SOUTH AMERICAN IRON & STEEL

# Annual Report

**for the year ended**

**30 June 2017**

**Contents**

# 1. DIRECTORY

South American Iron & Steel Corporation Limited
ABN 67 060 319 119

**Registered office**
Suite 4
Level 10
8 – 10 Loftus Street
Sydney NSW 2000
Tel: +612 81881491
Fax: +612 92525638

**Directors**
Terry Cuthbertson, Chairman
Kenneth Lee, CEO / Managing Director
Dr Simon Ning, Non-Executive Director
David Yu, Non-Executive Director
Peixia Chen, Non-Executive Director

**Company Secretary**
Kenneth Lee

**Share Registry**
Link Market Services Limited

*All Registry communications to:*
Link Market Services Limited
Locked Bag A14 Sydney
South NSW 1235 Australia
Telephone: +1300 554 474
Facsimile: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

**Auditor**
Nexia Sydney Partnership
Level 16, 1 Market Street
Sydney NSW 2000

# 2. DIRECTORS' REPORT

The Directors present their report together with the financial report of South American Iron & Steel Corporation Limited ("the Company") and the consolidated financial report of the Group, being the Company and its controlled entities, for the year ended 30 June 2017 and the auditor's report thereon.

## 2.1 Directors

The Directors of the Company at any time during or since the financial year are:

| | **Period as Director** |
|---|---|
| Terry Cuthbertson (Chairman) | 18 May 2009 to present |
| Kenneth Lee (CEO, Co. Sec) | 24 March 2009 to present |
| Dr Haomin Simon Ning (Director) | 4 April 2011 to present |
| David Yu (Director) | 25 June 2015 to present |
| Peixia Chen (Director) | 8 October 2015 to present |

Details of the above Directors follow:

**Terry Cuthbertson, Chairman, Independent Non-Executive Director**

Mr. Cuthbertson holds a Bachelor of Business Degree and is a member of the Australian Institute of Chartered Accountants.

He is a former Partner of the Audit and Corporate Finance Divisions of KPMG Chartered Accountants and former NSW Partner in Charge of Mergers and Acquisitions, where he coordinated government privatisations, mergers, acquisitions, divestitures and public offerings on the Australian Stock Exchange for the New South Wales practice.

Mr. Cuthbertson is the former Group Finance Director of Tech Pacific Holdings Pty Limited, which in 1999 had a turnover of $AU2 billion and was a Director for Tech Pacific Holdings Pty Limited's businesses in China, Hong Kong, Singapore, India, Philippines, Indonesia and Thailand. Mr. Cuthbertson is Chairman of Australian Whisky Holdings Limited, Chairman of Austpac Resources NL, Chairman of MNF Group Limited, Chairman of Malachite Resources Limited, Chairman of Mint Payments Limited, and Non-Executive Director of Isentric Limited.

**Kenneth Lee, CEO, Company Secretary, Executive Director**

Mr Kenneth Lee was appointed to the position of Company Secretary on 20 February 2008 and a Director on 24 March 2009. Kenneth Lee is a member of the Institute of Chartered Accountants in England & Wales and has a Masters degree in Business Administration. He was a Director of KPMG Corporate Finance, Sydney. Kenneth was Company Secretary to Berren Limited and manager of the International Wine Fund (formerly Australian Wine & Investment Fund), a listed fund with more than $200 million under management.

**Dr Haomin Simon Ning, Independent Non-Executive Director**

Dr. Ning is a young entrepreneur with international experience. He gained his management experience in hydro-power engineering (Zublin AG.), civil engineering, electronics and semiconductor (SIEMENS) industries before he moved into the management consulting industry (Balanced Scorecard Collaborative).

Whilst gaining his PhD. in Management and Marketing in the UK, he started his own business helping a number of Chinese companies penetrating into the EU market. Dr. Ning is currently the Managing Director of an investment company and a construction group company based in China.

**Mr David Yu, Independent Non-Executive Director**

Mr. Yu has wide ranging experience in business management and funds raising. He is also a part owner of a large shopping centre in Southern China.

His other expertise is the development of properties.

**Ms Peixia Chen, Independent Non-Executive Director**

Ms. Chen, a graduate of Sun Yat Sen University in Foreign Studies, has wide ranging experience in business management. Her past management role included being the Department Manager and Vice General Manager of the US & Canada Division of Guangdong Branch of China International Travel Service (with over 500 staff). Whilst there, she was in charge of the overall business projects of Guangdong Branch of China International Travel Service including real estate, trading, education, tourism and training projects.

Ms. Chen is currently the General Manager of the overseas division of Fuxiang Group, a diversified company. Fuxiang's activities includes local and overseas real estate, financing of projects, education and training, immigration agencies and high-valued tourism operations.

## 2.2 Company Secretary

Mr Kenneth Lee was appointed to the position of Company Secretary on 20 February 2008.

## 2.3 Principal Activities

The principal activity of the Group during the course of the financial year was mineral exploration for iron sands in South America, with an emphasis on Chile.

## 2.4 Operating and Financial Review

The net loss of the Group for the year ended 30 June 2017 after income tax was $559,147 (2016: $584,885).

During the financial year, the Company sought new opportunities, which may well include opportunities beyond the Company's traditional resource sector. An overview of the operations of the Group is set out below.

## 2.5 Dividends

The Directors do not recommend the payment of a dividend. No dividends were previously declared or paid since the end of the previous financial year.

## 2.6 Review of Operations

The Company is determined to rebuild shareholder confidence and value. To this end the Company has appointed advisers to assist in the identification of new business opportunities and the sourcing of additional funding for working capital.

Given the current market difficulties the junior mining sector is experiencing, the Board believes that it needs to assess a range of new opportunities, which may well include opportunities beyond the Company's traditional resource sector.

In addition to reviewing new opportunities, the Company has instigated a number of cost cutting measures aimed at minimising cash outflows through this transitional phase.

Exploration activities in Chile have ceased, while operational and administrative overheads have been reduced. Rehabilitation of our previously held concessions has almost completed.

In May 2017 and June 2017, the Group received a provisional tax refund of around $218,000 from the Chilean tax authorities. The provisional tax refund is in relation to our Chilean tax losses claim against withholding tax deducted from the sale proceeds of our 10% ownership in the Quince concessions.

However, the Chilean tax authorities are contesting that the tax losses in Chile could not be allowed to offset the capital gains from the sale of the Group's 10% interest in the Quince concessions and thus claim that the capital gains should be taxed at 30%.

Our tax advisor is of the opinion that the capital gains could be offset against tax losses incurred in Chile. In the event that tax losses could not be offset against the capital gains:

- The tax refund of the equivalent of AUD218,000 will be have to be repaid to the Chilean tax authorities; and in addition
- The deduction shortfall of around 7.5% (30% less 22.5% deduction), which is estimated at around AUD100,000 has to be paid to the Chilean tax authorities.

In view of the uncertain outcome of whether it is allowable to offset the capital gains against the tax losses, the Group has recorded the provisional tax refund in Deferred Revenue as a liability.

A contingent liability, contingent upon a ruling that the tax losses could not be used to offset against the capital gains, has not been recognised by the Group as it is the opinion of our tax advisor that the capital gains could be offset against tax losses incurred in Chile.

It is noted that the Company does not guarantee the debts of its Chilean subsidiaries.

On 28th March 2017, the Company entered into a Merger Implementation Deed with Mulwarra Export Pty Ltd ("Mulwarra"), whereby SAY will acquire 100% of Mulwarra ("Proposed Transaction").

Following the Merger Implementation Deed with Mulwarra, the Company continued negotiations with Mulwarra and on 3rd July 2017, the Company entered into a Share Purchase Agreement ("the Agreement") with all of the shareholders of Mulwarra ("Mulwarra Shareholders") pursuant to which SAY will acquire 100% of Mulwarra from Mulwarra Shareholders ("the Acquisition"). Fuller details of the Agreement are set out in Section 2.8 Events Subsequent to Balance Date.

### Corporate

On 4th May 2017, the Company obtained a $100,000 loan from a sophisticated investor.

## 2.7 Changes in the State of Affairs

Other than those items referred to above, and referred to in this report, the financial statements and the accompanying notes, there were no significant changes in the state of affairs of the Group during the financial year

## 2.8 Events Subsequent to Balance Date

On 3rd July 2017, the Company entered into a Share Purchase Agreement ("the Agreement") with all of the shareholders of Mulwarra ("Mulwarra Shareholders") pursuant to which SAY will acquire 100% of Mulwarra from Mulwarra Shareholders ("the Acquisition").

Since the date of a Merger Implementation Deed with Mulwarra Export Pty Ltd, SAY and the Mulwarra Shareholders engaged in further negotiation and agreed to certain changes to the structure for the Acquisition. In particular, in consideration for the Acquisition, the Mulwarra Shareholders are entitled to:

- $7,300,000 cash consideration;
- $12,500,000 worth of consideration shares in SAY;
- Up to $8,760,000 deferred consideration contingent on the Mulwarra Business meeting a FY18 EBITDA forecast of $5,283,000; and
- a $3,200,000 pre-completion dividend.

Completion of the Acquisition under the Agreement is subject to satisfaction (or waiver) of a number of conditions, including:

- SAY obtaining all necessary shareholder approvals required in connection to the Acquisition, including SAY shareholders' approval of the change to nature and scale of SAY's activities resulting from the Acquisition;
- SAY obtaining all necessary ASX, governmental and regulatory consents and approvals required in connection with the Acquisition;
- SAY complying with any requirements of ASX including, approval to have its shares readmitted to trading on the Official List;
- SAY preparing a prospectus, lodging the prospectus with ASIC and receiving applications to meet the $8,500,000 minimum subscription; and
- the issue of a report from an independent expert concluding that the Acquisition is in the best interests of the SAY shareholders.

As part of the Acquisition, SAY will undergo a share consolidation prior to being reinstated on the ASX. Details of the consolidation will be determined by the Board.

SAY and Mulwarra Shareholders are in the process of satisfying all the conditions with respect to the Acquisition and expect to complete the Acquisition by 31 October 2017.

**Compliance with ASX Listing Rules**

The Proposed Transaction requires security holder approval under the Listing Rules and therefore may not proceed if that approval is not forthcoming. SAY is required to re-comply with ASX's requirements for admission and quotation and therefore the Proposed Transaction may not proceed if those requirements are not met. The ASX has absolute discretion in deciding whether or not to re-admit the entity to the official list and to quote its securities and therefore the Proposed Transaction may not proceed if ASX exercises that discretion. Investors should take account of these uncertainties in deciding whether or not to buy or sell the entity's securities.

Listing Rule 3.1 states that once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately inform the ASX of that information. SAY confirms it is in compliance with its continuous disclosure obligations under Listing Rule 3.1.

SAY's securities will remain in suspension until such time as SAY provides the market with supplementary information in relation to the Proposed Transaction and the target company or re-compliance with Chapters 1 and 2 of the Listing Rules.

Other than the above, there has been no item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## 2.9 Likely Developments

As stated in 2.6 above, Review of Operations, the Board believes that it needs to assess a range of new opportunities, which may well include opportunities beyond the Company's traditional resource sector.

The Company, like many other junior exploration companies, has recently experienced difficulty in maintaining investor support and raising further funds to advance its operations, notwithstanding positive operational and technical results in South America. In addition, the significant falls in iron ore prices have currently affected the economic viability of the Company's iron sands assets and its production.

The Group has therefore ceased its exploration activities in Chile while operational and administrative overheads have been reviewed and reduced.

At the date of this report, the Company continues to pursue the acquisition of Mulwarra.

## 2.10 Environmental Regulations

The Group's operations are not subject to any significant environmental regulations under Australian Law. The Group is subject to significant environmental regulations in South America to which it is fully compliant and the Group plans to perform activities so that adverse effects on the environment are avoided or kept to a minimum.

## 2.11 Directors' Meetings

The number of Directors' meetings held and number of meetings attended by each of the Directors of the Company during the financial year were:

| **Director** | **Board Meetings** | | **Audit Committee Meetings** | |
|---|---|---|---|---|
| | **A** | **B** | **A** | **B** |
| Terry Cuthbertson | 5 | 5 | 2 | 2 |
| Kenneth Lee | 5 | 5 | 2 | 2 |
| Simon Ning | 5 | 5 | - | - |
| David Yu | 3 | 5 | - | - |
| Peixia Chen | 3 | 5 | - | - |

A – Number of meetings attended
B – Number of meetings held during the time the Director held office during the year.

## 2.12 Remuneration Report – Audited

The remuneration report, which has been audited, outlines the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The remuneration report is set out under the following main headings:

(i) Principles used to determine the nature and amount of remuneration
(ii) Details of remuneration
(iii) Service agreements
(iv) Share based compensation
(v) Additional information
(vi) Additional disclosures relating to key management personnel

### (i) Principles used to determine the nature and amount of remuneration

The Group's policy for determining the nature and amount of emoluments of board members and senior executives of the Group is as follows:

The objective of the entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation;
- transparency; and
- capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- attracts and retains well qualified and suitably experienced applicants;
- has the goal of economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of growth in share price, and, in the longer term, payment of dividends and delivering an adequate return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short (STI) and long-term (LTI) incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current year. Recognition is given to earnings in setting executive remuneration but, as the Group is involved in mineral exploration rather than mineral mining and production, relevant experience, industry standards and the annual exploration outcomes, rather than earnings, are given greatest weight in remuneration considerations.

***Non-executive directors***

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also drawn on external sources of information to ensure non-executive directors' fees and payments are appropriate and in line with the market.

***Executive directors***

The Group aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave .

The combination of these comprises an executive's total remuneration.

**(ii) Details of remuneration**

Cash remuneration packages are set at levels that are intended to attract and retain executives capable of managing and enhancing the Group's operations. Remuneration of individual non-executive Directors is determined by the Board and may be varied from time to time.

***Amounts of remuneration***

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

The key management personnel of the Group consist of the following directors:

Mr T Cuthbertson – Non-executive Chairman
Mr K Lee – Managing Director and Chief Executive Officer
Dr S Ning – Non-executive Director
Mr D Yu – Non-executive Director
Ms P Chen - Non-executive Director

***Remuneration of non-executive Directors fees***

| **Directors** | **Directors fees** |
|---|---|
| Mr T Cuthbertson | $60,000 |
| Dr S Ning | $Nil |
| Mr D Yu | $Nil |
| Ms P Chen | $Nil |

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**For the year ended 30 June 2017**

| | Short-term employee benefits | Post employment benefits | Share-based payment | Other long-term benefits | Total compensation | Value of options as proportion of remuneration |
|---|---|---|---|---|---|---|
| | Cash | | | | | |
| | Salary and fees | Super | Options | | | |
| | $ | $ | $ | $ | $ | % |
| **Director** | | | | | | |
| T Cuthbertson | 60,000 | - | - | - | 60,000 | 0.00 |
| K Lee | 180,000 | 17,100 | - | - | 197,100 | 0.00 |
| S Ning | - | - | - | - | - | 0.00 |
| D Yu | - | - | - | - | - | 0.00 |
| P Chen | - | - | - | - | - | 0.00 |
| | 240,000 | 17,100 | - | - | 257,100 | 0.00 |

**For the year ended 30 June 2016**

| | Short-term employee benefits | Post employment benefits | Share-based payment | Other long-term benefits | Total compensation | Value of options as proportion of remuneration |
|---|---|---|---|---|---|---|
| | Cash | | | | | |
| | Salary and fees | Super | Options | | | |
| | $ | $ | $ | $ | $ | % |
| **Director** | | | | | | |
| T Cuthbertson | 45,000 | - | - | - | 45,000 | 0.00 |
| K Lee | 150,000 | 13,875 | - | - | 163,875 | 0.00 |
| R Haren (resigned 8 October 2015) | - | - | - | - | - | 0.00 |
| S Ning | - | - | - | - | - | 0.00 |
| D Yu | | | | | | |
| P Chen (appointed 8 October 2015) | - | - | - | - | - | 0.00 |
| | 195,000 | 13,875 | - | - | 208,875 | 0.00 |

Key management personnel are the same for the Group and the Company. All key management personnel are shown above.

There is no link between key management personnel remuneration and the share price or dividends.

There is no relationship between the performance of the Group and remuneration over the past five years.

### (iii) Service agreement

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of applicable service agreements are set out as follows:

***Name:*** Kenneth Lee
***Title:*** Managing Director and Chief Executive Officer
***Details:*** The employment conditions of the Managing Director, Kenneth Lee, is formalised in a contract of employment. The employment contract stipulates a 12-month resignation notice period. The Group may terminate an employment contract without cause by providing 12 months written notice or making payment in lieu of notice together with any applicable redundancy payment. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct, the Group can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

### (iv) Share based compensation

***Issue of shares***
Details of shares held by directors and other key management personnel during the year ended 30 June 2017 and 30 June 2016 are set out below. No shares were issued as part of the key management personnel remuneration.

**Shares**

| Ordinary Shares | Held at 1 July 2016 | Movements | Held at 30 June 2017 |
|---|---|---|---|
| **Directors** | | | |
| K Lee[2] | 2,227,698 | - | 2,227,698 |
| T Cuthbertson | 198,307 | - | 198,307 |
| S Ning | - | - | - |
| D Yu | 79,649,000 | - | 79,649,000 |
| P Chen[3] | 60,000,000 | - | 60,000,000 |

| Ordinary Shares | Held at 1 July 2015 | Movements | Held at 30 June 2016 |
|---|---|---|---|
| **Directors** | | | |
| R Haren[1] (resigned 8 October 2015) | 183,703 | - | 183,703 |
| K Lee[2] | 2,227,698 | - | 2,227,698 |
| T Cuthbertson | 198,307 | - | 198,307 |
| S Ning | - | - | - |
| D Yu | 79,649,000 | - | 79,649,000 |
| P Chen[3] (appointed 8 October 2015) | - | 60,000,000 | 60,000,000 |

[1] Held at resignation date.
[2] These shares include 300,000 shares acquired under the Company's employee share purchase plan, prior to K Lee's appointment as a Director, and held by Aconcagua SPP Nominees Pty Limited, a nominee company as security for a non-recourse loan.

[3] These shares were acquired prior to appointment as Director.

***Share based payments***

The following share based payment arrangements, all of which would be settled for shares, have expired during the year:

- On 14 December 2011, pursuant to shareholder approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of $0.20. All options vested upon granting and can be exercised from 15 December 2012 until 14 December 2016. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 14 December 2011, pursuant to shareholder approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of $0.25. All options vested upon granting and can be exercised from 15 December 2013 until 14 December 2016. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.
- On 14 December 2011, pursuant to shareholder approval at a general meeting, 2,000,000 options were granted to a Director as part of the Company's incentive scheme at an exercise price of $0.30. All options vested upon granting and can be exercised from 15 December 2014 until 14 December 2016. The options hold no voting or dividend rights and are non-transferable. At reporting date no options have been exercised.

There were no options exercised during the year ended 30 June 2017.

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**Options**

The movement during the reporting period is the number of options over ordinary shares in South American Iron & Steel Corporation Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| Directors | Balance at beginning of year / date of appointment | Granted as compensation | Balance at 30 June 2016 | Expired during the year | Vested and exercisable at 30 June 2017 |
|---|---|---|---|---|---|
| S Ning | 6,000,000 | - | 6,000,000 | 6,000,000 | Nil |

Remuneration levels are set and determined by the Board of Directors. Remuneration packages are based on fixed remuneration and equity based remuneration. Where key management personnel provide services to the Company other than services related to discharging their Director's responsibilities, they are entitled to charge the Company for the commercial value of such services provided.

This section 2.12 of the Directors' Report provides the nature and amount of the elements of key management personnel compensation for the year ended 30 June 2017 as permitted by *Corporations Regulation 2M.3.03.*

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**(v) Additional disclosure relating to key management personnel**

The relevant interest of each Director in shares and options issued by the Company at the date of this report is as follows:

| | South American Iron & Steel Corporation Limited | |
|---|---|---|
| | **Ordinary Shares** | **Options** |
| T Cuthbertson | 198,307 | - |
| K Lee[1] | 2,227,698 | - |
| S Ning | - | - |
| D Yu | 79,649,000 | - |
| P Chen (appointed 8 October 2015) | 60,000,000 | - |

[1]These shares include 300,000 shares acquired under the Company's employee share purchase plan, prior to K Lee's appointment as a Director, and held by Aconcagua SPP Nominees Pty Limited, a nominee company as security for a non-recourse loan.

***This concludes the remuneration report, which has been audited***

## 2.13 Non-Audit Services

During the year Nexia Sydney Partnership (formerly Nexia Court & Co), the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and by resolution, the Directors of the Company are satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and

- the non-audit services provided do not undermine the general principles relating to auditor independence requirements in accordance with *APES 110: Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board, as they did not involve reviewing or auditing the auditors own work, acting in a management or decision making capacity, acting as an advocate for the Company, or jointly sharing risks and rewards.

The following fees for non-audit services were paid / payable to the external auditors during the year ended 30 June 2017:

| | $ |
|---|---|
| Taxation | 4,100 |
| Other | - |
| | 4,100 |

## 2.14 Auditor's Independence Declaration

The lead auditor's independence declaration required by Section 307C of the Corporations Act is set out on page 16 and forms part of the Directors' report for the year ended 30 June 2017.

## 2.15 Indemnification and Insurance of Officers and Auditors

***Indemnification***
Since the end of the previous financial year, the Company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the Company.

***Insurance Premiums***
During the financial year the Group did not pay premiums in respect of Directors' and officers' liability insurance contracts for the year ended 30 June 2017. The Group has not renewed and will not be renewing this insurance after the year end.

## 2.16 Unissued shares under Options

During the year 6,000,000 options issued by the Company, which are not listed on the ASX Official List and were not quoted, expired on 14 December 2016.

Signed in accordance with a resolution of the Directors

**Kenneth Lee**
**Managing Director**

**Sydney**
**Dated:** 29 September 2017

To the Board of Directors of South American Iron & Steel Corporation Limited

**Auditor's Independence Declaration under section 307C of the *Corporations Act 2001***

As lead audit partner for the audit of the financial statements of South American Iron & Steel Corporation Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Nexia

**Nexia Sydney Partnership**

**Andrew Hoffmann**
Partner

Date: 29 September 2017

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# Independent Auditor's Report to the Members of South American Iron & Steel Corporation Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of South American Iron & Steel Corporation Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

ii) complying with Australian Accounting Standards and *the Corporations Regulations 2001.*

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the 'auditor's responsibilities for the audit of the financial report' section of our report. We are independent of the entity in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### Material uncertainty related to going concern

We draw attention to Note 10.2(v) in the financial report, which indicates that the Group incurred a net loss of $559,147 during the year ended 30 June 2017 and, as of that date, the Group's current liabilities exceeded its total assets by $1,301,104. As stated in Note 10.2(v), these events or conditions, along with other matters as set forth in Note 10.2(v), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



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We have determined that there are no key audit matters to communicate in our report.

### Other information

The directors are responsible for the other information. The other information comprises the information in South American Iron & Steel Corporation Limited's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

### Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar2.pdf. This description forms part of our auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 14 of the directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of South American Iron & Steel Corporation Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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.

Nexia

**Nexia Sydney Partnership**

**Andrew Hoffmann**
Partner

Dated: 29 September 2017
Sydney

# 5. DIRECTORS' DECLARATION

The directors of the company declare that in the directors' opinion:

1. The financial statements and accompanying notes set out on pages 20 to 52 are in accordance with the *Corporations Act 2001* and:

   (a) comply with Australian Accounting Standards and the *Corporations Regulations 2001*; and

   (b) give a true and fair view of the economic entity's financial position as at 30 June 2017 and of its performance for the year ended on that date;

2. The financial statements and notes also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); as disclosed in note 10.2(i); and

3. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

**Kenneth Lee**
Managing Director

Sydney
Dated: 29 September 2017

# 6. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2017

| | Note | Group 2017 $ | 2016 $ |
|---|---|---|---|
| Other income | 10.5 | 99,771 | 201,308 |
| Total other income | | 99,771 | 201,308 |
| Interest expense | 10.6 | (4,737) | (2,121) |
| Provision for bad debt | 10.6 | - | (73,948) |
| Legal costs | | (3,579) | (18,298) |
| Administration & other expenses- Chile | 10.6 | (97,342) | (141,616) |
| Rental expenses | 10.6 | (184,917) | (171,540) |
| Other operating expenses | | (368,343) | (379,878) |
| Exchange gain/(losses) | | - | 1,208 |
| **(Loss) /Profit from ordinary activities before income tax expense** | | (559,147) | (584,885) |
| Income tax expense | 10.8 | - | - |
| **(Loss) for the year** | | **(559,147)** | **(584,885)** |
| **Other comprehensive income, net of tax** | | **-** | **-** |
| **Total comprehensive income for the period** | | **(559,147)** | **(584,885)** |
| Basic and Diluted earnings per share in cents | 10.23 | (0.12) | (0.13) |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# 7. STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

| | Note | Group 2017 | 2016 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 10.9 | 255,694 | 215,381 |
| Trade and other receivables | 10.10 | 34,799 | 15,343 |
| Other assets | 10.12 | 62,117 | 53,240 |
| **Total current assets** | | **352,610** | **283,964** |
| **Non-current assets** | | | |
| Other assets | 10.12 | - | 100 |
| Property, plant and equipment | 10.13 | - | - |
| Exploration and evaluation expenditure | 10.14 | - | - |
| **Total non-current assets** | | **-** | **100** |
| **Total assets** | | **352,610** | **284,064** |
| **Current liabilities** | | | |
| Trade and other payables | 10.15 | 812,884 | 550,130 |
| Other liabilities | 10.16 | 559,947 | 400,000 |
| Employee entitlements | 10.17 | 46,438 | 50,812 |
| Deferred Income | 10.18 | 218,071 | - |
| **Total current liabilities** | | **1,637,340** | **1,000,942** |
| **Non-current liabilities** | | | |
| Employee entitlements | 10.17 | 16,374 | 25,079 |
| **Total non-current liabilities** | | **16,374** | **25,079** |
| **Total liabilities** | | **1,653,714** | **1,026,021** |
| **Net assets** | | **(1,301,104)** | **(741,957)** |
| **Equity** | | | |
| Contributed equity | 10.19 | 41,474,447 | 41,474,447 |
| Reserves | 10.20 | 1,167,727 | 1,167,727 |
| Accumulated losses | | (43,943,278) | (43,384,131) |
| **Total equity** | | **(1,301,104)** | **(741,957)** |

The above statement of financial position should be read in conjunction with the accompanying notes.

**SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**
A.B.N.: 67 060 319 119

**and Controlled Entities**

# 8. STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

| | Share Capital | Share Based Payments Reserve | Group Foreign Currency Translation Reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| **At 1 July 2016** | 41,274,447 | 1,651,650 | (483,923) | (43,384,131) | (741,957) |
| **Comprehensive income for the year** | | | | | |
| (Loss) for the year | - | - | - | (559,147) | (559,147) |
| Other comprehensive income for the year, net of tax | - | - | - | - | - |
| **Total comprehensive income for the year** | - | - | - | (559,147) | (559,147) |
| **Transactions with owners** | | | | | |
| Share issue (net) | - | - | - | - | - |
| **Total transactions with owners** | - | - | - | - | - |
| **At 30 June 2017** | 41,474,447 | 1,651,650 | (483,923) | (43,943,278) | (1,301,04) |

**SOUTH AMERICAN IRON & STEEL CORPORATION LIMITED**
A.B.N.: 67 060 319 119

**and Controlled Entities**

| | Share Capital | Share Based Payments Reserve | Group Foreign Currency Translation Reserve | Accumulated Losses | Total Equity |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **At 1 July 2015** | 41,274,447 | 1,651,650 | (483,923) | (42,799,246) | (357,072) |
| **Comprehensive income for the year** | | | | | |
| Profit/(Loss) for the year | - | - | - | (584,885) | (584,885) |
| Other comprehensive income for the year, net of tax - | - | - | - | - | |
| **Total comprehensive income for the year** | - | - | - | (584,885) | (584,885) |
| **Transactions with owners** | | | | | |
| Share issue (net) | 200,000 | - | - | - | 200,000 |
| **Total transactions with owners** | 200,000 | - | - | - | 200,000 |
| **At 30 June 2016** | 41,474,447 | 1,651,650 | (483,923) | (43,384,131) | (741,957) |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# 9. STATEMENT OF CASH FLOWS

For the year ended 30 June 2017

| | Note | Group 2017 $ | Group 2016 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts in the course of operations | | 79,346 | 406,448 |
| Cash payments in the course of operations | | (154,777) | (1,115,786) |
| Interest received | | 969 | 2,417 |
| Interest paid | | (4,737) | - |
| **Net cash from operating activities** | 10.25(ii) | **(79,199)** | **(706,921)** |
| **Cash flows from investing activities** | | | |
| Payment for rehabilitation costs | | 40,435 | - |
| Proceeds from sale of prospects | | - | 712,737 |
| **Net cash from investing activities** | | **40, 435** | **712,737** |
| **Cash flows from financing activities** | | | |
| Proceeds from share issue (net) | | - | 200,000 |
| Proceeds from borrowings | | 159,947 | - |
| Repayment of borrowings | | - | (76,500) |
| Payment on interest | | - | (9,941) |
| **Net cash from financing activities** | | **159,947** | **113,559** |
| **Net increase in cash and cash equivalents** | | **40,313** | **119,375** |
| Cash and cash equivalents at the beginning of the financial year | | 215,381 | 96,006 |
| **Cash and cash equivalents at the end of the financial year** | 10.25(i) | **255,694** | **215,381** |

The above statement of cash flows should be read in conjunction with the accompanying notes.

# 10. NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2017

## 10.1 Reporting Entity

South American Iron & Steel Corporation Limited (the 'Company') is a company incorporated and domiciled in Australia, is a public company limited by shares and is listed on the ASX. The address of the Company's registered office is Level 10, 8-10 Loftus Street, Sydney, NSW 2000.The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is a for-profit entity and its principal activity is mineral exploration in South America.

## 10.2 Basis of Preparation

### (i) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001.* The consolidated financial report of the Group and the financial report of the Company comply with International Financial Reporting Standards ('IFRSs') and interpretations adopted by the International Accounting Standards Board ('IASB').

The financial statements were approved by the Board of Directors on 29 September 2017.

This report was authorised for issue by the Directors on 29 September 2017. The Company has the power to amend and re-issue the financial report.

### (ii) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except where indicated otherwise.

### (iii) Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Company's functional and presentation currency.

### (iv) New and Amended Standards Adopted by the Group

| Reference | Summary of Change | Application Date of the standard | Applies to financial year ended |
|---|---|---|---|
| AASB 2016-3 | **Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality**<br><br>The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. | 1 Jul 2016 | 30 Jun 2017 |

**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 2016.

**(v) Going Concern**

The Directors have performed a review of the cash flow forecasts and have considered the cash flow needs of the Company and Group, including the ability to reduce the level of cash expenditure if required to do so.

The Group recorded a loss of $559,147 and has a net deficiency in assets of $1,301,104.

Directors have initiated certain actions to ensure that the Company's viability as a going concern. Such actions include:

- As reported in 2.6 Review of Operations, the Company has been reviewing new business opportunities and is pursuing to acquire Mulwarra and been seeking additional funding for working capital.
- The Company has appointed a corporate adviser to assist in the identification of new business opportunities and the sourcing of additional funding for working capital.
- The Company has instigated a number of cost cutting measures aimed at minimising cash outflows through this transitional phase.

In addition, the holder (also a significant shareholder of the Company) of a $400,000 non-interest bearing loan, not repayable until after 15 December 2017 on demand by the Note holder has also indicated that he will continue to support the Company.

Consequently, the Directors are of the opinion that the use of the going concern basis of accounting is appropriate.

Should the Company not achieve the planned capital raising detailed above, there is significant uncertainty as to whether the Company will continue to trade as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business as stated in the financial report. The financial report does not include any adjustments that may be necessary if the Company is unable to continue as a going concern.

**(vi) Use of estimates and judgements**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes.

- Note 10.14 – exploration and evaluation expenditure
- Note 10.17 – employee entitlements.

## 10.3 Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### (i) Principles of consolidation

*Subsidiaries*
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2017 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the 'Group'.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

In the Company's financial statements, investments in subsidiaries are carried at cost.

*Transactions eliminated on consolidation*
Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### (ii) Operating segments

Operating segments are presented using the 'management approach,' where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers 'CODM'), The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

### (iii) Foreign currency transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of profit or loss and other comprehensive income in the financial year in which the exchange rates change.

### (iv) Revenue recognition

Revenues are recognised at fair value of the consideration received or receivable.

*Interest Revenue*
Interest revenue is recognised as it accrues.

*Rental Income*
Rental income is recognised as it accrues.

*Other Income*
Income from other sources is recognised when the amount of revenue can be measured reliably and it is probable that future economic benefits will flow to the entity.

### (v) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which a temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

*Tax consolidation*
The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is South American Iron & Steel Corporation Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised by the Company as amounts payable (receivable) to/(from) other entities in the tax-consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution or distribution.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

### (vi) Acquisitions of assets

All assets acquired including property, plant and equipment are initially recorded at their cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Where the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated.

### (vii) Impairment of assets

Assets that are subject to amortisation 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 flows (cash generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (viii) Cash and cash equivalents

For statement of cash flows 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 an insignificant risk of changes in value, and bank overdrafts.

### (ix) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

### (x) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods:

*Financial instruments not traded in active markets*
The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Techniques, such as estimated discounted cash flows, are used to determine fair value for the financial instruments.

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

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

**(xi) Property, plant and equipment**

*Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amount.

*Subsequent Costs*
The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

*Depreciation*
Land is not depreciated. Depreciation on other assets is calculated using the diminishing value method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

| | **Depreciation rate** | | **Depreciation method** |
|---|---|---|---|
| | **2017** | **2016** | |
| Plant and equipment | 7% - 40% | 7% - 40% | Diminishing value |

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

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.

**(xii) Exploration and evaluation expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Initial recognition of exploration and evaluation expenditure is at cost. Where a concession is acquired at fair-value it is recognised at that value representing the cost to the Company. Subsequent recognition of expenses remains at cost.

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

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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

**(xiii) Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 45 days.

**(xiv) Employee benefits**

*Wages and salaries, annual leave and sick leave*
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables and accruals and employee entitlements 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. These liabilities represent present obligations resulting for employee's service provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs.

Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

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

### (xv) Contributed equity

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

### (xvi) Earnings per share

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

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

### (xvii) Goods and services tax ('GST')

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO) or, in the case of a foreign entity, from the relevant foreign tax authorities. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.
The net amount of GST recoverable from or payable to the ATO, or from the relevant foreign tax authorities, is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to the ATO, or from the relevant foreign tax authorities, are classified as operating cash flows.

### (xviii) New standards and interpretations not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective. The Group have not yet assessed the impact of the adoption of these standards.

| Reference | Summary of Change | Application date of the Standard | Applies to financial year ended |
|---|---|---|---|
| AASB 2016-1 | ***Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]***<br><br>This Standard amends AASB 112 *Income Taxes* to clarify the circumstances in which the recognition of deferred tax assets may arise in respect of unrealized losses on debt instruments measured at fair value. | 1 January 2017 | 30 June 2018 |
| AASB 2016-2 | ***Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107***<br><br>This Standard amends AASB 107 *Statement of Cash Flows* to include additional disclosures and reconciliation relating to changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. | 1 January 2017 | 30 June 2018 |
| AASB 2016-3 | ***Amendments to Australian Accounting Standards – Clarifications to AASB 15***<br><br>This Standard amends AASB 15 *Revenue from Contracts with Customers* to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. In addition, it provides further practical expedients on transition to AASB 15. | 1 January 2018 | 30 June 2019 |
| AASB 2016-5 | ***Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions***<br><br>This Standard amends AASB 2 *Share-based Payment* to address:<br><br>(a) the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;<br>(b) the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and<br>(c) the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. | 1 January 2018 | 30 June 2019 |
| AASB 2016-6 | ***Amendments to Australian Accounting Standards – Applying AASB 9 Financial Instruments with AASB 4 Insurance Contracts***<br><br>This Standard amends AASB 4 *Insurance Contracts* to permit issuers of insurance contracts to: (a) choose to apply the ‘overlay approach’ to eligible financial assets | 1 January 2018 | 30 June 2019 |

| | | | |
|---|---|---|---|
| | to calculate a single line item adjustment to profit or loss; or (b) choose to be temporarily exempt from AASB 9 when those issuers' activities are predominantly connected with insurance. | | |
| AASB 2014-10 | ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to AASB 10 and AASB 128)***<br><br>Amends AASB 10 and AASB 128 to remove the inconsistency in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.<br><br>The mandatory application date of AASB 2014-10 has been amended and deferred to annual reporting periods beginning on or after 1 January 2018 by AASB 2015-10. | 1 January 2018 | 30 June 2019 |
| AASB 2017-1 | ***Amendments to Australian Accounting Standards – Transfers of Investment Property, Annual Improvements 2014–2016 Cycle and Other Amendments***<br><br>Clarifies that:<br><br>a) a change in classification to or form investment property can only be made where there is evidence of a change in use of the property. A change in management's intention is, in isolation, not evidence of a change in use; and<br>b) the election by a venture capital organisation, mutual fund, unit trust or similar entity to measure investments in an associate or joint venture at fair value through profit or loss is made separately for each associate or joint venture. | 1 January 2018 | 30 June 2019 |
| AASB 2017-2 | ***Amendments to Australian Accounting Standards – Further Annual Improvements 2014–2016 Cycle***<br><br>Specifies that the disclosure requirements of AASB 12 *Disclosure of Interests in Other Entities* apply to an entity's interests in other entities that are classified as held for sale, held for distribution to owners in their capacity as owners or discontinued operations in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. | 1 January 2017 | 30 June 2018 |
| AASB 9 | ***Financial Instruments***<br><br>AASB 9 includes requirements for the classification and measurement of financial assets and incorporates amendments to the accounting for financial liabilities and hedge accounting rules to remove the quantitative hedge | 1 January 2018 | 30 June 2019 |

effectiveness tests and have been replaced with a business model test.

AASB 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139 as follows:

a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income.
c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were made to other standards as a result of AASB 9 by AASB 2014-7 and AASB 2014-8. The mandatory application date of AASB 9 has been deferred to annual reporting periods beginning on or after 1 January 2018 by AASB 2014-1.

| | | | |
|---|---|---|---|
| AASB 15 | ***Revenue from Contracts with Customers*** | 1 January 2018 | 30 June 2019 |

AASB 15 replaces AASB 118 *Revenue, AASB 111 Construction Contracts* and four Interpretations issued by the AASB and amends the principles for recognising revenue from contracts with customers. The Standard requires an entity to recognise revenue on a basis that depicts the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that principle, an entity shall apply all of the following steps:

a) identify the contract with a customer;
b) identify the separate performance obligations in the contract;
c) determine the transaction price;
d) allocate the transaction price to the separate performance obligations in the contract; and
e) recognise revenue when (or as) the entity satisfies a performance obligation.

Consequential amendments to other Standards are made by AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15.*

| | | | |
|---|---|---|---|
| | Consequential amendments are also made for not-for-profit entities by AASB 2016-8 *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities.* The mandatory application date of AASB 15 has been deferred to annual reporting periods beginning on or after 1 January 2018 by AASB 2015-8.<br><br>The mandatory application date of AASB 15 has been deferred for not-for-profit entities to annual reporting periods beginning on or after 1 January 2019 by AASB 2016-7. | | |
| AASB 16 | ***Leases***<br><br>AASB 16 replaces AASB 117 *Leases* and sets out the principles for the recognition, measurement, presentation and disclosure of leases.<br><br>AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.<br><br>A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 *Statement of Cash Flows*.<br><br>AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 *Leases*. Accordingly, a lessor continues to classify its leases as operating leases or finance leases.<br><br>Early application is permitted provided the entity also applies AASB 15 *Revenue from Contracts with Customers* at or before the same date. | 1 January 2019 | 30 June 2020 |
| Interpretation 22 | ***Foreign Currency Transactions and Advance Consideration***<br><br>The Interpretation clarifies that for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which the entity recognises the payment or receipt of advance consideration in a foreign currency. | 1 January 2018 | 30 June 2019 |

The group currently has no operating business and has assessed the above standards and expects that these standards will not have a significant impact on the financial statements of the group.

### (xix) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is confirmed.

### (xx) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

## 10.4 Financial Risk Management

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to provide working capital for the Group's operations.

The Group has various other financial instruments such as trade debtors, trade creditors, which arise directly from its operations.

The Group's current policy, and has been throughout the period under review, is that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are:

- credit risk;
- liquidity risk;
- interest rate risk;
- foreign currency risk;
- commodity risk; and
- market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

**Credit risk**
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Group does not have any significant credit risk exposure to a single counterparty of any group of counterparties having similar characteristics.

**Liquidity risk**
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by monitoring immediate and forecast cash requirements and ensuring adequate cash reserves are maintained.

Typically, the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days.

**Interest rate risk**
At balance date the Group's exposure to market risk for changes in interest rates relates primarily to the Company's short-term cash deposits. The Group constantly reviews and analyses its exposure to interest rates, with consideration given to potential renewal of existing positions, the mix of fixed and variable interest rates and the period to which deposits may be fixed.

At balance date, the Group had the following financial assets exposed to variable interest rates that are not designated in cash flow hedges:

| | **Group** | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| **Financial Assets** | | |
| Cash & cash equivalents | 255,694 | 215,381 |
| Other current financial assets | 62,117 | 53,240 |
| Net exposure | 317,811 | 268,621 |

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date. At 30 June 2017, if interest rates had moved, with all other variables held constant, post-tax losses and equity would have been affected as follows:

| | | **Group** | |
|---|---|---|---|
| *Judgements of reasonable possible movements:* | | **2017** | **2016** |
| **Post tax loss** | | **$** | **$** |
| +1.0% (2016:1.0%) (100 basis points) | 1% | 3,178 | 2,686 |
| -1.0% (2016:1.0%) (100 basis points) | -1% | (3,178) | (2,686) |
| | | | |
| **Equity** | | | |
| +1.0% (2016:1.0%) (100 basis points) | 1% | 3,178 | 2,686 |
| -1.0% (2016:1.0%) (100 basis points) | -1% | (3,178) | (2,686) |

### Foreign currency risk

As a result of minerals exploration operations in South America being dominated by the United States Dollar (USD), the Group's statement of financial position can be affected by movements in the USD/AUD exchange rates. The Company does not hedge this exposure.

The Group manages its foreign currency risk by constantly reviewing its exposure to commitments payable in foreign currency and ensuring appropriate cash balances are maintained in USD, to meet operational commitments.

At 30 June 2017, the Group had the following exposures to USD foreign currency risk that is not designated in cash flow hedges:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| *Net Assets:* | | |
| Current assets | 218,486 | 121,642 |
| Non-current assets | - | - |
| Current liabilities | (268,071) | (74,074) |
| Net exposure | (49,585) | 47,568 |

*Judgements of reasonable possible movements:*

| | | Group | |
|---|---|---|---|
| | | **2017** | **2016** |
| **Reserves and equity** | | **$** | **$** |
| 15.0% $A currency gain | 15% | (7,437) | 7,135 |
| 15.0% $A currency loss | -15% | 7,437 | (7,135) |

### Commodity risk

The Group's exposure to price risk is minimal as the Group is revising its opportunities beyond the Company's traditional resource sector.

### Market risk

Market risk is the risk that changes in market prices will affect the Group's income. The Group's exposure to market risk is minimal as the Group is still in an exploration phase.

### Estimation of fair values

The methods used in determining the fair values of financial instruments are discussed in note 10.3(x).

### Fair Values

| | **2017 Carrying Amount $** | **2017 Net Fair Value $** |
|---|---|---|
| *Financial Assets:* | | |
| Cash and cash equivalents | 255,694 | 255,694 |
| Trade and other receivables | 34,799 | 34,799 |
| Other current financial assets | 62,117 | 62,117 |
| | **352,610** | **352,610** |

*Fair value sensitivity analysis or fixed rate instruments*
The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

## 10.5 Other Income

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Interest Received | 968 | 2,417 |
| Rent Received | 71,000 | 114,800 |
| Forgiveness of past director's fees | - | 84,091 |
| Provision for bad debt recovered | 27,624 | - |
| Exchange gain | 179 | - |
| | **99,771** | **201,308** |

## 10.6 Expenses

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Staff and directors salaries | 240,000 | 272,000 |
| Staff superannuation | 17,100 | 20,997 |
| Rental expenses | 184,917 | 171,540 |
| Interest expenses | 4,737 | 2,121 |
| Rehabilitation expenses - Chile | 40,395 | 141,616 |
| Legal expenses - Chile | - | 18,297 |
| Provision for bad debt | - | 73,948 |
| Administration expenses- Chile | 56,947 | - |

## 10.7 Auditor's Remuneration

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Nexia Sydney Partnership | | |
| - Audit services | 36,300 | 34,200 |
| - Other services (Taxation) | 4,100 | 11,350 |

Prior year includes actual audit fees paid/payable.

## 10.8 Income tax

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| **Numerical reconciliation between tax expense and pre-tax loss** | | |
| Loss for the year | (559,147) | (584,885) |
| Total income tax expense | - | - |
| Loss excluding income tax expense | (559,147) | (584,885) |
| Income tax benefit using the company's domestic tax rate of 30% (2016 – 30%) | 167,744 | 175,465 |
| Amounts not deductible | - | - |
| Timing differences not brought to account | (13,079) | 3,236 |
| Utilisation of tax losses | - | - |
| Tax effect of losses – not recognised | (154,665) | (178,701) |
| | - | - |

Available tax and capital losses to date amount to $17,035,178. As at the date of this report, no deferred tax assets have been recognised as it is not yet considered sufficiently probable that future taxable profits will be generated in the appropriate jurisdictions to enable these to be utilised. The total deferred tax asset not recognised in relation to tax losses is $5,110,553.

## 10.9 Cash and cash equivalents

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| **Current** | | |
| Cash at bank | 255,694 | 215,381 |

## 10.10 Trade and Other Receivables

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| **Current** | | |
| Ex-employee loan receivable | 323,450 | 323,450 |
| Less: Impairment loss | (322,850) | (322,850) |
| | 600 | 600 |
| GST – Refundable | 24,299 | 13,339 |
| Trade Debtors | 9,900 | - |
| Other Receivables | - | 1,404 |
| | **34,799** | **15,343** |

## 10.11 Investments in Controlled Entities

| | Class of Share | Group Interest 2017 % | Group Interest 2016 % |
|---|---|---|---|
| Controlled entities | | | |
| Clearwater Resources Pty Ltd | Ordinary | 100.00 | 100.00 |
| Aconcagua Iron Sands Pty Ltd | Ordinary | 100.00 | 100.00 |
| South American Iron Sands Pty Ltd | Ordinary | 100.00 | 100.00 |
| Inversiones Aconcagua Ltda | Ordinary | 99.95 | 99.95 |
| Inversiones Arenas Claras Ltda | Ordinary | 99.95 | 99.95 |
| Inversiones Arenas Maullin Ltda | Ordinary | 99.95 | 99.95 |

## 10.12 Other assets

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| **Current** | | |
| Deposit - rent guarantee | 62,117 | 53,240 |
| | | |
| **Non-Current** | | |
| Investments at cost – Ample Success Investment Limited[1] | - | 100 |

[1] The investment relates to a 15% interest in Ample Success Investment Limited which has a 75% interest in a mining concession in Weishan County, China. The carrying amount recognised is the best approximation of fair value. This investment has been impaired as at 30 June 2017.

## 10.13 Property, plant and equipment

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| **Non-Current** | | |
| Land | - | - |
| | | |
| IT software – at cost | 57,521 | 57,521 |
| ***Less:*** Accumulated Depreciation | (57,521) | (57,521) |
| | - | - |
| | | |
| Furniture and fittings – at cost | 3,723 | 3,723 |
| ***Less:*** Accumulated Depreciation | (3,723) | (3,723) |
| | - | - |
| | | |
| Motor vehicles – at cost | 23,233 | 23,233 |
| ***Less:*** Impaired/Accumulated Depreciation | (23,233) | (23,233) |
| | - | - |
| | | |
| Other assets – at cost | 41,136 | 41,136 |
| ***Less:*** Accumulated Depreciation | (41,136) | (41,136) |
| | - | - |
| | | |
| Plant and equipment – at cost | 43,418 | 43,418 |
| ***Less:*** Impaired /Accumulated depreciation | (43,418) | (43,418) |
| | - | - |
| | | |
| | **-** | **-** |

**Reconciliations**
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

**30 June 2017**

| | Land | Motor Vehicles | Other assets | Plant and equipment | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Carrying amount at beginning of year | - | - | - | - | - |
| Additions | - | - | - | - | - |
| Disposals | | - | - | - | - |
| Impairment of assets | - | - | - | - | - |
| Effect of currency movements | - | - | - | - | - |
| Depreciation | - | - | - | - | - |
| Carrying amount of the end of the year | **-** | **-** | **-** | **-** | **-** |

**30 June 2016**

| | Land | Motor Vehicles | Other assets | Plant and equipment | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Carrying amount at beginning of year | - | - | - | - | - |
| Additions | - | - | - | - | - |
| Disposals | | - | - | - | - |
| Impairment of assets | - | - | - | - | - |
| Effect of currency movements | - | - | - | - | - |
| Depreciation | - | - | - | - | - |
| Carrying amount at the end of the year | - | - | - | - | - |

## 10.14 Exploration and evaluation expenditure

| | Group | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Carrying amount at the beginning of the year | - | - |
| Expenditure during the year | - | - |
| Effect of currency movements | - | - |
| Impairment loss on concessions | - | - |
| | **-** | **-** |
| Mining Concessions | - | - |
| Exploration costs | - | - |
| | **-** | **-** |

The ultimate recoupment of costs carried forward for exploration assets is dependent on the successful development and commercial exploration or sale of the respective areas.

## 10.15 Trade and other payables

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| **Current** | | |
| Trade creditors | 320,198 | 302,120 |
| Other creditors and accruals | 492,686 | 248,010 |
| | **812,884** | **550,130** |

Included in trade creditors and other creditors and accruals are amounts due to directors in relation to their fees of $389,102. (2016: $526,806)

## 10.16 Other liabilities

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| **Current** | | |
| Loan Instrument – interest bearing(1) | 159,947 | - |
| Loan Instrument – non-interest bearing(2) | 400,000 | 400,000 |
| | 559,947 | 400,000 |

(1) This loan comprises of one liability of $101,815, which relates to 100 convertible notes of $1,000 each issued to Cloudcenter Pty Ltd on 21 April 2017 for a period of 6 months at an interest rate of 12%p.a. The conversion price to equity shares is $0.0008 per note. The remaining balance of $58,132 relates to a short-term advance by a Director Mr. Terry Cuthbertson of $55,253 in February 2017 at an interest rate of 12%p.a.

(2) This is an interest free loan note issued to Pride Angel Investments Ltd., which is repayable only after 15 December 2017and has the option of being converted to SAY equity shares at a 15 day VWAP (volume weighted average price) immediately prior to conversion of the loan.

## 10.17 Employees entitlements

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| Current | 46,438 | 50,812 |
| Non-current | 16,374 | 25,079 |
| | **62,812** | **75,891** |

## 10.18 Deferred Income

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| **Current** | | |
| Withholding tax refund-Chile | 218,071 | - |
| | **218,071** | **-** |

In May 2017 and June 2017, the Group received a provisional tax refund of around $218,000 from the Chilean tax authorities. The provisional tax refund is in relation to our Chilean tax losses claim against withholding tax deducted from the sale proceeds of our 10% ownership in the Quince concessions.

However, the Chilean tax authorities are contesting that the tax losses in Chile could not be allowed to offset the capital gains from the sale of the Group's 10% interest in the Quince concessions and thus claim that the capital gains should be taxed at 30%.

Our tax advisor is of the opinion that the capital gains could be offset against tax losses incurred in Chile. In the event that tax losses could not be offset against the capital gains:

- The tax refund of the equivalent of AUD218,000 will be have to be repaid to the Chilean tax authorities; and in addition
- The deduction shortfall of around 7.5% (30% less 22.5% deduction), which is estimated at around AUD100,000 has to be paid to the Chilean tax authorities.

In view of the uncertain outcome of whether it is allowable to offset the capital gains against the tax losses, the Group has recorded the provisional tax refund in Deferred Revenue as a liability.

## 10.19 Contributed equity

| | The Company and Group | | The Company and Group | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | Shares | Shares | $ | $ |
| **Share capital** | | | | |
| Ordinary Shares | 458,246,886 | 458,246,886 | 41,474,447 | 41,474,447 |
| *Capital issued during the year* | | | | |
| Balance at beginning of year | 458,246,886 | 398,246,886 | 41,474,447 | 41,274,447 |
| Ordinary shares issued during the year | - | 60,000,000 | - | 200,000 |
| **Balance at end of year** | **458,246,886** | **458,246,886** | **41,474,447** | **41,474,447** |

The Company does not have authorised share capital or par value in respect of its issued shares. All issued shares are fully paid, except for 300,000 shares issued under the employee share purchase plan.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At the shareholder meetings, each ordinary share is entitled to one vote at meetings of the Company.

### Capital Management

The Group considers its capital to comprise its ordinary share capital and reserves.

In managing its capital, the Group's primary objective as an explorer is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs.

In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or consideration of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

There are no externally imposed capital requirements.

## 10.20 Reserves

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| **Foreign currency reserve** | | |
| Balance at 1 July | (483,923) | (483,923) |
| Foreign exchange movement effect | - | - |
| Balance at 30 June | (483,923) | (483,923) |
| **Share based payments reserve** | | |
| Balance at 1 July | 1,651,650 | 1,651,650 |
| Share based payments | - | - |
| Balance at 30 June | 1,651,650 | 1,651,650 |
| **Total Reserves** | 1,167,727 | 1,167,727 |

***Foreign currency translation reserve***
The foreign currency translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations and subsidiaries.

***Share based payments reserve***
The share based payments reserve comprises all amounts arising for the grant of options or shares in exchange for services in the Group.

## 10.21 Operating Segments

The Group is organised into two operating segments, as described below. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ("CODM")) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The following summary describes the operations in each of the Group's reportable segments:

*Australia*
The Group's headquarters are located in Australia.

*Chile*
The Chilean entities, Inversiones Aconcagua Limitada; Inversiones Arenas Claras Limitada; and Inversiones Arenas Maullin Limitada are 99.95% owned by South American Iron & Steel Corporation Limited. These entities are in the process of being liquidated.

The CODM reviews adjusted EBITDA (earnings before interest, tax, depreciation and amortisation adjusted for impairment of assets). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

The CODM does not review segment assets or liabilities.

Major customers
During the year ended 30 June 2017, no customer (2016: nil) contributed more than 10% of the Group's external revenue.

## 10.21 Operating Segments (continued)

For the year ended 30 June 2017

| | Australia | | Chile | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | $ | $ | $ | $ | $ | $ |
| External revenues | 71,000 | 114,800 | - | - | 289,071 | 114,800 |
| Interest revenue | 968 | 2,417 | - | - | 968 | 2,417 |
| Provision for bad debt recovered | 27,624 | - | - | - | 27,624 | - |
| Director's fees no longer payable | - | 84,091 | - | - | - | 84,091 |
| Realised exchange gain | - | - | 179 | - | 179 | - |
| Reportable segment (loss) before income tax | (509,552) | (441,116) | (97,163) | (143,769) | (606,715) | (584,885) |
| Consolidated (loss) before income tax | | | | | (559,147) | (584,885) |
| Reportable segment assets | 134,125 | 162,423 | 218,485 | 121,641 | 352,610 | 284,064 |
| Reportable segment liabilities | 1,385,643 | 951,947 | 268,071 | 74,074 | 1,653,714 | 1,026,021 |

| **Reconciliation of reportable segment profit or loss** | **2017** | **2016** |
|---|---|---|
| Total (loss) for reportable segments | (606,715) | (584,885) |
| Other loss | - | - |
| | (606,715) | (584,885) |
| Elimination of inter-segment transactions | 47,568 | - |
| Consolidated (loss) before income tax | (559,147) | (584,885) |

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2016.

## 10.22 Key management personnel disclosures

The key management personnel of the Group are the Directors and executives of the Company.

### (i) Directors

- T Cuthbertson
- K Lee
- S Ning
- D Yu
- P Chen

### (ii) Key management personnel compensation

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| Short term employee benefits | 240,000 | 195,000 |
| Post-employment benefits | 17,100 | 13,875 |
| Other long-term benefits | - | - |
| Share-based payments | - | - |
| | 257,100 | 208,875 |

### (iii) Individual directors and executive compensation disclosures

Information regarding individual directors and executives' compensation and some equity instruments disclosures as required by Corporations Regulations is provided in the remuneration report section of the directors' report.

Apart for the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

### (iv) Loans to/from key management personnel

| | Group 2017 $ | Group 2016 $ |
|---|---|---|
| **Loans to:** | | |
| • Mr K Lee under the Employees Share Plan[1] | 323,450 | 323,450 |
| **Loans and advances from:** | | |
| • Mr K Lee | - | - |
| • Mr T Cuthbertson | 58,132 | - |
| | 58,132 | - |

[1] Kenneth Lee was issued 300,000 shares at $1.078 per share under the Employees Share Plan on 21 May 2008, prior to his appointment as a Director of the Company. He was appointed Director of the Company on 24 March 2009. The $323,450 loan has been impaired to the value of the shares as they are the only recourse to the loan. Impairment expense recognised during the year was $NIL (2016: $6,900)

## 10.23 Superannuation commitments

All services provided to the entities in the Group during the financial year were through incorporated and unincorporated contractual arrangements.

## 10.24 Earnings per share

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Basic and Diluted (loss)/earnings per share | (0.0012) | (0.0013) |
| (Loss for the year | (559,147) | (584,885) |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share. | 458,246,886 | 442,181,312 |

## 10.25 Notes to the statement of cash flows

### (i) Cash

For the purpose of the statement of cash flows, cash and cash equivalents includes cash at bank. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Cash at bank | 255,694 | 215,381 |

### (ii) Reconciliation of net cash

Reconciliation of (loss)/profit for the year to net cash utilised in operating activities.

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| **(Loss for the year)** | **(559,147)** | **(584,885)** |
| Provision for bad debt | - | 73,947 |
| Interest expense included in financing activities | 4,737 | 2,121 |
| Director’s fees no longer payable | - | (84,091) |
| ***Changes in assets and liabilities:*** | | |
| Change in other debtors and prepayments | (19,456) | 280,168 |
| Change in other assets | (8,777) | - |
| Change in trade creditors | 298,452 | (397,418) |
| Change in provisions | (13,079) | 3,237 |
| Change in deferred income | 218,071 | - |
| **Net cash utilised in operating activities** | **(79,199)** | **(706,921)** |

## 10.26 Events subsequent to balance date

On 3rd July 2017, the Company entered into a Share Purchase Agreement ("the Agreement") with all of the shareholders of Mulwarra ("Mulwarra Shareholders") pursuant to which SAY will acquire 100% of Mulwarra from Mulwarra Shareholders ("the Acquisition").

Since the date of a Merger Implementation Deed with Mulwarra Export Pty Ltd, SAY and the Mulwarra Shareholders engaged in further negotiation and agreed to certain changes to the structure for the Acquisition. In particular, in consideration for the Acquisition, the Mulwarra Shareholders are entitled to:

- $7,300,000 cash consideration;
- $12,500,000 worth of consideration shares in SAY;
- Up to $8,760,000 deferred consideration contingent on the Mulwarra Business meeting a FY18 EBITDA forecast of $5,283,000; and
- a $3,200,000 pre-completion dividend.

Completion of the Acquisition under the Agreement is subject to satisfaction (or waiver) of a number of conditions, including:

- SAY obtaining all necessary shareholder approvals required in connection to the Acquisition, including SAY shareholders' approval of the change to nature and scale of SAY's activities resulting from the Acquisition;
- SAY obtaining all necessary ASX, governmental and regulatory consents and approvals required in connection with the Acquisition;
- SAY complying with any requirements of ASX including, approval to have its shares readmitted to trading on the Official List;
- SAY preparing a prospectus, lodging the prospectus with ASIC and receiving applications to meet the $8,500,000 minimum subscription; and
- the issue of a report from an independent expert concluding that the Acquisition is in the best interests of the SAY shareholders.

As part of the Acquisition, SAY will undergo a share consolidation prior to being reinstated on the ASX. Details of the consolidation will be determined by the Board.

SAY and Mulwarra Shareholders are in the process of satisfying all the conditions with respect to the Acquisition and expect to complete the Acquisition by 31 October 2017.

**Compliance with ASX Listing Rules**

The Proposed Transaction requires security holder approval under the Listing Rules and therefore may not proceed if that approval is not forthcoming. SAY is required to re-comply with ASX's requirements for admission and quotation and therefore the Proposed Transaction may not proceed if those requirements are not met. The ASX has absolute discretion in deciding whether or not to re-admit the entity to the official list and to quote its securities and therefore the Proposed Transaction may not proceed if ASX exercises that discretion. Investors should take account of these uncertainties in deciding whether or not to buy or sell the entity's securities.

Listing Rule 3.1 states that once an entity is or becomes aware of any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities, the entity must immediately inform the ASX of that information. SAY confirms it is in compliance with its continuous disclosure obligations under Listing Rule 3.1.

SAY's securities will remain in suspension until such time as SAY provides the market with supplementary information in relation to the Proposed Transaction and the target company or re-compliance with Chapters 1 and 2 of the Listing Rules.

Other than the above, there has been no item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

## 10.27 Parent Entity Disclosure

| | Parent Entity 2017 $ | 2016 $ |
|---|---|---|
| **Financial Position:** | | |
| **Assets** | | |
| Current assets | 134,125 | 209,889 |
| Non-current assets | - | 100 |
| **Total assets** | **134,125** | **209,989** |
| **Liabilities** | | |
| Current liabilities | 1,369,270 | 926,868 |
| Non-current liabilities | 16,373 | 25,079 |
| **Total liabilities** | **1,385,643** | **951,947** |
| **Equity** | | |
| Issued capital | 41,474,435 | 41,474,435 |
| Accumulated losses | (44,018,533) | (43,508,981) |
| Reserves | 1,651,652 | 1,651,652 |
| **Total equity** | **(892,445)** | **(382,883)** |
| **Financial Performance:** | | |
| (Loss)/Profit for the year | (509,552) | (441,116) |
| Other comprehensive income | - | - |
| **Total comprehensive (Profit)/loss** | **(509,552)** | **(441,116)** |

## 10.28 Capital and Leasing Commitments:

The Parent Entity did not have any capital commitments at balance date.

Commitments from minimum lease payments in relation to non-cancellable operating leases are payable as follows:

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$** | **$** |
| Within one year | - | 116,463 |
| Later than one year and no later than five years | - | - |
| | - | 116,463 |

The group leases an office building under an operating lease expired in 31 December 2016.

## 10.29 Contingent Liabilities:

The Company sold its 10% interest in the Quince concessions in 2015.

Proceeds in relation to the sale included an option payment from the buyer, an initial payment, and 12 equal monthly instalments. The 12 monthly instalments commenced on 30 April 2015.

Twenty-two and a half percent from those proceeds were deducted for taxation to be submitted to the Chilean tax authorities. According to our Chilean tax advisors, those deductions may be claimed from the tax authorities as our Chilean subsidiaries have incurred losses well in excess of the profit from the sale of the Quince concessions.

Those deductions, including from future net proceeds, amount to around USD235,000; and subject to approval of the Chilean tax authorities, the Company will benefit from the tax refund of US D235,000.

During the year our Chilean subsidiary has received a tax refund equivalent to AUD218,000. However, the Chilean tax authorities are contesting that the tax losses in Chile could not be allowed to offset the capital gains from the sale of the Group's 10% interest in the Quince concessions and thus claim that the capital gains should be taxed at 30%.

Our tax advisor is of the opinion that the capital gains could be offset against tax losses incurred in Chile. In the event that tax losses could not be offset against the capital gains:

- The tax refund of the equivalent of AUD218,000 will be have to be repaid to the Chilean tax authorities; and in addition
- The deduction shortfall of around 7.5% (30% less 22.5% deduction), which is estimated at around AUD100,000 has to be paid to the Chilean tax authorities.

A liability, contingent upon a ruling that the tax losses could not be used to offset against the capital gains, has not been recognised by the Group as it is the opinion of our tax advisor that the capital gains could be offset against tax losses incurred in Chile.

It is noted that the Company does not guarantee the debts of its Chilean subsidiaries.

# 11. CORPORATE GOVERNANCE STATEMENT

## 11.1 Introduction

The Australian Stock Exchange ("ASX") Listing Rules ("Listing Rules") require a listed entity to include in its Annual Report a statement on corporate governance practices disclosing the extent to which it has followed the "best practice" corporate governance recommendations set by the ASX Corporate Governance Council. If the entity has not followed any of the recommendations, it must identify them and give reasons why. It must state the period during which the recommendations were followed. For this purpose, Listing Rules Guidance Note 9A sets out the 8 essential corporate governance principles and the applicable "best practice recommendations".

The concept of "*corporate governance*" is the systems, policies and procedures under which an entity is directed and managed. The benefits of good corporate governance are accountability, systems of control and the encouragement to create value.

There is no single model of good corporate governance. Corporate governance will evolve as an entity's circumstances change and must be tailored to its circumstances.

## 11.2 Compliance with ASX Listing Rule 4.10.3

Listing Rule 4.10.3 and Guidance Note 9A reflect ASX policy that it is "*appropriate to focus on disclosure of corporate governance practices rather than prescribe adoption of a particular practice*". Therefore, an entity's obligation is to highlight areas of departure from the recommendations: the "*if not, why not?*" approach.

## 11.3 The Company's approach

The Board and senior management of South American Iron & Steel Corporation Limited (the "Company") are committed to acting responsibly, ethically and with high standards of integrity as the Company endeavours to create shareholder value. To achieve this goal, the Board is developing for the adoption of corporate governance practices and policies that are appropriate to the needs of the Company given its size, complexity and ownership structure and the skills of Directors and managers and the geographic locality of the Company's mining exploration concessions.

The table below summarises the "best practice" recommendations and the Company's current practice, including explanations in the instances where the Company does not comply.

| Recommendation | | South American Iron & Steel's current position |
|---|---|---|
| 1.1 | Establish and disclose the functions reserved to the Board and those delegated to management | Given the present size of the Company, the Board takes an active role in overseeing management functions and responsibilities. The Board is responsible for:<br>▪ overseeing the performance and activities of the Company through agreed goals and strategy;<br>▪ assessing performance against Board approved budgets, targets and strategies;<br>▪ overseeing the management of the Company's business;<br>▪ overseeing appropriate controls, systems and procedures within the Company to manage the risks of its businesses and compliance with all regulatory and prudential requirements including, without limitation, occupational health and environmental issues;<br>▪ reviewing matters of general corporate governance;<br>▪ appointing and removing the Managing Director;<br>▪ ratifying the appointment and, where appropriate, the removal of the Company Secretary; |

| | | |
|---|---|---|
| | | ▪ the Company Secretary is accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board<br>▪ monitoring senior Management's performance and implementation of the Board approved strategies, and ensuring appropriate succession planning is in place;<br>▪ approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;<br>▪ approving and monitoring material financial and other reporting; and<br>▪ setting delegated spending limits.<br><br>The day to day management is delegated to the Managing Director and the Company's management team. |
| 1.2 | Disclose the process for evaluating performance of senior executives. | The performance of senior executives is reviewed annually by the Managing Director who reports the results of the review to the Board. |
| 1.3 | Report on recommendation 1 | Please refer to the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website. |
| 2.1 | A majority of the Board should be independent Directors | The Board consists of four independent and Non-Executive Directors; and one Executive Director (Chief Executive Officer). |
| 2.2 | The chair should be an independent Director | The Company's chairperson, Mr Terry Cuthbertson, is an independent Director. |
| 2.3 | The roles of the chair and chief executive officer should not be exercised by the same individual | The Company's chief executive officer is Mr Kenneth Lee who is not the chairperson. |
| 2.4 | The Board should establish a nomination committee | The Board has not established a nomination committee as, due to the Company's size and its operations, the Board considers a separately established committee is not warranted and its functions and responsibilities can be adequately and efficiently discharged by the Board as a whole. |
| 2.5 | Disclose the process for evaluating the performance of the Board, its committees and individual Directors. | The Board has not established and at this stage, does not intend to establish a Nomination and Remuneration Committee, due to the Company's current size and its operations. |
| 2.6 | Program for inducting new directors and provide appropriate professional development | The Board has not established and at this stage, due to the Company's current size and its operations. |

| | | |
|---|---|---|
| | opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively | |
| 2.7 | Report on recommendation 2 | The details of the Directors, their experience, qualifications, term of office, and independent status are set out in the Company's Annual Report.<br><br>There is a procedure agreed by the Board for Directors to take independent professional advice at the expense of the Company.<br><br>Other reporting requirements pertaining to recommendation 2 can be found in the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website. |
| 3.1 | Establish a code of conduct and disclose the code or a summary of the code as to:<br>▪ practices necessary to maintain confidence in the Company's integrity<br>▪ practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders<br>▪ the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | The Board recognises there is a need for a "code of conduct" and expects that the actions of its staff reflect the ethical standards of the Company. Accordingly, the Board has established an appropriate policy.<br><br>In summary, staff members are under an obligation to the Company not to place themselves or allow themselves to be placed directly or indirectly in a position where their private interests conflict or could conflict with their responsibilities to the Company. They may not use their positions, the Company's assets or confidential information gained in connection with their employment for personal gain or for the benefit of a family member or any outside party. |
| 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 | The Company intends to make each staff appointment after consideration of each candidate's qualifications, experience and proven competence, whilst conscientiously avoiding any discrimination on the basis of, but not limited to, race, creed, colour, gender, age, marital status, religion or physical impairment. |

| | | |
|---|---|---|
| | diversity for the board to assess annually both the objectives and progress in achieving them. | |
| 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. | The Company does not have a formal policy concerning diversity. Given the small size of the Company's workforce, the Board has determined that it is not currently practicable to implement a policy concerning diversity. The Board will further consider the establishment of a diversity policy as the Company grows. |
| 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. | The Company has no employees at year end. There are no women in senior executive positions or on the board. |
| 3.5 | Reporting on Recommendations 3 | Details of the code of conduct and trading policy are set out in the Company's website. |
| 4.1 | The Board should establish an audit committee | The Board has established an Audit Committee. |
| 4.2 | Structure the audit committee so that it consists of only non-executive Directors, a majority of independent Directors, an independent chairperson who is not chairperson of the Board and at least three members | The Audit Committee has three members; two of whom are Non-Executive Directors. The Chairman of the Committee is a Non-Executive Director. Due to the size of the Board an Executive Director currently forms part of this Committee and this will be reviewed in the future. |
| 4.3 | Audit Committee to have a formal Charter | At present, the Audit Committee does not have a formal charter and this will be reviewed in the future. |
| 4.4 | Reporting on recommendation 4 | Given the Board as a whole fulfils the functions and responsibilities of an Audit Committee, the names and qualifications of each of the members of the Board, and details of attendance at Board meetings, are set out in the Company's annual report. |

| | | |
|---|---|---|
| 5.1 | Establish written policies and procedures 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 | The Company is committed to fulfilling all legal, statutory and listing disclosure requirements. Written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and the ASX Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations, as well as to ensure accountability at a senior management level for that compliance have been established.<br><br>In respect of its disclosure policy, at each of its meetings, the Board discusses continuous disclosure issues as a standing item and a list of all recent Company announcements is presented.<br><br>The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who in consultation with the Board (where practicable) and any other appropriate personnel will consider the information and whether disclosure is required and prepare an appropriate announcement. |
| 5.2 | Reporting on recommendation 5 | Please refer to the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website. |
| 6.1 | 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 | In so far as the Company is required to comply with ASX continuous disclosure requirements, the Managing Director (and, in the alternative, the Chairman) has been nominated as the responsible person. The Board reviews and approves all announcements to the ASX. |
| 6.2 | Reporting on recommendation 6 | Please refer to the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website. |
| 7.1 | Establish policies for the oversight and management of material business risks and disclose a summary of those policies. | The Board has not established and at this stage, does not intend to establish a Risk Management Committee, due to the Company's size and its operations.<br><br>At present, the Board regularly reviews the Company's risk management systems and control frameworks, and the effectiveness of their implementation and is in the process of formally establishing a policy for adoption.<br><br>The Company's reports in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards. The CFO is also required to report that this statement so made is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the |

| | | |
|---|---|---|
| | | Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects. |
| 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. | The Company's CEO and the CFO report in writing to the Board that the statement given is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects. |
| 7.3 | The Board should disclose whether it has received assurance from the CEO (or equivalent) and the CFO (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. | The Board has received written assurance from the CEO and the CFO 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. |
| 7.4 | Reporting on recommendation 7 | The Company has provided relevant information in this Statement upon recognising and managing risk. |
| 8.1 | The Board should establish a remuneration committee | Given the present size of the Company, the Board as a whole presently meets to consider remuneration issues and will review the need for a remuneration committee as the Company grows. |

| | | |
|---|---|---|
| 8.2 | The remuneration committee should be structured so that it:<br>▪ consists of a majority of independent directors<br>▪ is chaired by an independent director<br>▪ has at least three members. | Please refer above comments. |
| 8.3 | Clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives | Non-executive Directors will be remunerated by cash benefits alone, except where approved by a general meeting of shareholders and will not be provided with retirement benefits (except in exceptional circumstances) and aggregate remuneration will not exceed the amount approved by shareholders (currently $250,000). Executive Directors may be remunerated by both fixed remuneration and equity performance based remuneration. |
| 8.4 | Report on recommendation 8 | Relevant information can be found in the Corporate Governance Statements, Policies and Procedures adopted by the Company, details of which are set out in the Company's website. |

# 12. SHAREHOLDER INFORMATION

As at 25 September 2017

## 12.1 Substantial Shareholders

| Name | Number of Shares | Percentage of issued shares |
|---|---|---|
| DAVID YU INTERNATIONAL PTY LIMITED | 79,649,000 | 17.38% |
| MS PEXIXIA CHEN | 60,000,000 | 13.09% |
| SUPERIOR GRADE INVESTMENTS LIMITED | 51,300,000 | 11.19% |
| MR FRANCO BELLI | 39,200,000 | 8.55% |

## 12.2 Distribution of Fully Paid Ordinary Shares

(i) Distribution schedule of holdings

| | |
|---|---|
| 1 – 1,000 | 816 |
| 1,001 – 5,000 | 148 |
| 5,001 – 10,000 | 98 |
| 10,001 – 100,000 | 216 |
| 100,001 and over | 156 |
| Total number of holders | 1,434 |

| | | No. of holders | No. of Shares |
|---|---|---|---|
| (ii) | Less than marketable parcel of 125,000 shares at $0.004 per share on 25 September 2017(shares suspended from trading since 29 March 2017) | 1,291 | 11,719,841 |

| Rank | Name | Number of Shares | Percentage of Issued Shares |
|---|---|---|---|
| 1 | DAVID YU INTERNATIONAL PTY LIMITED | 79,649,000 | 17.38% |
| 2 | MS PEIXIA CHEN | 60,000,000 | 13.09% |
| 3 | SUPERIOR GRADE INVESTMENTS LIMITED | 51,300,000 | 11.19% |
| 4 | MR FRANCO STEPHEN BELLI | 39,200,000 | 8.55% |
| 5 | PERSHING AUSTRALIA NOMINEES PTY LIMITED | 21,516,487 | 4.70% |
| 6 | MR ZI MU WANG | 20,000,000 | 4.36% |
| 7 | MS FENGHUA ZHANG | 15,000,000 | 3.27% |
| 8 | ECOMETRIX PTY LTD | 14,590,675 | 3.18% |
| 9 | SHAOBO LIN | 12,195,122 | 2.66% |
| 10 | JIAN HU LIN | 11,939,111 | 2.61% |
| 11 | PRIDE ANGEL INVESTMENTS LIMITED | 11,200,000 | 2.44% |
| 12 | MR ANTONIO GRAZIANO | 10,450,000 | 2.28% |
| 13 | OCELTIP INVESTMENTS PTY LTD | 6,372,150 | 1.39% |
| 14 | ALCARDO INVESTMENTS LIMITED | 6,010,476 | 1.31% |
| 15 | GLADDEN TRADE LTD | 5,881,097 | 1.28% |
| 16 | LIPPO SECURITIES LTD | 4,814,786 | 1.05% |
| 17 | ASTRON LIMITED | 3,872,500 | 0.85% |
| 18 | MR PHILIP NATHAN ONEILE | 3,350,000 | 0.73% |
| 19 | MR WAI KIN YU | 3,287,968 | 0.72% |
| 20 | HSBC CUSTODY NOMINEES (AUSTRALIA | 2,757,149 | 0.60% |
| | | **383,386,521** | **83.66%** |

## 12.3 Voting rights – ordinary shares

On a show of hands, every member, present in person or by proxy, shall have one vote and upon a poll every member, present in person or by proxy, shall have one vote for each share.