEETINGS

During the year the Company held nine meetings of directors. The attendance of directors at meetings of the board were:

	Directors Meetings		Audit Committee Meetings	
	A	B	A	B
Seamus Cornelius	9	9	-	-
Justin Brown	9	9	-	-
John Ribbons	9	9	-	-

### Notes

A - Number of meetings attended.

B - Number of meetings held during the time the director held office during the year.

## Directors' Report continued

### SHARES UNDER OPTION

Unissued ordinary shares of Montezuma Mining Company Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Exercise price (cents)	Number of options
17 October 2013	30 July 2016	20	1,020,000
15 January 2013	30 June 2017	20	1,000,000
19 November 2013	19 November 2018	20	2,000,000
25 January 2013	14 January 2016	27.5	1,000,000
17 October 2013	30 July 2016	30	1,000,000
30 November 2012	30 November 2016	32.5	3,000,000
30 November 2012	30 November 2017	38	3,000,000
21 October 2011	21 October 2015	41	325,000
3 December 2010	30 November 2015	65	1,000,000
6 December 2011	30 November 2015	80	1,500,000
<b>Total number of options outstanding at the date of this report</b>			<b>14,845,000</b>

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

### INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Montezuma Mining Company Limited paid a premium of \$12,508 to insure the directors of the company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Rothsay Chartered Accountants, or associated entities, during the year.

### PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 10.

Signed in accordance with a resolution of the directors.



Justin Brown  
Executive Director  
Perth, 24 September 2014



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The Directors  
Montezuma Mining Company Ltd  
PO Box 8535  
Perth Business Centre WA 6849

Dear Sirs

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

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit review of the 30 June 2014 financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Graham R Swan FCA (Lead auditor)

Rothsay Chartered Accountants

Dated 24 September 2014



Chartered Accountants

## Corporate Governance Statement

### *The Board of Directors*

The Company's constitution provides that the number of directors shall not be less than three and not more than twenty. There is no requirement for any shareholding qualification.

As and if the Company's activities increase in size, nature and scope the size of the board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the Company's constitution will be determined within the limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the Company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next annual general meeting. Under the Company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the *Corporations Act 2001*, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

### *Role of the Board*

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

### *Appointments to Other Boards*

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

### *Independent Professional Advice*

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

### *Continuous Review of Corporate Governance*

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the Company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

### *ASX Principles of Good Corporate Governance*

The board has reviewed its current practices in light of the revised ASX Corporate Governance Principles and Recommendations with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The board has adopted the revised Recommendations and the following table sets out the Company's present position in relation to each of the revised Principles.

## Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
<b>Principle 1:</b>	<b>Lay solid foundations for management and oversight</b>		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions	A	Matters reserved for the board are included on the Company's website.
1.2	Companies should disclose the process for evaluating the performance of senior executives	N/A	The performance of executive and non-executive directors is reviewed by the board with the exclusion of the Director concerned. The performance of management and employees is reviewed by the Chief Executive Officer and approved by the Board. Acting in its ordinary capacity, the board from time to time carries out the process of considering and determining performance issues. The Company's board charter is available on the Company website.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	A	
<b>Principle 2:</b>	<b>Structure the board to add value</b>		
2.1	A majority of the board should be independent directors	A	The board comprises three directors, two of whom are independent (John Ribbons and Seamus Cornelius).
2.2	The chair should be an independent director	A	
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	A	The positions of Chairman and Chief Executive Officer are held by separate persons.
2.4	The board should establish a nomination committee	A	The nomination committee is comprised of the full board. A copy of the nomination committee charter is available on the Company's website. The nomination committee has not met during the reporting period, however all matters that might properly be dealt with by the nomination committee are subject to scrutiny at full Board meetings.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	A	The Board may undergo periodic formal assessment processes, including assessment of the Board's committees, where applicable. An independent third party consultant may be used to facilitate the assessment. An informal process of Board review which may be used by the Board requires each director to complete a questionnaire relating to the role, composition, procedures, practices and behaviour of the Board and its members. Senior executives having most direct contact with the Board may also be invited to complete similar questionnaires. Responses to the questionnaires are confidential and provided direct to the Chair. The Board as a whole then hold a facilitated discussion during which each Board member has the opportunity to raise any matter, suggestion for improvement or criticism with the Board as a whole. The Chair of the Board may also meet individually with each Board member to discuss their performance. Non-executive directors may also meet to discuss the performance of the Chair or the Chief Executive Officer.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	A	The skills, experience and period of office of Directors are set out in the Company's Annual Report (Directors' Report) and on its website. A statement as to the Company's materiality thresholds can be found in the Board Charter on the Company's website.
<b>Principle 3:</b>	<b>Promote ethical and responsible decision-making</b>		
3.1	Companies should establish a code of conduct and disclose the code	A	The Company has formulated a Code of Conduct which can be viewed on the Company's website.

A = Adopted

N/A = Not adopted

## Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them.	N/A	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. The Company does not think that it is appropriate to state measurable objectives for achieving gender diversity due to its size and stage of development.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	N/A	The Company has adopted a diversity policy which can be viewed on its website. The Company recognises that a diverse and talented workforce is a competitive advantage and encourages a culture that embraces diversity. However, given the Company's size and stage of development as an exploration company, the Board does not think it is yet appropriate to include measurable objectives in relation to gender. As the Company grows and requires more employees, the Company will review this policy and amend as appropriate.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.	A	The proportion of women employees in the whole organisation is nil. There are currently no women in senior executive positions. There are currently no women on the board.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3	A	
<b>Principle 4: Safeguard integrity in financial reporting</b>			
4.1	The board should establish an audit committee	A	The audit committee is comprised of the full Board. A copy of the audit committee charter is available on the Company's website.
4.2	The audit committee should be structured so that it:		
	• consists only of non-executive directors	N/A	There are two non-executive directors on the Board. Sourcing alternative directors to strictly comply with this Principle is considered expensive with costs out weighing potential benefits.
	• consists of a majority of independent directors	A	
	• is chaired by an independent chair, who is not chair of the board	A	
	• has at least three members	A	
4.3	The audit committee should have a formal charter	A	The Audit Committee Charter is available on the Company's website.
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	A	The audit committee should meet annually and otherwise as required.

A = Adopted

N/A = Not adopted

## Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
<b>Principle 5:</b>	<b>Make timely and balanced disclosure</b>		
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	A	A copy of the Continuous Disclosure Policy is available on the Company's website. The Board receives regular reports on the status of the Company's activities and any new proposed activities.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	A	
<b>Principle 6:</b>	<b>Respect the rights of shareholders</b>		
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	A	In line with adherence to continuous disclosure requirements of ASX, all shareholders are kept informed of major developments affecting the Company. This disclosure is through regular shareholder communications including the Annual Reports, Half Yearly Reports, Quarterly Reports, the Company Website and the distribution of specific releases covering major transactions and events or other price sensitive information.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	A	The Company has formulated a Communication Policy which can be viewed on the Company's website.
<b>Principle 7:</b>	<b>Recognise and manage risk</b>		
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	A	The Company has formulated Risk Management policies within the Corporate Governance Statement which can be viewed on the Company website.
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	A	The full Board recognises its responsibility for identifying areas of significant business risk and ensuring that arrangements are in place to adequately manage these risks. This issue is regularly reviewed at Board meetings and a risk management culture is encouraged amongst employees and contractors.
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	A	Assurance received.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	A	

A = Adopted

N/A = Not adopted

## Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
<b>Principle 8:</b>	<b>Remunerate fairly and responsibly</b>		
8.1	The board should establish a remuneration committee	A	A remuneration committee has been formed with the Charter available on the Company's website. The remuneration committee is comprised of the full Board. The remuneration committee has not met during the reporting period, however all matters that might properly be dealt with by the remuneration committee are subject to scrutiny at full Board meetings.
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members.</li> </ul>	A A A	
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	A	Refer to the Remuneration Report in the Company's Annual Report.
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8	A	The executive director and executives receive a superannuation guarantee contribution required by the government and do not receive any other retirement benefits.

A = Adopted

N/A = Not adopted



## Consolidated Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2014

	Notes	Consolidated	
		2014	2013
		\$	\$
REVENUE	4	<b>250,709</b>	310,315
Other income	5	<b>4,648,508</b>	1,383,864
EXPENDITURE			
Depreciation expense		<b>(39,812)</b>	(24,182)
Salaries and employee benefits expense		<b>(205,014)</b>	(130,010)
Exploration expenditure		<b>(1,383,748)</b>	(2,136,107)
Secretarial and share registry expenses		<b>(126,368)</b>	(120,251)
Administration expenses		<b>(459,029)</b>	(438,274)
Share based payment expense	25	<b>(75,868)</b>	(430,760)
PROFIT/(LOSS) BEFORE INCOME TAX		<b>2,609,378</b>	(1,585,405)
INCOME TAX BENEFIT	7	<b>378,022</b>	842,983
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO OWNERS OF MONTEZUMA MINING COMPANY LIMITED		<b>2,987,400</b>	(742,422)
EARNINGS/(LOSS) PER SHARE FOR PROFIT/(LOSS) ATTRIBUTABLE TO THE ORDINARY EQUITY HOLDERS OF THE COMPANY:			
Basic and diluted earnings/(loss) per share (cents per share)	24	<b>4.2</b>	(1.1)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Consolidated Financial Statements.

## Consolidated Statement of Financial Position

AT 30 JUNE 2014

	Notes	Consolidated	
		2014	2013
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	<b>8,705,219</b>	6,771,107
Trade and other receivables	9	<b>164,065</b>	189,032
Financial assets at fair value through profit or loss	10	<b>2,618,300</b>	844,312
<b>TOTAL CURRENT ASSETS</b>		<b>11,487,584</b>	7,804,451
<b>NON-CURRENT ASSETS</b>			
Receivables	11	-	594,300
Plant and equipment	12	<b>96,470</b>	66,819
<b>TOTAL NON-CURRENT ASSETS</b>		<b>96,470</b>	661,119
<b>TOTAL ASSETS</b>		<b>11,584,054</b>	8,465,570
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	<b>204,902</b>	149,686
<b>TOTAL CURRENT LIABILITIES</b>		<b>204,902</b>	149,686
<b>TOTAL LIABILITIES</b>		<b>204,902</b>	149,686
<b>NET ASSETS</b>		<b>11,379,152</b>	8,315,884
<b>EQUITY</b>			
Issued capital	14	<b>12,353,350</b>	12,353,350
Reserves	15(a)	<b>2,834,381</b>	2,758,513
Accumulated losses	15(b)	<b>(3,808,579)</b>	(6,795,979)
<b>TOTAL EQUITY</b>		<b>11,379,152</b>	8,315,884

The above Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Consolidated Financial Statements.

## Consolidated Statement of Changes in Equity

YEAR ENDED 30 JUNE 2014

Consolidated	Notes	Contributed Equity \$	Share-Based Payments Reserve \$	Accumulated Losses \$	Total \$
BALANCE AT 1 JULY 2012		11,793,350	2,327,753	(6,053,557)	8,067,546
Loss for the year	15(b)	-	-	(742,422)	(742,422)
<b>TOTAL COMPREHENSIVE LOSS</b>		-	-	(742,422)	(742,422)
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>					
Shares issued during the year	14	560,000	-	-	560,000
Employee and consultant share-based payments	15(a)	-	430,760	-	430,760
<b>BALANCE AT 30 JUNE 2013</b>		<b>12,353,350</b>	<b>2,758,513</b>	<b>(6,795,979)</b>	<b>8,315,884</b>
Profit for the year	15(b)	-	-	<b>2,987,400</b>	<b>2,987,400</b>
<b>TOTAL COMPREHENSIVE INCOME</b>					
<b>TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS</b>					
Employee and consultant share-based payments	15(a)	-	<b>75,868</b>	-	<b>75,868</b>
<b>BALANCE AT 30 JUNE 2014</b>		<b>12,353,350</b>	<b>2,834,381</b>	<b>(3,808,579)</b>	<b>11,379,152</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Consolidated Financial Statements.

## Consolidated Statement of Cash Flows

YEAR ENDED 30 JUNE 2014

	Notes	Consolidated	
		2014	2013
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments to suppliers and employees		(717,766)	(754,722)
Interest received		249,692	325,570
Proceeds on sale of mining interests		75,000	200,000
Expenditure on mining interests		(1,375,123)	(2,093,701)
Proceeds from disposal of financial assets at fair value through profit or loss		-	1,285,765
Payments for financial assets at fair value through profit or loss		(550)	(336,000)
Refund of income taxes		378,022	853,656
Income taxes paid		-	(99,456)
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	23	<b>(1,390,725)</b>	<b>(618,888)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds on disposal of subsidiary		2,800,000	-
Payments for plant and equipment		(69,463)	(69,313)
Proceeds on sale of plant and equipment		-	26,473
Refund of tenement bonds		594,300	25,000
<b>NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES</b>		<b>3,324,837</b>	<b>(17,840)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares		-	560,000
<b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>		<b>-</b>	<b>560,000</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>1,934,112</b>	<b>(76,728)</b>
Cash and cash equivalents at the beginning of the financial year		6,771,107	6,847,835
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	8	<b>8,705,219</b>	<b>6,771,107</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Consolidated Financial Statements.

## Notes to the Consolidated Financial Statements

30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Montezuma Mining Company Limited and its subsidiaries. The financial statements are presented in the Australian currency. Montezuma Mining Company Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 24 September 2014. The directors have the power to amend and reissue the financial statements.

#### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Montezuma Mining Limited is a for-profit entity for the purpose of preparing the financial statements.

##### (i) Compliance with IFRS

The consolidated financial statements of the Montezuma Mining Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

##### (ii) New and amended standards adopted by the Group

The Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to their operations and effective for the current annual reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the first time for the annual reporting period commencing 1 July 2013 that are relevant to the Group include:

- AASB 10 *Consolidated Financial Statements*;
- AASB 11 *Joint Arrangements*;
- AASB 12 *Disclosure of Interests in Other Entities*;
- AASB 13 *Fair Value Measurement*;
- AASB 119 *Employee Benefits*;
- AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*; and

AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior years. However, the above standards have affected the disclosures in the notes to the financial statements.

##### (iii) Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2013.

##### (iv) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which have been measured at fair value.

#### (b) Principles of consolidation

##### (i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of financial position respectively.

# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Castle Minerals Limited.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a jointly controlled entity or associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of Directors.

### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity.

#### *Interest income*

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

### (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associated operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

#### *(i) Investment allowances and similar tax incentives*

The Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense or creates an income tax receivable and current tax benefit.

# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (f) Leases

Leases of property, plant and equipment where the Company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### (g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### (h) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

### (i) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

### (j) Investments and other financial assets

#### *Classification*

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

#### *(i) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

#### *(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

#### *(iii) Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets quoted in an active market with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

#### *(iv) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### *Financial assets - reclassification*

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

### *Recognition and derecognition*

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of comprehensive income as gains and losses from investment securities.

### *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial investments is determined are disclosed in note 2.

### *Impairment*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

#### *(i) Assets carried at amortised cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.



# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### (ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

### (k) Plant and equipment

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 20% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

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

### (l) Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred.

### (m) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

### (n) Employee benefits

#### (i) Wages and salaries and annual leave

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

#### (ii) Share-based payments

The Company provides benefits to employees (including directors) of the Company in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 26.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Company, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

## Notes to the Consolidated Financial Statements continued

30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (o) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

#### (p) Earnings per share

##### (i) Basic earnings per share

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

##### (ii) Diluted earnings per share

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

#### (q) Goods and Services Tax (GST)

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

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

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

#### (r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

*AASB 9: Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures and AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective from 1 January 2017)*

AASB 9 replaces the multiple classification and measurement models in AASB 139 *Financial instruments: Recognition and measurement* with a single model that has only two classification categories: amortised cost and fair value.

Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A 'simple' debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

All other financial assets, including investments in complex debt instruments and equity investments, must be recognised at fair value.

All fair value movements on financial assets are taken through the income statement, except for equity investments that are not traded, which may be recorded in the income statement or in reserves.

For financial liabilities that are measured under the fair value option entities will need to recognise the part of the fair value change that is due to changes in their own credit risk in other comprehensive income rather than profit or loss.

Based on the financial assets and liabilities currently held, the Group does not anticipate any impact on the financial statements upon adoption of this standard. The Group does not presently engage in hedge accounting.

None of the other amendments or Interpretations are expected to affect the accounting policies of the Group.

#### (s) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

##### *Share based payment transactions*

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 26.

# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

## 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full board of directors as the Group believes that it is crucial for all board members to be involved in this process. The managing director, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the board on risk management.

### (a) Market risk

#### (i) Foreign exchange risk

As all operations are currently within Australia, the Group is not exposed to any material foreign exchange risk.

#### (ii) Price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the statement of financial position as financial assets at fair value through profit or loss. Given the current level of operations, the Group is not currently exposed to commodity price risk.

The Group's equity investments are publicly traded on the ASX, with the investments being made for strategic purposes identified by the Board of Directors. The price risk is monitored by the Board and evaluated in accordance with these strategic outcomes.

#### *Sensitivity analysis*

At 30 June 2014, if the value of the equity instruments held had increased/decreased by 15% with all other variables held constant, post-tax loss for the Group would have been \$392,745 lower/higher, with no changes to other equity balances, as a result of gains/losses on equity securities classified as financial assets at fair value through profit or loss (2013: \$126,647 lower/higher loss).

#### (iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group \$8,705,219 (2013: \$6,771,107) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group was 3.5% (2013: 4.6%).

#### *Sensitivity analysis*

At 30 June 2014, if interest rates had changed by +/- 80 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Group would have been \$71,945 lower/higher (2013: \$66,850 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

### (b) Credit risk

The Group does not have any significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the statement of financial position and notes to the financial statements.

As the Group does not presently have any debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

### (c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group are confined to trade and other payables as disclosed in the Statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group at the balance date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

	Consolidated	
	2014	2013
	\$	\$
<b>3. SEGMENT INFORMATION</b>		
For management purposes, the Group has identified only one reportable segment being exploration activities undertaken in Australia. This segment includes activities associated with the determination and assessment of the existence of commercial economic reserves, from the Group's mineral assets in this geographic location.		
Segment performance is evaluated based on the operating profit and loss and cash flows and is measured in accordance with the Group's accounting policies.		
<b>Exploration segment</b>		
Segment revenue	-	-
Reconciliation of segment revenue to total revenue before tax:		
Interest revenue	250,709	310,315
<b>Total revenue</b>	<b>250,709</b>	<b>310,315</b>
Segment results	2,264,122	(1,936,108)
Reconciliation of segment result to net loss before tax:		
Other corporate and administration	345,256	350,703
<b>Net profit/(loss) before tax</b>	<b>2,609,378</b>	<b>(1,585,405)</b>
Segment operating assets	-	-
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	11,584,054	8,465,570
<b>Total assets</b>	<b>11,584,054</b>	<b>8,465,570</b>
Total assets includes additions to plant and equipment:		
Other corporate and administration	69,463	41,397
<b>4. REVENUE</b>		
<b>From continuing operations</b>		
Other revenue		
Interest	250,709	310,315
<b>5. OTHER INCOME</b>		
Net gain on sale of mining interests	75,000	200,000
Fair value gains on financial assets at fair value through profit or loss	1,000,638	1,183,864
Net gain on disposal of subsidiary	3,572,870	-
	<b>4,648,508</b>	<b>1,383,864</b>
<b>6. EXPENSES</b>		
<b>Profit/(loss) before income tax includes the following specific expenses:</b>		
Minimum lease payments relating to operating leases	139,315	157,877
Defined contribution superannuation expense	69,360	94,156
Net loss on disposal of plant and equipment	-	800
Net foreign exchange losses	23,132	-

## Notes to the Consolidated Financial Statements continued

30 JUNE 2014

	Consolidated	
	2014	2013
Notes	\$	\$
<b>7. INCOME TAX</b>		
<b>(a) Income tax benefit</b>		
Current tax	-	-
Deferred tax	-	-
(Under)/over provision	(378,022)	(842,983)
	<b>(378,022)</b>	<b>(842,983)</b>
<b>(b) Numerical reconciliation of income tax (benefit)/expense to prima facie tax payable</b>		
Profit/(loss) from continuing operations before income tax expense	2,609,378	(1,585,405)
Prima facie tax expense/(benefit) at the Australian tax rate of 30% (2013: 30%)	782,813	(475,621)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	22,760	129,228
Other	6,940	11,064
	<b>812,513</b>	<b>(335,329)</b>
Movements in unrecognised temporary differences	(302,027)	3,631
Previously unrecognised tax losses now recouped to reduce current tax	(510,486)	-
Tax effect of current year tax losses for which no deferred tax asset has been recognised	-	331,698
(Under)/over provision	(378,022)	(842,983)
Income tax benefit	<b>(378,022)</b>	<b>(842,983)</b>
<b>(c) Unrecognised temporary differences</b>		
<b>Deferred Tax Assets (at 30%)</b>		
<i>On Income Tax Account</i>		
Financial assets at fair value through profit or loss	-	110,203
Accruals and provisions	33,755	32,285
Carry forward tax losses	346,829	919,355
	<b>380,584</b>	<b>1,061,843</b>
<b>Deferred Tax Liabilities (at 30%)</b>		
Financial assets at fair value through profit or loss	189,989	-
Accrued income	6,171	5,866
	<b>196,160</b>	<b>5,866</b>

Net deferred tax assets were not brought to account as it was not considered probable within the immediate future that tax profits would be available against which deductible temporary differences and tax losses could be utilised.

# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

	Consolidated	
	2014	2013
	\$	\$
<b>8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	2,143,771	459,659
Short-term deposits	6,561,448	6,311,448
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	8,705,219	6,771,107
Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates.		
Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.		
<b>9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES</b>		
Sundry receivables	154,864	176,328
Prepayments	9,201	12,704
	164,065	189,032
<b>10. CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
Australian listed equity securities	2,618,300	844,312
The market value of all equity investments represent the fair value based on quoted prices on active markets (ASX) as at the reporting date without any deduction for transaction costs. These investments are classified as Level 1 financial instruments. There have been no transfers between levels of the fair value hierarchy used in measuring the fair value of these financial instruments, or changes in its classification as a result of a change in the purpose or use of these assets.		
Changes in fair values of financial assets at fair value through profit or loss are recorded in other income or other expenses in the statement of comprehensive income (notes 5 and 6 respectively).		
<b>11. NON-CURRENT ASSETS - RECEIVABLES</b>		
Environmental bond	-	594,300
<b>12. NON-CURRENT ASSETS - PLANT AND EQUIPMENT</b>		
<b>Plant and equipment</b>		
Cost	145,556	117,252
Accumulated depreciation	(49,086)	(50,433)
Net book amount	96,470	66,819
<b>Movements:</b>		
Opening net book amount	66,819	76,877
Additions	69,463	41,397
Disposals	-	(27,273)
Depreciation charge	(39,812)	(24,182)
Closing net book amount	96,470	66,819
<b>13. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES</b>		
Trade payables	89,950	36,127
Other payables and accruals	114,952	113,559
	204,902	149,686

# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

		2014		2013	
	Notes	Number of shares	\$	Number of shares	\$
<b>14. ISSUED CAPITAL</b>					
<b>(a) Share capital</b>					
Ordinary shares fully paid	14(b), 14(e)	70,464,350	12,353,350	70,464,350	12,353,350
Total issued capital		<u>70,464,350</u>	<u>12,353,350</u>	<u>70,464,350</u>	<u>12,353,350</u>
<b>(b) Movements in ordinary share capital</b>					
Beginning of the financial year		70,464,350	12,353,350	67,664,350	11,793,350
Issued during the year:					
– Issued on exercise of 20 cent options		-	-	2,800,000	560,000
End of the financial year		<u>70,464,350</u>	<u>12,353,350</u>	<u>70,464,350</u>	<u>12,353,350</u>

**(c) Movements in options on issue**

	Number of options	
	2014	2013
Beginning of the financial year	12,825,000	8,925,000
Issued during the year:		
– Exercisable at 20 cents, on or before 30 July 2016	1,020,000	-
– Exercisable at 20 cents, on or before 30 June 2017	1,000,000	-
– Exercisable at 20 cents, on or before 19 November 2018	2,000,000	-
– Exercisable at 27.5 cents, on or before 14 January 2016	-	1,000,000
– Exercisable at 30 cents, on or before 30 July 2016	1,000,000	-
– Exercisable at 32.5 cents, on or before 30 November 2016	-	3,000,000
– Exercisable at 38 cents, on or before 30 November 2017	-	3,000,000
Options exercised (20 cents, 30 November 2012)	-	(2,800,000)
Options expired (58 cents, 14 December 2013)	(3,000,000)	-
Options expired (20 cents, 30 November 2012)	-	(250,000)
Options expired (35 cents, 30 November 2012)	-	(50,000)
End of the financial year	<u>14,845,000</u>	<u>12,825,000</u>

**(d) Movements in performance rights on issue**

	Number of performance rights	
	2014	2013
Beginning of the financial year	1,500,000	-
Issued during the year:		
– Expiry 15 March 2017	-	500,000
– Expiry 4 December 2017	-	1,000,000
Cancelled during the year:		
– Expiry 4 December 2017	(1,000,000)	-
End of the financial year	<u>500,000</u>	<u>1,500,000</u>

**(e) Ordinary shares**

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

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

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

## Notes to the Consolidated Financial Statements continued

30 JUNE 2014

Consolidated

2014                      2013  
\$                              \$

### 14. ISSUED CAPITAL (cont'd)

#### (f) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2014 and 30 June 2013 are as follows:

Cash and cash equivalents	8,075,219	6,771,107
Trade and other receivables	164,065	189,032
Financial assets at fair value through profit or loss	2,618,300	844,312
Trade and other payables	(204,902)	(149,686)
Working capital position	10,652,682	7,654,765

### 15. RESERVES AND RETAINED EARNINGS

#### (a) Reserves

##### Share-based payments reserve

Balance at beginning of year	2,758,513	2,327,753
Employee and contractor share options and performance rights	75,868	430,760
Balance at end of year	2,834,381	2,758,513

#### (b) (Accumulated losses)/Retained earnings

Balance at beginning of year	(6,795,979)	(6,053,557)
Net profit/(loss) for the year	2,987,400	(742,422)
Balance at end of year	(3,808,579)	(6,795,979)

#### (c) Nature and purpose of reserves

##### Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

### 16. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

### 17. REMUNERATION OF AUDITORS

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

#### Audit services

Rothsay Chartered Accountants - audit and review of financial reports	11,500	55,500
Total remuneration for audit services	11,500	55,500

### 18. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Company at balance date.



## Notes to the Consolidated Financial Statements continued

30 JUNE 2014

Consolidated

2014	2013
\$	\$

### 19. COMMITMENTS

#### (a) Exploration commitments

The Company has certain commitments to meet minimum expenditure requirements on the mineral exploration assets it has an interest in. Outstanding exploration commitments are as follows:

within one year	336,000	1,010,880
later than one year but not later than five years	1,344,000	4,043,520
	<b>1,680,000</b>	<b>5,054,400</b>

#### (b) Lease commitments: Group as lessee

*Operating leases (non-cancellable):*

Minimum lease payments

within one year	238,583	230,515
later than one year but not later than five years	313,491	719,113
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	<b>552,074</b>	<b>949,628</b>

The property lease is a non-cancellable lease with a five year term, with rent payable monthly in advance. The rental agreement provides for a fixed rent increase of 3.5% on each anniversary date. The lease allows for subletting of all lease areas subject to permission from the lessor.

### 20. RELATED PARTY TRANSACTIONS

#### (a) Parent entity

The ultimate parent entity within the Group is Montezuma Mining Company Limited.

#### (b) Subsidiaries

Interests in subsidiaries are set out in note 21.

#### (c) Key management personnel compensation

Short-term benefits	480,174	606,941
Post-employment benefits	33,622	44,129
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	88,034	418,404
	<b>601,830</b>	<b>1,069,474</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 5 to 8.

#### (d) Loans to related parties

There were no loans to related parties, including key management personnel, during the year.

# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

## 21. SUBSIDIARY

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of Incorporation	Class of Shares	Equity Holding <sup>(1)</sup>	
			2014 %	2013 %
Peak Hill Metals Pty Ltd <sup>(2)</sup>	Australia	Ordinary	-	100

(1) The proportion of ownership interest is equal to the proportion of voting power held.

(2) Effective on 31 January 2014 Grosvenor Gold Pty Ltd ("Grosvenor"), a wholly owned subsidiary of Resources and Investment NL ("RNI"), exercised its option to acquire 100% of Peak Hill Metals Pty Ltd ("Peak Hill"), which owns the Peak Hill gold project. Sale proceeds consisted of \$2,800,000 in cash, and the issue of 8,400,000 fully paid ordinary shares in RNI and 2,100,000 options with an exercise price of 35 cents. The fair value of the financial instruments received was \$772,800, for total sale proceeds of \$3,572,800. Grosvenor has also granted the Group a 1% Gross Royalty, capped at \$1,000,000, on all revenue received from production from the Peak Hill gold project. Peak Hill ceased to be consolidated into the Group from 31 January 2014, with the gain on sale of subsidiary included in other income, refer note 5.

## 22. EVENTS OCCURRING AFTER THE STATEMENT OF FINANCIAL POSITION DATE

No matter or circumstance has arisen since 30 June 2014, which has significantly affected, or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

## 23. CASH FLOW INFORMATION

	Consolidated	
	2014 \$	2013 \$
<b>Reconciliation of profit/(loss) after income tax to net cash outflow from operating activities</b>		
Profit/(loss) for the year	2,987,400	(742,422)
<b>Non-Cash Items</b>		
Depreciation of non-current assets	39,812	24,182
Loss on disposal of plant and equipment	-	800
Employee and consultants share-based payments	75,868	430,760
Fair value of financial assets received on disposal of subsidiary	772,800	-
Net gain on disposal of subsidiary	(3,572,870)	-
<b>Change in operating assets and liabilities</b>		
Decrease in trade and other receivables	25,037	42,539
(Increase) in financial assets at fair value through profit or loss	(1,773,988)	(234,099)
Increase/(decrease) in trade and other payables	55,216	(140,648)
Net cash outflow from operating activities	(1,390,725)	(618,888)

## 24. EARNINGS PER SHARE

### (a) Reconciliation of earnings used in calculating earnings/(loss) per share

Profit/(loss) attributable to the owners of the Company used in calculating basic and diluted earnings/(loss) per share

2,987,400	(742,422)
Number of shares 2014	Number of shares 2013

### (b) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings/(loss) per share

70,464,350	69,444,761
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# Notes to the Consolidated Financial Statements continued

30 JUNE 2014

## 24. EARNINGS PER SHARE (cont'd)

### (c) Information on the classification of options

For the year ended 30 June 2014, all options on issue were antidilutive as the various exercise prices were all greater than the average market price of the Company's shares during the year. This has resulted in the diluted earnings per share being the same as the basic earnings per share. These options could potentially dilute basic earnings per share in the future.

## 25. SHARE-BASED PAYMENTS

### (a) Employees and Contractors Options

The Company provides benefits to employees (including directors) and contractors of the Company in the form of share-based payment transactions, whereby employees render services in exchange for options to acquire ordinary shares. The exercise price of the options granted range from 20 cents to 80 cents per option. All options granted have expiry dates ranging from 21 October 2015 to 19 November 2018.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

#### *Fair value of options granted*

The weighted average fair value of the options granted during the year was 1.4 cents (2013: 7.1 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2014	2013
Weighted average exercise price (cents)	22.5	34.1
Weighted average life of the option (years)	3.87	4.29
Weighted average underlying share price (cents)	8.5	22.6
Expected share price volatility	50%	50%
Risk free interest rate	3.22%	2.75%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

Set out below is a summary of the share-based payment options granted:

	2014		2013	
	Number of options	Weighted average exercise price cents	Number of options	Weighted average exercise price cents
Outstanding at the beginning of the year	13,825,000	45.2	8,925,000	41.7
Granted	4,020,000	22.5	8,000,000 <sup>(1)</sup>	31.6
Forfeited	-	-	-	-
Exercised	-	-	(2,800,000)	20.0
Expired	(3,000,000)	58.0	(300,000)	22.5
Outstanding at year-end	14,845,000	36.9	13,825,000	45.2
Exercisable at year-end	11,845,000	36.6	9,825,000	50.6

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.6 years (2013: 2.73 years), and the exercise prices range from 20 cents to 80 cents.

- (1) 1,000,000 of the options granted during the 2013 financial year are yet to vest and be issued, and the exercise price will not be known until the date of vesting and allotment (the exercise price will be set at a 50% premium to the 30 day volume weighted average price of the Company's shares traded on ASX at allotment (vesting date)). For the purposes of this table, the exercise price has been assumed as 14 cents, being a 50% premium to the closing price on 30 June 2013. These options were issued, and vested, during the 2014 financial year with an exercise price of 20 cents.

## Notes to the Consolidated Financial Statements continued

30 JUNE 2014

### 25. SHARE-BASED PAYMENTS (cont'd)

#### (b) Employees and contractors performance rights

The Group provides benefits to employees (including directors) and contractors of the Group in the form of share-based payment transactions, whereby performance rights over ordinary shares are issued as an incentive to improve employee and shareholder goal congruence. Performance rights granted to directors have no expiration date.

Performance rights granted carry no dividend or voting rights. When each performance condition is satisfied, each performance right is converted into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the performance rights granted:

	2014	2013
Outstanding at the beginning of the year	1,500,000	-
Granted	-	1,500,000
Forfeited/cancelled	(1,000,000)	-
Exercised	-	-
Expired	-	-
Outstanding at year-end	500,000	1,500,000

There were no performance rights granted during the 2014 financial year. The weighted average fair value of performance rights granted during the 2013 financial year was 25.7 cents. The fair value was calculated by reference to the closing share price on the date of each grant of performance rights.

#### (c) Expenses arising from share-based payment transactions

	Consolidated	
	2014	2013
	\$	\$
Total expenses arising from share-based payment transactions recognised during the period were as follows:		
Options granted to employees and contractors	75,868	401,520
Performance rights granted to employees and contractors	-	29,240
	75,868	430,760

### 26. PARENT ENTITY INFORMATION

The following information relates to the parent entity, Montezuma Mining Company Limited, at 30 June 2014. The information presented here has been prepared using accounting policies consistent with those presented in Note 1.

	Parent Entity	
	2014	2013
	\$	\$
Current assets	11,487,584	7,802,176
Non-current assets	96,470	663,394
<b>Total assets</b>	<b>11,584,054</b>	<b>8,465,570</b>
Current liabilities	204,902	149,686
<b>Total liabilities</b>	<b>204,902</b>	<b>149,686</b>
Issued capital	12,353,350	12,353,350
Share-based payments reserve	2,834,381	2,758,513
Accumulated losses	(3,808,579)	(6,795,979)
<b>Total equity</b>	<b>11,379,152</b>	<b>8,315,884</b>
Profit/(loss) for the year	2,987,400	(742,422)
<b>Total comprehensive income for the year</b>	<b>2,987,400</b>	<b>(742,422)</b>

## Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 16 to 35 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Company's financial position as at 30 June 2014 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Justin Brown  
Executive Director

Perth, 24 September 2014



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## **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MONTEZUMA MINING COMPANY LTD**

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

We have audited the accompanying financial report of Montezuma Mining Company Ltd (the Company") which comprises the balance sheet as at 30 June 2014 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the year.

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

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

### **Auditor's Responsibility**

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

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

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

### **Independence**

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



Chartered Accountants





#### **Audit opinion**

In our opinion the financial report of Montezuma Mining Company Ltd is in accordance with the *Corporations Act 2001*, including:

- a) (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of their performance for the year ended on that date; and  
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- b) the consolidated financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board

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

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

#### **Audit opinion**

In our opinion the remuneration report of Montezuma Mining Company Ltd for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Rothsay

Graham R Swan FCA  
Partner

Dated 24 September 2014



Chartered Accountants

## ASX Additional Information

Additional information required by Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 22 September 2014.

### (a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

		Ordinary shares	
		Number of holders	Number of shares
1	- 1,000	49	15,385
1,001	- 5,000	166	521,635
5,001	- 10,000	128	1,094,232
10,001	- 100,000	282	9,431,135
100,001	and over	73	59,401,963
		698	70,464,350
The number of equity security holders holding less than a marketable parcel of securities are:		157	274,440

### (b) Twenty largest shareholders

*Twenty largest quoted equity security holders*

The names of the twenty largest holders of quoted ordinary shares are:

		Listed ordinary shares	
		Number of shares	Percentage of ordinary shares
1	J P Morgan Nominees Australia Ltd	6,508,619	9.24
2	Duketon Mining Ltd	5,382,500	7.64
3	Ranguta Ltd	5,326,375	4.56
4	Zero Nominees Pty Ltd	4,300,000	6.10
5	Alpha Boxer Ltd	4,002,500	5.68
6	Duketon Consolidated Pty Ltd	3,150,000	4.47
7	Aradia Ventures Pty Ltd < J & A Brown Family A/C>	3,007,500	4.27
8	Alpha Boxer Ltd	2,343,334	3.33
9	Avania Nominees Pty Ltd	2,000,000	2.84
10	Kongming Investments Ltd	1,297,018	1.84
11	Mandies Meats Pty Ltd	1,151,796	1.63
12	Julie Avotins	1,135,420	1.61
13	Austrade Holdings Pty Ltd	1,106,334	1.57
14	Aradia Ventures Pty Ltd	1,030,000	1.46
15	Ranguta Ltd	1,018,350	1.45
16	Actdine Pty Ltd <Cunningham S/F A/C>	1,000,000	1.42
17	Sino West Assets Ltd	885,398	1.26
18	Kongming Investments Ltd	735,570	1.04
19	Ristovski Nominees Pty Ltd <Ristovski S/F No 2>	700,000	0.99
20	Dane Past Co Pty Ltd	651,701	0.92
		46,732,415	66.32

### (c) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

	Number of Shares
Duketon Mining Ltd	5,382,500
Marcel Mandanici	4,699,935
Justin Brown	4,112,500

### (d) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.



## ASX Additional Information continued

### (e) Schedule of interests in mining tenements

Location	Tenement	Percentage held / earning
Butcher Bird Copper	E52/2350	100
Butcher Bird South Copper	E52/2658	100
Butcher Bird South Copper	E52/2727	100
Mt Padbury	E52/1529	100
Tuckabianna	E20/659	10
Tuckabianna	P20/2018	10
Jubuk	E70/4465	100
Pilgangoora	E45/2375	10
Yalbra	E09/1985	15
Wilson	E51/1398	100
Little Well South	E52/2647	100

### (f) Unquoted Securities

At 22 September 2014, the Company had the following unlisted securities on issue:

Class	Number of Securities	Number of Holders	Holders of 20% or more of the class	
			Holder Name	Number of Securities
Unlisted \$0.20 Options, Expiry 30 July 2016	1,020,000	2	Michael Moore	1,000,000
Unlisted \$0.20 Options, Expiry 30 June 2017	1,000,000	1	Michael Moore	1,000,000
Unlisted \$0.20 Options, Expiry 1 July 2017	1,000,000	2	Duketon Consolidated Pty Ltd	750,000
			Pato Negro	250,000
Unlisted \$0.20 Options, Expiry 19 November 2018	2,000,000	3	Aradia Ventures Pty Ltd	1,000,000
			Kongming Investments Ltd	500,000
			Antoinette Janet Ribbons	500,000
Unlisted \$0.275 Options, Expiry 14 January 2016	1,000,000	1	Michael Moore	1,000,000
Unlisted \$0.30 Options, Expiry 30 July 2016	1,000,000	1	Michael Moore	1,000,000
Unlisted \$0.325 Options, Expiry 30 November 2016	3,000,000	3	Aradia Ventures Pty Ltd	1,500,000
			Kongming Investments Ltd	750,000
			Antoinette Janet Ribbons	750,000
Unlisted \$0.38 Options, Expiry 30 November 2017	3,000,000	3	Aradia Ventures Pty Ltd	1,500,000
			Kongming Investments Ltd	750,000
			Antoinette Janet Ribbons	750,000
Unlisted \$0.41 Options, Expiry 21 October 2015	325,000	6	Trevor Saul	100,000
			Michael Giles	100,000
Unlisted \$0.65 Options, Expiry 30 November 2015	1,000,000	2	Aradia Ventures Pty Ltd	500,000
			Antoinette Janet Ribbons	500,000
Unlisted \$0.80 Options, Expiry 30 November 2015	1,500,000	3	Aradia Ventures Pty Ltd	500,000
			Kongming Investments Ltd	500,000
			Antoinette Janet Ribbons	500,000
Performance Rights A	500,000	1	Michael Moore	500,000