
HAWTHORN RESOURCES LIMITED

ABN 44 009 157 439

FINANCIAL REPORT YEAR ENDED 30 JUNE 2014

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HAWTHORN RESOURCES LIMITED

ABN 44 009 157 439

DIRECTORS' REPORT 2014

Hawthorn Resources Limited

Directors' Report

The Directors of Hawthorn Resources Limited, a Company listed on the Australian Stock Exchange, present their report for the year ended 30 June 2014.

1 Directors

The Directors of the Company in office since 1 July 2013 and up to the date of this Report are:

Mr Mark G Kerr - LL.B

Chairman and Non-Executive Director

Appointed 22 November 2007; last re-elected 2012 AGM (held 30.01.2013)

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

Mr Kerr was appointed as a director and as Chairman of the Board of Directors of Hawthorn Resources Limited in November 2007 which merged with Ellendale Resources in June 2008.

Mr Kerr is also a director of the ASX listed entity – Contango Microcap Limited

Mr M E Elliott – LLB BCom FFin

Managing Director and CEO

Appointed 22 November 2007

Mr Mark Elliott is the Managing Director and CEO of the Hawthorn Resources Limited Group. Mr Elliott is a former partner of the international law firm Minter Ellison specializing in corporate and securities law and a former director of Spotless Group Limited, E*trade Limited, Oakton Limited and Mineral Deposits Limited and a former director of legal counsel of Computershare Limited. With the increased exploration and corporate activities the Board of Directors appointed Mr Elliott as the Company's Managing Director /CEO effective 29 May 2009. In the 2011 review of director's performance the Board of Directors agreed to offer and Mr Elliott agreed to accept an extension of his Executive Service Agreement to 31 December 2014. Currently Mr Elliott is not a director of any other listed entities.

Dr David S Tyrwhitt - PhD(Geology) BSc(Hons) FSEG (USA) FAusIMM CPGeo

Non-Executive Independent Director

Appointed 11 November 1996; last re-elected 2013 AGM

Dr Tyrwhitt has been a Director of the Company since 1996. He has more than 50 years experience in the mining industry. He is currently a Director of Merlin Diamonds Limited (December 2011 to current), Quantum Resources Limited (November 1999 to current), Golden River Resources Corporation (November 1996 to current), Northern Capital Resources Incorporated (January 2008 to current) and Legend International Holdings Inc., (March 2005 to current) and a former director of Bassari Resources Limited and of Astro Diamond Mines NL. He worked for over 20 years with Newmont Mining Corporation in Australia, South East Asia and the United States. During this time, he was responsible for the discovery of the Telfer Gold Mine in Western Australia. He was Chief Executive of Newmont Australia Limited between 1984 and 1988 and Chief Executive Officer of Ashton Mining Limited between 1988 and 1991. He established his own consultancy business in 1991 and worked with Normandy Mining Limited on a number of mining projects in South East Asia.

Hawthorn Resources Limited Directors' Report

Mr Liao, Yongzhong

Non-Executive Director

Appointed 30 October 2012; last re-elected 2012 AGM (held 30.01.2013)

Mr. Liao, Yongzhong has served Guangdong Fenghua Advanced Technology (Holding) Co., Ltd. for 20 years. Since joining it in 1993, he has held the following significant posts: Vice General Manager and Secretary of the Board of Directors from October 2003 to July 2007, Director and Vice General Manager from January 2007 to August 2008, Vice General Manager from August 2008 to date.

He holds concurrent posts of Chairman of the Board of Guangdong Fenghua Semiconductor Technology Co., Ltd, Chairman of the Board of Guangzhou Fenghua Venture Investment Co., Ltd, Chairman of the Board of Fenghua Advanced Technology (Hong Kong) Ltd, Deputy Chairman of the Board of Changchun Up Optotech Co., Ltd, Director of Taiyuan Fenghua Information Equipment Co., Ltd and Chairman of the Board of Shine Advance Holding Limited.

Mr Li, Yijie

Non-Executive Director

Appointed 30 October 2012; last re-elected 2012 AGM (held 30.01.2013)

Mr. Li Yijie is the Chairman of the Board of Lite Smooth Investment Limited. Mr. Li has been the President of Guangdong Carriton Real Estate Co., Ltd. since 2001, which is focused on real estate development, with total assets of RMB 5 billion.

Mr Ye, Xiaohui

Non-Executive Director

Elected at 2012 AGM (held 30.01.2013); formally appointed 30 April 2013

Mr Ye Xiaohui holds a Masters degree in business management and is qualified as an Economist in the PRC.

Mr Ye currently holds the following positions:

Director and deputy general manager of Guangdong Rising Assets Management Co., Ltd., in charge of the Mineral Resources Department and Mineral Investment Management, Director of Caledon Resources PLC, Chairman of the board at Guangdong Rising (Laos) Investment and Development Limited. Mr Ye is also the Deputy Director of the Guangdong Geological Institute and Director of the Guangdong Society for Metals.

Previously Mr Ye has been Director and Deputy General Manager at Shaoguan Iron and Steel Group Company Limited, Manager of the operations department at Guangdong Development of Metallurgy and Technology Ltd, General Manager at Guangdong Metallurgical Development Corporation, General Manager at Guangdong Metallurgical Material Supply and Distribution Ltd, Chairman of the board at Guangdong Guang-Metallurgical Industry (Group) Co., Ltd.

Directorships

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

2 Principal Activities and Review and Results of Operations

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

Hawthorn Resources Limited Directors' Report

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

Objective

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

As an exploration company, the Company does not have an ongoing source of revenue. On a consolidated group basis its revenue stream is normally from ad-hoc tenement disposals and interest received on cash in bank. In the current year, finance revenue was \$499,578 (2013:\$170,354). In both years the revenue has been interest received on surplus funding. Other Income in 2014 was \$nil (2013: \$nil).

Costs and expenses totalled \$2,103,983 in 2014 compared to \$2,056,693 in 2013 after allowing for the impairment in carrying value of exploration tenements – refer to Note 10 to the financial statements. Exploration expenditure written off in 2014 was \$642,283 compared to \$670,668 in 2013. A number of granted exploration licences and tenements were forfeited and re-applied for as mining leases, the applications are pending and accordingly the exploration expenditure has been written off. Administration expenses for 2014 were \$1,446,332 (2013: \$1,378,498).

The Company had cash in bank at 30 June 2014 of \$9,560,743 (2013:\$14,366,582), receivables of \$182,908 (2013:\$561,257), available for sale securities, following impairment testing of carrying values, of \$2,542 (2013:\$1,155) and current liabilities totalled \$397,388 (2013:\$1,216,461).

At 30 June 2013, the Company had working capital of \$9,352,431 (2013:\$13,717,275) and net assets of \$22,959,704 (2013:\$24,564,109) after allowing for the abovementioned impairment in carrying values.

Cash Flow

During the year, the Company used \$1,831,197 (2013:\$971,086) in operating activities, paid \$2,953,838 (2013:\$1,971,548) for exploration activities and raised no new equity capital (2013:\$14,962,090). As a result, the Company has cash in bank at 30 June 2014 of \$9,560,743 (2013:\$14,366,582).

Corporate Development

Equity Raisings

As noted under **Cash Flow** during and since the year ended 30 June 2014 up to the date of this Report, there have been no equity capital raisings (2013: \$14,962,090)

Consolidation of Shares

During the year ended 30 June 2013 the Company consolidated its ordinary shares on the basis of one new share for each twenty shares held as at the Record Date of 10 May 2013 which resulted in the Company having 171,263,644 ordinary shares on issue; see item 7 below.

The number of ordinary shares on issue as at the date of this Report remains at 171,263,644 shares.

The shares are listed on the ASX under the security code of "HAW".

Hawthorn Resources Limited

Directors' Report

3 Significant Change in State of Affairs

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

4 Dividends

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

5 Events After The End Of The Financial Year

Exploration and Development

In the interval between the end of the financial year and the date of this Report and as reported to the ASX the Company has continued its exploration and development on its Western Australia Gold Projects in South Laverton Zone

(a) Gold Project - South Laverton Zone (SLZ)

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

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

As announced, the Company has identified five (5) Gold Projects in the Zone
Since 30 June 2014 and up to the date of this Report the Company has undertaken:

Yundamindera Project

(Hawthorn Resources 100 per cent)

Since 30 June 2014 and up to the date of this report the Company has undertaken a round of RAB drilling on geophysical and geochemical targets within the Yundamindera Project area. In addition, RC drilling of interpreted extensions of the known Coffey Bore porphyry gold mineralisation has been completed. Results from these programs are expected to be reported in the September 2014 Quarterly Activities and Cashflow report to the ASX.

(b) Mount Bevan Iron Ore Project – Central Yilgarn Iron Province

(Hawthorn Resources 40 per cent; Legacy Iron Ore Limited 60 per cent)

As announced during the year ended 30 June 2014 and up to the date of this report Legacy, as Joint Venture Manager, has carried out the modified Phase 4 program of exploration which included the agreed programs for the drilling of the identified haematite targets at:

Hawthorn Resources Limited Directors' Report

- (i) The Mt Mason North prospect where earlier RC drilling intersected thick intersections of DSO hematite, adjoining the Jupiter Mines Limited's Mt Mason resource (Measured and Indicated - 9.4Mt @ 57.6% Fe); &
- (ii) DSO targets outlined by recent surface rock chip sampling at the Eastern and Mezzo BIFs, to the north of the Mt Mason North prospect.

The drilling phase of the program as commenced in August 2014 has been completed and the Company is awaiting the Manager's report on the results from such drilling.

- (c) Other than as noted above there are no items, transactions or events of a material and unusual nature which in the opinion of the Directors of the Company, have significantly affected or may significantly affect
 - the operations of the Company
 - the results of those operations, or
 - the state of affairs of the Company

in financial years subsequent to this financial year.

6 Future Developments and Results

As noted above the Company will be continuing its exploration/development programme over its Gold Projects. Other than this there are no likely developments of which the Directors are aware of which could be expected to significantly affect the results of the Company's operations in subsequent financial years.

7 Issued Securities

(a) Ordinary Shares

At the date of this Report this Company, following the Consolidation of ordinary shares on the basis of 1 for 20 in May 2013, has on issue a total of 171,263,644 shares. A reconciliation of the movements in the Company's issued ordinary shares during the financial years ended 30 June 2013 and 2014 are as follows:

	FY 2014 Pre-Consolidation	FY 2013 Post-consolidation (*)
Balance, 1 July	<u>171,263,644</u>	<u>106,872,075</u>
Plus new Issues:		
October 2012	-	16,030,811
April 2013	-	48,360,571
Roundings	<u>-</u>	<u>187</u>
Total new Issues	<u>-</u>	<u>64,391,569</u>
Balance, 30 June	<u>171,263,644</u>	<u>171,263,644</u>

(*) Post-consolidation equivalent after roundings - effective as of 15 May 2013.

During the year ended 30 June 2014 and up to the date of this Report there have been no new issues of shares.

Hawthorn Resources Limited Directors' Report

During the year ended 30 June 2013 and pre the Consolidation of ordinary shares the Company issued 320,616,224 ordinary shares at \$0.013 a share (October 2012) and 967,211,427 ordinary shares at \$0.01116 a share (April 2013) under a Share Subscription Agreement with Feng Hua Mining Investment Holding (HK) Limited which raised new equity capital of \$14,962,090.

(b) Options

During the year the year ended 30 June 2014 and up to the date of this Report, the Company has not issued options over unissued fully paid ordinary shares. As such, at the date of this Report the Company has no options on issue.

During the year ended 30 June 2013 the 165,084,231 options as quoted on the ASX ("HAWOB") lapsed on 28 February 2013 – with none of the options having been exercised. The terms of those options were:

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

Of the lapsed HAWOB listed options Hawthorn Resources Limited Director, Mr M G Kerr, had a declared interest in 9,425,000 options all of which automatically lapsed on 28 February 2013.

In addition, the non-quoted options as shown below, by mutual agreement between the Company and the respective holders, were cancelled in December 2012

Number	Maturity Date	Issue Price	Exercise Price	Exercise Period
2,500,000	30 June 2018	nil	A\$0.10	Under Terms and Conditions of the employee share option plan
Number	Maturity Date	Issue Price	Exercise Price	Exercise Period
10,000,000	25 January 2018	nil	A\$0.10	Under Terms and Conditions of the employee share option plan and a resolution of shareholders in the General Meeting held in January 2008

8 Directors' Interests in Shares and Options (Securities)

The declared relevant interest of each Director in the securities of the Company as disclosed by that Director to the Company and the ASX as at the date of this Report and as at 30 June 2013 is unchanged:

(A) Personal

Director	Ordinary Shares		Options	
	2014	2013	2014	2013
M G Kerr *	2,659,379	2,659,379	nil	nil
M E Elliott *	1,075,000	1,075,000	nil	nil
D S Tyrwhitt	nil	nil	nil	nil
Liao, Yongzhong	nil	nil	nil	nil
Li, Yijie	nil	nil	nil	nil
Ye, Xiozhui	nil	Nil	nil	nil

Hawthorn Resources Limited Directors' Report

* (B) Legacy Iron Ore Limited

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

	<u>Pre-consolidation</u>	<u>Post -consolidation</u>
• Mr M G Kerr	53,187,572	2,659,379
• Mr M E Elliott	21,500,000	1,075,000
• Legacy Iron Ore Limited	<u>251,500,000</u>	<u>12,575,000</u>
• Total	<u>326,187,572</u>	<u>16,309,379</u>

The Agreement was for a period which commenced on the date of the Agreement (3 October 2010) and ended on its second anniversary in October 2012.

* (C) Feng Hua Mining Investment Holding (HK) Limited

In August 2012 it was announced that Messrs. M Kerr and M Elliot would be entering into a Co-operation Deed ("Agreement") with Feng Hua Mining Investment Holding (HK) Limited ("Feng Hua") in relation to their respective entitlements to shares in Hawthorn Resources Limited. As a result of the announced intention to enter in to the Agreement each of the parties to the Agreement was deemed to have an interest in all of the ordinary Hawthorn Resources Limited shares in which each has a declared interest from time to time:

Pre Consolidation and following the receipt of all regulatory and shareholder approvals Feng Hua was issued with an aggregate of 1,287,927,651 new ordinary shares in two tranches: 320,616,224 in October 2012 and 967,211,427 in April 2013:

	<u>Pre-consolidation</u>	<u>Post -consolidation</u>
• Mr M G Kerr	53,187,572	2,659,379
• Mr M E Elliott	21,500,000	1,075,000
• Feng Hua Mining Investment Holding (HK) Limited	<u>1,287,827,651</u>	<u>64,391,383</u>
• Total	<u>1,362,515,223</u>	<u>68,125,762</u>
• Number of Shares on Issue	<u>3,425,269,144</u>	<u>171,263,644</u>
• Percentage of Shares on issue	39.78%	39.78%

The Co-Operation Period of the Agreement itself, as executed in April 2013, for a period which commenced on the date of the signed Agreement (30 April 2013) and ending on the first to occur of the following:

- (i) a Takeover Event;
- (ii) Mr Kerr or Mr Elliott breach their duties as director of Hawthorn Resources;
- (iii) the earliest date that neither Mr Kerr or Mr Elliott is a director of Hawthorn Resources Limited; and
- (iv) the third anniversary of the date of the Agreement

Hawthorn Resources Limited Directors' Report

9 Meetings of Directors

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

	BOARD *		AUDIT COMMITTEE **	
	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED
M G Kerr	3	3	2	2
D S Tyrwhitt	3	3	2	2
M E Elliott	3	3	2	2
Liao, Yongzhong	3	3		
Li, Yijie	3	2		
Ye, Xiaohui	3	3		

Note:

* In between Board Meetings Directors passed a total of 6 circulating resolutions which were then noted and ratified at the next occurring Board meeting

** Audit, Compliance and Corporate Governance Committee considerations are, when required, held within Board Meetings and Chaired by Dr Tyrwhitt.

10 Company Secretary

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

11 Directors and Officers Indemnity and Auditor Indemnity

Directors:

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

Auditors:

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

Hawthorn Resources Limited Directors' Report

12 Environment

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

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

13 Non- Audit Services

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

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

	2014 \$	2013 \$
Statutory audit		
Auditors of the Company - BDO		
- audit and review of financial reports	47,000	45,250
Other Services – BDO		
- other non-audit services	0	0
Total fees	<u>47,000</u>	<u>45,250</u>

14 Remuneration Report – Audited

(a) Equity Holdings and Transactions – Key Management Personnel

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

Hawthorn Resources Limited

Directors' Report

(i) Options held over unissued shares in Hawthorn Resources Limited

2014

	Balance at start of year	Granted as compensation	Exercised	Cancelled/Expired	Balance at end of the year	Vested and exercisable	Unvested
Mark Kerr	-	-	-	-	-	-	-
Mark Elliott	-	-	-	-	-	-	-
David Tyrwhitt	-	-	-	-	-	-	-
Liao, Yongzhong	-	-	-	-	-	-	-
Li, Yijie	-	-	-	-	-	-	-
Ye, Xiaohui	-	-	-	-	-	-	-

2013

	Balance at start of year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Mark Kerr	14,428,000	-	-	(14,428,000)	-	-	-
Mark Elliott	5,000,000	-	-	(5,000,000)	-	-	-
David Tyrwhitt	-	-	-	-	-	-	-
Liao, Yongzhong	-	-	-	-	-	-	-
Li, Yijie	-	-	-	-	-	-	-
Ye, Xiaohui	-	-	-	-	-	-	-

(ii) Fully paid ordinary shares issued by Hawthorn Resources Limited:

2014

	Held at 1 July 2013 No.	Granted as compensation No.	Received on exercise of options No.	Other change No.	Held at 30 June 2014
Mark Kerr	2,659,379	-	-	-	2,659,379
Mark Elliott	1,075,000	-	-	-	1,075,000
David Tyrwhitt	-	-	-	-	-
Liao, Yongzhong	-	-	-	-	-
Li, Yijie	-	-	-	-	-
Ye, Xiaohui	-	-	-	-	-

2013

	Held at 1 July 2012 No.	Granted as compensation No.	Received on exercise of options No.	Other change No. (i)	Held at 30 June 2013
Mark Kerr	53,187,572	-	-	(50,528,193)	2,659,379
Mark Elliott	21,500,000	-	-	(20,425,000)	1,075,000
David Tyrwhitt	-	-	-	-	-
Liao, Yongzhong	-	-	-	-	-
Li, Yijie	-	-	-	-	-
Ye, Xiaohui	-	-	-	-	-

Note: (i) Other changes relate to directors ceasing to be directors of or commencing as directors of Hawthorn Resources Limited or acquiring or disposing of fully paid ordinary shares, or share consolidation;

(ii) During the year ended 30 June 2013, the Company undertook a consolidation of ordinary shares on a 1 for 20 basis. The change in shareholding of Mr Kerr and Mr Elliott is solely as a result of the consolidation of ordinary shares.

Hawthorn Resources Limited Directors' Report

(b) Other Key Management Personnel Transactions

(i) Management Services – Berkeley Consultants Pty Ltd

The Company entered into a service arrangement with Berkeley Consultants Pty Ltd (“Berkeley Consultants”) effective from 1 April 2008 to replace AXIS Consultants Pty Ltd and to provide the Company with fully serviced corporate office facilities at Level 2, 90 William Street, Melbourne, Victoria.

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

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

Total fees paid or due during the 30 June 2014 financial year was unchanged and amounted to \$315,000 plus GST (2013: \$315,000) for the provision for fully serviced office facilities at 90 William Street, Melbourne.

Details of transactions with Berkeley Consultants Pty Ltd, before GST, are as follows:

	Consolidated	
	2014	2013
	\$	\$
<u>At year end</u>		
Receivable (current)	-	-
Payable (current)	-	-
<u>During the year</u>		
Fees for fully serviced office and ancillary services	315,000	315,000

Given the nature of the related party interest in this matter the non-related directors of the Company, in March 2014 conducted the annual review of the provision of serviced office facilities and executive functions offered to the Hawthorn Resources group of companies by Berkeley Consultants Pty Ltd noting the terms and procedures set out in Section 195 of the Corporations Act and approved an extension to the term of the arrangement to 31 December 2016 for the provision of fully serviced office facilities at Level 2, 90 William Street, Melbourne, Victoria and thereafter on a month to month basis.

In considering the extension of the Agreement to 31 December 2016 and the services to be provided by Berkeley Consultants Pty Ltd to the Hawthorn Resources group of companies the non-related non-executive directors noted the following:

- (i) the terms proposed are similar to the previous arrangements being on arms-length commercial terms;
- (ii) the proposal includes provision of serviced offices with reception, boardroom and other facilities as required payable quarterly in advance.

Hawthorn Resources Limited Directors' Report

(c) Overview of Company Performance on Remuneration Structures

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

	2014	2013	2012	2011	2010
	consolidated	consolidated	consolidated	consolidated	consolidated
Revenue	499,578	170,354	54,857	131,904	687,885
Net profit / (loss)	(1,604,405)	(1,886,339)	(1,752,131)	(1,685,681)	(2,546,634)
Exploration Expenditures	3,396,620	2,241,154	1,759,357	1,698,576	1,759,357
Basic earnings per share					
Pre-Consolidation		(0.075)	(0.092)	(0.099)	(0.176)
Post-Consolidation	(0.937)	(1.499)	(1.832)		
Diluted earnings per share					
Pre-Consolidation		(0.075)	(0.092)	(0.099)	(0.176)
Post-Consolidation	(0.937)	(1.499)	(1.832)		
Net assets	22,959,704	24,564,109	11,988,381	10,171,300	10,362,681

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

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

(d) Non-Executive Directors

Total remuneration for all Non-Executive Directors, last voted upon by shareholders at the General Meeting held on 25 January 2008, is not to exceed \$300,000 per annum. The future aggregate of the expanded number of Non-Executive Directors' base fees, including the Chairmanship of the Board of Directors, on an **annualised basis** as of the date of this Report is now \$215,000 per annum (2013: \$215,000) before the compulsory superannuation levy as set out in the Table at 14 (f) below. Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main board activities and membership of board committee. Non-Executive Directors do not receive any benefits on retirement.

However, and as permitted under the Company's Constitution Non-Executive Directors are entitled to receive payment for services provided which are over and above their normal directorial duties and which have been specifically requested by the Board of Directors. To this end the Company has entered into consultancy agreements with both Mr M G Kerr and Dr D S Tyrwhitt to secure their respective professional, consultancy services to 31 December 2014 at an hourly rate of \$300. Such additional service, consultancy fees are in addition to directors' fees and are outside of the shareholder approved aggregate for directors' fees.

Hawthorn Resources Limited Directors' Report

(e) Executive Directors Remuneration

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

The Company's Managing Director/CEO, Mr M E Elliott, is remunerated under an Executive Service Agreement.

In March 2014 the non-related members of the Board of Directors reviewed the Executive Service Agreement and resolved that the term of the Agreement be extended to 31 December 2015

The key elements of the Agreement are now:

- (i) Term: to 31 December 2015;
- (ii) Remuneration: \$147,000 a year plus government superannuation levy
- (iii) Bonus: the Board of Directors may, in its absolute discretion, set performance criteria which if met will entitle a bonus of 50 per cent of the annual remuneration to be paid in respect of each Financial Year or pro rata Financial Year;
- (iv) Termination: In addition to the expiry of the term noted in item (i) above, either the Company or the Executive may give notice of termination. In addition, the Service Agreement may be summarily terminated by the Company without notice or compensation in lieu of notice where certain stated events have occurred;
- (v) Termination Benefits: subject to an entitlement to a bonus there are no other amounts payable on Termination

No performance based remuneration was paid or is payable for the 30 June 2014 financial year (2013: NIL)

(f) Performance-Linked Remuneration

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

Long-Term Incentive

2005 Employee Share Option Plan (*)

Background:

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

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

Hawthorn Resources Limited Directors' Report

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

The following table discusses options that had been issued to key management personnel under the Plan and which by mutual agreement were cancelled in December 2012.

<i>M G Kerr – Chairman/Non-Executive</i> Director	FY 2014	FY 2013
Appointed 22 November 2007		
Date of issue	nil	25 January 2008
Number of options	nil	5,000,000
Issue price	nil	nil
Exercise price	nil	\$0.10
Value of options	nil	\$126,000
Expiry date	nil	25 January 2018
Number of options vested during the year		nil
% vested in year	nil	0%
% cancelled in year	nil	100%
Value yet to vest (unaudited)		
- minimum	nil	nil
- maximum	nil	nil
Number of options on issue		
- at 1 July	nil	5,000,000
- at 30 June	nil	nil

Hawthorn Resources Limited Directors' Report

M E Elliott– Managing Director/CEO	2014	2013
Appointed 22 November 2007		
Date of issue	nil	25 January 2008
Number of options	nil	5,000,000
Issue price	nil	nil
Exercise price	nil	\$0.10
Value of options	nil	\$126,000
Expiry date	nil	25 January 2018
Number of options vested during the year	nil	nil
% vested in year	nil	0%
% cancelled in year	nil	100%
Value yet to vest (unaudited)		
- minimum	nil	nil
- maximum	nil	nil
Number of options on issue		
- at 1 July	nil	5,000,000
- at 30 June	nil	nil

- 1 Details concerning the valuation methodology and key assumptions made in the option valuations are set out on the preceding pages.
- 2 All of the above options vested upon grant pursuant to the resolution of shareholders in General Meeting in January 2008.
- 3 As noted above the options issued to Mr Kerr and Mr Elliott in 2008 per shareholders resolutions were, by mutual agreement, cancelled in December 2012.
- 4 Number of options granted in the 30 June 2014 financial year – NIL (2013: Nil)
- 5 Number of options cancelled in the 30 June 2014 financial year – NIL (2013: 10,000,000)

Accordingly, as at 30 June 2014 and as the date of this Report there are no Employee Share Options on issue.

(*) Since the establishment of the Plan in 2005 there have been numerous changes to the legislation dealing with employee incentives . As such, the Plan is considered outdated and obsolete and the Board of Directors has under consideration alternative and appropriate short and long term incentive proposals.

(g) Details of Directors, Executives and Remuneration

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

(a) Directors

Mark G Kerr – Chairman and Non-Executive Directors (appointed 22 November 2007)
Mark E Elliott – Managing Director / CEO (appointed 22 November 2007)
David S Tyrwhitt – Non Executive Director (appointed 14 November 1996)
Liao, Yongzhong – Non Executive Director (appointed 30 October 2012)
Li, Yijie – Non Executive Director (appointed 30 October 2012)
Ye, Xiaohui – Non Executive Director (appointed 30 April 2013)

Hawthorn Resources Limited Directors' Report

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

		Primary		Post-employment	Other Services	Total \$	s300A (1)(e)(i) Proportion of remuneration performance related %	s300A (1)(e)(vi) Value of options as proportion of remuneration %
		Salary & fees \$	Non-monetary benefits \$	Superannuation \$	See notes (ii) & (iv) \$			
Directors								
<i>Executive</i>								
M E Elliott (i)	2014	143,500	-	13,274	-	156,774	nil	n.a.
	2013	140,000	-	12,600	-	152,600	nil	n.a.
<i>Non-Executive</i>								
M G Kerr (ii)	2014	75,000	-	6,937	-	81,937	nil	n.a.
	2013	75,000	-	6,750	80,000	161,750	nil	n.a.
D S Tyrwhitt (iv)	2014	50,000	-	4,625	103,500	158,125	nil	n.a.
	2013	50,000	-	4,500	47,100	101,600	nil	n.a.
Liao, Yongzhong	2014	30,000	-	-	-	30,000	nil	n.a.
	2013	20,000	-	-	-	20,000	nil	n.a.
Li, Yijie	2014	30,000	-	-	-	30,000	nil	n.a.
	2013	20,000	-	-	-	20,000	nil	n.a.
Ye, Xiaohui	2014	30,000	-	-	-	30,000	nil	n.a.
	2013	5,000	-	-	-	5,000	nil	n.a.
Total all Directors	2014	358,500	-	24,836	103,500	486,836	-	-
	2013	310,000	-	23,850	127,100	460,950	-	-
Total all Directors & Executives	2014	358,500	-	24,836	103,500	486,836	-	-
	2013	310,000	-	23,850	127,100	460,950	-	-

- (i) In May 2009 and as announced to the ASX Mr Elliott was appointed to the position of Managing Director and CEO. Following the annual review by directors in March 2014 and as announced to the ASX, the service agreement with Mr Elliott has been extended to 31 December 2015 on the same terms and conditions;
- (ii) In addition to directors duties Mr Kerr undertook additional duties at the request of the Board of Directors and received amounted to \$nil (2013: \$80,000) in consulting fees;
- (iii) In addition to the above disclosed remuneration, \$315,000 (2013: \$315,000) was paid to Berkeley Consultants Pty Ltd during the year for serviced office facilities as noted in item Note No. 14(a). Mr Kerr and Mr Elliott have a material personal interest in the transactions through their interests in Berkeley Consultants Pty Ltd;
- (iv) In addition to directors duties Dr Tyrwhitt undertook additional exploration 'field' duties at the request of the Board of Directors and received \$103,500 (2013: \$47,100) in consulting fees; and

There were no short term cash bonuses, post employment prescribed benefits, termination benefits or insurance premiums paid during the 30 June 2014 financial year (2013: Nil).

Hawthorn Resources Limited
Directors' Report

Auditor's Independence Declaration:

The auditor's independence declaration as required under Section 307 C of the Corporations Act 2001 is set out on page 33.

Signed, in accordance with a resolution of the Board of Directors at Melbourne, this 30th day of September 2014.

A handwritten signature in dark ink, reading "Mark Kerr". The signature is written in a cursive style with a horizontal line underneath it.

Mark Kerr
Chairman

Hawthorn Resources Limited

Corporate Information

Corporate Governance Statement

Corporate Governance Practices and Conduct

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

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

	Recommendation	Comply Yes/No	Reference/explanation	ASX Listing Rule/Recommendation
	Principle 1 - Lay solid foundations for management and oversight			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	Pages 20 and 27	ASX LR 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Pages 22 and 23	ASX LR 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes		ASX LR 1.3
	Principle 2 - Structure the board to add value			
2.1	A majority of the board should be independent directors.	No	Pages 21 and 22	ASX LR 2.1
2.2	The chair should be an independent director.	No	Pages 22 and 28	ASX LR 2.2
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes	Pages 21 and 29	ASX LR 2.3
2.4	The board should establish a nomination committee.	No	Pages 22 and 29	ASX LR 2.4
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes	Page 21	ASX LR 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes		ASX LR 2.6
	Principle 3 - Promote ethical and responsible decision-making			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: _ The practices necessary to maintain confidence in the company's integrity. _ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders. _ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Page 30	ASX LR 3.1
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Yes	Page 30	ASX LR 3.2
3.3	Companies should provide the information indicated in the guide to reporting on Principle 3	Yes		ASX LR 3.3
	Principle 4 - Safeguard integrity in financial reporting			
4.1	The board should establish an audit committee.	Yes	Pages 23 and 29	ASX LR 4.1
4.2	The audit committee should be structured so that it: Consists only of non-executive directors Has at least three members _ Consists of a majority of independent directors _ Is chaired by an independent chair, who is not chair of the board	No	Page 23	ASX LR 4.2 ASX LR 12.7
4.3	The audit committee should have a formal charter.	No	Page 29	ASX LR 4.3

Hawthorn Resources Limited Corporate Information

4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	No		ASX LR 4.4
	Principle 5 - Make timely and balanced disclosure			
5.1	Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Pages 22 and 26 and 31	ASX LR 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	No		ASX LR 5.2
	Principle 6 - Respect the rights of shareholders			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 26 and 31	ASX LR 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes		ASX LR 6.2
	Principle 7 - Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Pages 24 and 25	ASX LR 7.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	Yes	Pages 24 and 25 and 29 and 30	ASX LR 7.2
7.3	The board should disclose whether it has received assurance from the chief executive officer [or equivalent] and the chief financial officer [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 25	ASX LR 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes		ASX LR 7.4
	Principle 8 – Remunerate fairly and responsibly			
8.1	The board should establish a remuneration committee.	No	Page 26	ASX LR 8.1
8.2	Companies should clearly distinguish the structure of nonexecutive directors' remuneration from that of executive directors and senior executives.	Yes	Page 26	ASX LR 8.2
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes		ASX LR 8.3

Hawthorn Resources Limited's corporate governance practices were in place throughout the year ended 30 June 2014.

Board Functions

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

Hawthorn Resources Limited Corporate Information

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

The Directors in office at the date of this statement, their skills, experience, expertise and period of directorship are detailed in the Directors' Report. In respect of the attendance at Board and Committee Meetings, shareholders are referred to the table of Meeting Attendance contained on page 9.

Structure of the Board

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

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

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

Name	Position and status	Term in Office
Non-executive directors		
Mark G Kerr	Chairman and Non-Executive Director	6.6 years
David S Tyrwhitt	Non-Executive Director Chairman – Audit, Compliance & Corporate Governance Committee	17.6 years
Liao, Yongzhong	Non-Executive Director	1.6 years
Li, Yijie	Non-Executive Director	1.6 years
Ye, Xiaohui	Non-Executive Director	1.2 years
Executive directors		
Mark E Elliott	Managing Director/ CEO	6.6 years

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

Composition of the Board

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

Hawthorn Resources Limited

Corporate Information

In June 2013 the Board of Directors undertook its annual review of the status of each Director and reached the opinion that each Director, apart from Mr Elliott, could be classified as a Non-Executive Director. In addition, this assessment has concluded Dr Tyrwhitt qualified as an Independent Director. Mr Kerr, whilst considered to be a Non-Executive Director, is not regarded as an Independent Director due to the level of entitlement to the Company's ordinary shares and the ongoing contractual serviced office arrangements with Berkeley Consultants Pty Ltd – a company in which Mr Kerr has a prescribed interest. Messrs Liao, Yongzhong, Li, Yijie and Ye, Xiaohui are directors nominated by Feng Hua Mining Investment Holding (HK) Limited pursuant to its rights under the August 2012 Share Subscription Agreement. As such, whilst they are Non-Executive Directors they are not regarded as Independent Directors.

Board Responsibilities

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

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

- Implementation of operating plans and budgets by management and Board monitoring of progress against budget – this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- Procedures to allow Directors, in the furtherance of their duties, to seek independent professional advice at the company's expense;
- The review and approval of acquisitions and disposals of businesses and assets, and the approval of contracts and financing arrangements within defined limits; and
- The appointment of an outsourced service provider, which is responsible for managing the Company's public image and communication with shareholders.

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

Nomination and Membership

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

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

Independent Professional Advice

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

Timely and Balanced Disclosure

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

Hawthorn Resources Limited

Corporate Information

Performance

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

Trading Policy

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

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

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

Board of Directors and its Committees

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

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

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

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

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

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

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

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

- The review of the Audit Programme and all matters relevant to the financial affairs of the Company's activities together with the production of Statutory Financial Reports inclusive of the Reports and Declarations by Directors.

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

Nomination Committee

The Company does not have a Nomination Committee. The Board believes that with six directors of which only three Directors on the Board are normally resident in Australia, the Board itself is the appropriate forum to deal with this function.

Share Allotment Committee

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

Internal Control Framework and Ethical Standards

The Board of Directors seeks to identify the expectations of shareholders as well as other regulatory and ethical expectations and obligations.

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

Risk

The board has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the company's approach to creating long-term shareholder value.

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

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

Hawthorn Resources Limited Corporate Information

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

Business Risk

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

- Failure to identify and develop commercial undertakings from the exploration research and development activities
- Ability to raise capital or generate free cash flow to fund future exploration and development activities
- Failure to market the company's mining resources
- General economic factors including those affecting interest rates, mineral commodity prices and exchange rates
- Changes in Corporations and Taxation Laws

Occupational Health and Safety

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

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

CEO and CFO Certification

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

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

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

Hawthorn Resources Limited

Corporate Information

Remuneration

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

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

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

Shareholder Communication Policy

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

- Ensuring that shareholders and the financial markets are provided with full and timely information about Hawthorn's activities in a balanced and understandable way.
- Complying with continuous disclosure obligations contained in applicable ASX listing rules and the Corporations Act in Australia.
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with Hawthorn Resources Limited.

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

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

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

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

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

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

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

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

1 Board of Directors

(i) Board Responsibilities

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

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

Hawthorn Resources Limited

Corporate Information

(ii) Board Composition

While the Company's Constitution fixes the maximum number of Directors at twelve, the Board currently comprises one Executive Director and five Non-Executive Directors.

The Company does not have a majority of Independent Directors.

The Chairman of the Board, Mr M Kerr, is not considered as independent in accordance with the ASX Corporate Governance Council definitions and recommendations due to the level of entitlement to the Company's ordinary shares and the ongoing contractual serviced office arrangements with Berkeley Consultants Pty Ltd – a company in which Mr Kerr has a prescribed interest. Similarly, Messrs Liao, Yongzhong, Li, Yijie and Ye, Xiaohui appointment to the Board of Directors are directors nominated by Feng Hua Mining Investment Holding (HK) Limited pursuant to its rights under the August 2012 Share Subscription Agreement as such whilst they are Non-Executive Directors they are not regarded as Independent Directors.

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

(iii) Appointment/retirement of Directors

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

(iv) Board Meetings

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

(v) Directors' Remuneration

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

(vi) External Advice to Directors

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

Hawthorn Resources Limited

Corporate Information

2 Board Committees

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

(i) Remuneration Committee

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

i. Audit , Compliance and Corporate Governance Committee (“Audit Committee”)

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

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

ii. Nomination Committee

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

3 Role of Management

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

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

Hawthorn Resources Limited

Corporate Information

4 Risk Management

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

i. Environment

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

ii. Occupational Health and Safety

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

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

iii. Financial Reporting

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

5 Code of Conduct

i. Ethical Standards

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

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

ii. Share Trading

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

6 Continuous Disclosure Compliance

The Company's continuous disclosure compliance procedure enables it to meet its obligations and to ensure that all matters, which may require announcement to the Australian Securities Exchange, are brought to the attention of Directors immediately. Corporate Governance and Compliance is a 'standing' Agenda item for Board of Directors meetings.

Hawthorn Resources Limited

Corporate Information

7 Communicating with Shareholders

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

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

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

8 Diversity

The Hawthorn Board of Directors adopted a policy on Diversity in July 2011.

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

In this Annual Report the Board of Directors note the following:

Whilst Hawthorn Resources Limited as a small exploration entity seeks to restrict the size of its staffing by the outsourcing of such functions as accounts preparation; secretarial and exploration services; mining tenement management and share registry services to experienced professionals it recognises the value contributed to an organisation by employing or engaging people with varying skills, cultural backgrounds, ethnicity and experience. Hawthorn Resources believes that the quality of the workforce is the key to its continued growth, improved productivity and performance. As at the date of this report apart from the members of the Board of Directors the Company has one direct employee.

The Company actively values and embraces the diversity of our employees/ out-sourced consultants and are committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated. While Hawthorn Resources is committed to fostering diversity at all levels, the professional industry experience and quality of performance has been and continues to be a priority for the Company in engaging services to carry out the Company's works programme.

To this end, the Company supports and complies with the recommendations contained in the ASX *Corporate Governance Principles and Recommendations*. The Company has established a diversity policy outlining the board's measurable objectives for achieving diversity. This is assessed annually to measure the progress towards achieving those objectives. The diversity policy is available in the corporate governance section on the Company's website.

Broadly, the Company's measurable objectives are as follows:

- ▶ Hawthorn Resources' state and re-state where necessary that there are no forms of discrimination/bias in considering anyone for a position with the Company either as an employee or service provider, i.e.. on grounds of gender; age; physical appearance; origins; race; religion; marital status; sexual preference; pregnancy or likely pregnancy; political leanings; disabilities;

Hawthorn Resources Limited Corporate Information

- ▶ All new appointments or promotion / career enhancement and remuneration be on the basis of merit and ability to carry out the work responsibilities;
- ▶ Within the broad ambit of ensuring that the Company's activities are best developed and to ensure harmony of working within the Company that there be flexibility in working hours to enable domestic/private lives to allow for a balance between career and family obligations;
- ▶ Consideration be given to job sharing in such circumstances that would permit sharing.

The table below outlines the diversity within Hawthorn Resources Limited.

Level	Male		Female		Total
	Number	%	Number	%	
Board	6	100%	0	0%	6
Key Management personnel	0	0%	0	0%	0
Other staff	0	0%	1	100%	1
Total	6	100%	1	100%	5

As noted, the Hawthorn Resources Limited Board of Directors adopted the policy on diversity in July 2011.

DECLARATION OF INDEPENDENCE BY JAMES MOONEY TO THE DIRECTORS OF HAWTHORN RESOURCES LIMITED

As lead auditor of Hawthorn Resources Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hawthorn Resources Limited and the entities it controlled during the period.



James Mooney
Partner

BDO East Coast Partnership

Melbourne, 30 September 2014

HAWTHORN RESOURCES LIMITED

ABN 44 009 157 439

FINANCIAL REPORT YEAR ENDED 30 JUNE 2014

Comprising:

Directors' Report including the Remuneration Report
Corporate Governance Statement
Auditor's Independence Declaration
Consolidated Statement of Profit or Loss and Other Comprehensive Income
Consolidated Statement of Financial Position
Consolidated Statement of Cash Flows
Consolidated Statement of Changes in Equity
Notes to the Consolidated Financial Statements
Directors' Declaration
Auditor's Independent Report

Hawthorn Resources Limited
Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the Year Ended 30 June 2014

		Consolidated	
	<u>Note</u>	2014 \$	2013 \$
Revenue from Continuing Operations			
Finance income	3	499,578	170,354
		499,578	170,354
Exploration expenditure impaired	10	(642,283)	(670,668)
Administration expenses		(1,446,332)	(1,378,498)
Depreciation expense		(15,368)	(5,115)
Impairment of available-for-sale investments		-	(2,412)
Loss before income tax		(1,604,405)	(1,886,339)
Income tax expense	4	-	-
Loss for the year after tax from continuing operations		(1,604,405)	(1,886,339)
Other comprehensive income		-	-
Total other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,604,405)	(1,886,339)
Loss attributable to members		(1,604,405)	(1,886,339)
Earnings per share		Cents	Cents
Basic loss per share for the year attributable to ordinary equity holders	5		
Post consolidation of ordinary shares – 1 for 20		(0.937)	(1.499)
Diluted loss per share for the year attributable to ordinary equity holders	5		
Post consolidation of ordinary shares- 1 for 20		(0.937)	(1.499)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes to the attached financial statements.

Hawthorn Resources Limited
Consolidated Statement of Financial Position as at 30 June 2014

		Consolidated	
	<u>Note</u>	2014	2013
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	6	9,560,743	14,366,582
Trade and other receivables	7	182,908	561,257
Other current assets	8	6,168	5,897
Total Current Assets		9,749,819	14,933,736
Non-Current Assets			
Other financial assets	9	2,542	1,155
Exploration expenditure	10	13,555,476	10,801,139
Plant and equipment	11	49,255	44,540
Total Non-Current Assets		13,607,273	10,846,834
TOTAL ASSETS		23,357,092	25,780,570
LIABILITIES			
Current Liabilities			
Trade and other payables	12	387,902	1,208,561
Employee benefits		9,486	7,900
Total Current Liabilities		397,388	1,216,461
TOTAL LIABILITIES		397,388	1,216,461
NET ASSETS		22,959,704	24,564,109
EQUITY			
Contributed equity	13	56,094,619	56,094,619
Reserves	14	1,667,974	1,667,974
Accumulated losses		(34,802,889)	(33,198,484)
TOTAL EQUITY		22,959,704	24,564,109

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

Hawthorn Resources Limited
Consolidated Statement of Cash Flows for the Year Ended 30 June 2014

	Note	Consolidated	
		2014 \$	2013 \$
Cash flows from operating activities			
Payments in the course of operations		(2,330,775)	(1,141,440)
Interest received		499,578	170,354
Net cash used in operating activities	17 (a)	(1,831,197)	(971,086)
Cash flows from investing activities			
Payments for exploration expenditure		(2,953,838)	(1,971,548)
Payments for plant & equipment		(20,083)	(42,670)
Payments for share acquisition		(721)	-
Net cash used in investing activities		(2,974,642)	(2,014,218)
Cash flows from financing activities			
Proceeds from issue of share capital		-	14,962,090
Payment of fees in relation to issue of share capital		-	(500,023)
Net cash provided by financing activities		-	14,462,067
Net increase/(decrease) in cash and cash equivalents		(4,805,839)	11,476,763
Cash and cash equivalents at beginning of year		14,366,582	2,889,819
Cash and cash equivalents at end of year	6	9,560,743	14,366,582

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

Hawthorn Resources Limited
Consolidated Statement of Changes in Equity

		Contributed Equity	Accumulated Losses	Available For Sale Reserve	Employee Equity Benefit Reserve	Total Equity
		\$	\$	\$	\$	\$
CONSOLIDATED	<u>Note</u>					
At 1 July 2012		41,632,552	(31,312,145)	-	1,667,974	11,988,381
Loss for the year		-	(1,886,339)	-	-	(1,886,339)
Other comprehensive income		-	-	-	-	-
Total comprehensive income/(loss) for the year net of tax		-	(1,886,339)	-	-	(1,886,339)
Transactions with owners in their capacity as owners:						
Issue of share capital	13	14,962,090	-	-	-	14,962,090
Share issue costs	13	(500,023)	-	-	-	(500,023)
At 30 June 2013		56,094,619	(33,198,484)	-	1,667,974	24,564,109
Loss for the year		-	(1,604,405)	-	-	(1,604,405)
Other comprehensive income		-	-	-	-	-
Total comprehensive income/(loss) for the year net of tax		-	(1,604,405)	-	-	(1,604,405)
At 30 June 2014		56,094,619	(34,802,889)	-	1,667,974	22,959,704

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

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

The consolidated financial report of the Company as at and for the year ended 30 June 2014 comprises the Company and its subsidiaries. The financial report was authorised for issue by the Directors on the date of this report.

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

(b) Basis of Preparation

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

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

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make significant judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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

GOING CONCERN

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

The Group incurred a net consolidated loss for the year of \$1,604,405 (2013: \$1,886,339) and had a net cash consolidated outflow from operations of \$1,831,197 (2013: \$971,086). At 30 June 2014, the company has net current assets of \$9,352,431 (2013: \$13,717,275). The Group has cash of \$9,560,743 at 30 June 2014, which is sufficient to meet its operating costs for at least the next 12 months.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Statement of Compliance

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

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

(d) Summary of Significant Accounting Policies

(i) Foreign currency translation

The financial report is presented in Australian dollars, which is Hawthorn Resources Limited's functional and presentation currency.

(ii) Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

(iv) Revenue

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

Interest

Interest revenue is recognised as the interest accrues.

(v) Finance Costs

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

(vi) Leases

Operating lease payments are recognised as an expense in the "consolidated statement of profit or loss and other comprehensive income" on a straight-line basis over the lease term.

(vii) Cash and Cash Equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and short-term deposits whose maturity is within three months or less from balance date, net of bank overdrafts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(viii) Receivables

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

(ix) Impairment of Assets

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

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

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

(x) Income Tax

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the "consolidated statement of profit or loss and other comprehensive income".

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

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

(xi) Other Taxes

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

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

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

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

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

(xii) Other Financial Assets

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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

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

(xiii) Plant and Equipment

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

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

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

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

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

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

(xiv) Exploration

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

- (a) such costs are expected to be recovered through successful development and exploitation or by sale; or
- (b) where activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

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

The carrying values of expenditures carried forward are reviewed for impairment at each reporting date when the facts, events or changes in circumstances indicate that the carrying value may be impaired. Accumulated expenditures are written off to the "consolidated statement of profit or loss and other comprehensive income" to the extent to which they are considered to be impaired.

The key points that are considered in this review include:

- planned drilling programs and data evaluation;
- environmental issues that may impact the underlying tenements; and
- the estimated market value of assets at the review date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

(xv) Joint Ventures

The interest of the Company in unincorporated joint ventures are brought to account by recognising in its financial statements, where the parties to the agreement have the rights to the net assets are accounted for using the equity method.

(xvi) Trade and Other Payables

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

(xvii) Interest-Bearing Borrowings

Interest-bearing borrowings are recognised at cost. After initial recognition interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the statement of profit or loss and other comprehensive income over the period of the borrowings on an effective interest basis.

(xviii) Provisions

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

(xix) Share-Based Payments

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

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

(xx) Contributed Equity

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

(xxi) Critical Accounting Estimates and Judgments

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(xxi) Critical Accounting Estimates and Judgments (Cont'd)

Key Estimates

(i) Impairment

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

Key Judgments

(ii) Exploration and Evaluation Expenditure

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

(iii) Key sources of estimation uncertainty

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

(xxii) Principles of Consolidation

Subsidiaries

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

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

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

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

(e) Financial Risk Management

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Financial Risk Management (Cont'd)

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

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

(f) Capital Management

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

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

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

New, revised or amending Accounting Standards and Interpretations adopted (cont'd)

AASB 11 Joint Arrangements

The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

New, revised or amending Accounting Standards and Interpretations adopted (cont'd)

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

The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments

The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

New Accounting Standards and Interpretations not yet mandatory or early adopted (cont'd)

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amend AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and allow entities that meet the definition of an 'investment entity' to account for their investments at fair value through profit or loss. An investment entity is not required to consolidate investments in entities it controls, or apply AASB 3 'Business Combinations' when it obtains control of another entity, nor is it required to equity account or proportionately consolidate associates and joint ventures if it meets the criteria for exemption in the standard. The adoption of these amendments from 1 July 2014 will have no impact on the consolidated entity.

Annual Improvements to IFRSs 2010-2012 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affect several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segment assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

New Accounting Standards and Interpretations not yet mandatory or early adopted (cont'd)

Annual Improvements to IFRSs 2011-2013 Cycle

These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

The consolidated entity has not yet determined the eventual effect of the above standards, amendments to standards and interpretations, however at this stage it is not thought to be material.

2. OPERATING SEGMENTS

The consolidated entity has adopted AASB 8 Operating Segments whereby segment information is presented using a "management approach". Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The consolidated entity operates predominately in one geographical location. The consolidated entity does have any operating segments with discrete financial information. The consolidated entity does not have any customers outside Australia, and all the consolidated entity's assets and liabilities are located within Australia.

The Board of Directors review internal management reports at regular intervals that are consistent with the information provided in the consolidated statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required because the information as presented is what is used by the Board of Directors to make strategic decision including assessing performance and in determining the allocation of resources.

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

3 REVENUE AND EXPENSES

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

	Consolidated	
	2014 \$	2013 \$
(i) Finance income		
Interest	499,578	170,354
Total finance income	499,578	170,354
(ii) Director expenses		
Salaries	358,500	310,000
Superannuation	24,836	23,850
Consulting fees	103,500	127,100
Total Director expenses	486,836	460,950
(iii) Unrealised gain/(loss) on foreign exchange	(140)	493

4 TAXATION

(a) Income tax recognised in profit or loss

Tax expense comprises:

Current tax expense/(benefit)	(1,477,053)	(909,902)
Deferred tax expense relating to the origination and reversal of temporary differences	995,774	343,853
Tax losses not recognised	481,279	566,049
Income tax expense	-	-

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

Loss from operations	(1,604,405)	(1,886,339)
Income tax expense calculated at 30% (2013: 30%)	(481,321)	(565,902)
Tax effect of foreign account translations	42	(147)
Tax losses not recognised	481,279	566,049
Income tax expense	-	-

Income Tax Rate

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

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

4 TAXATION (CONT'D)

(b) Deferred tax asset liability balances not recognised

	Consolidated	
	2014	2013
	\$	\$
Non-current deferred tax liability comprises:		
Exploration costs	(4,048,943)	(3,097,842)
Amounts not recognised due to offset of deferred tax assets (detailed below)	4,048,943	3,097,842
	-	-
Deferred Tax Asset		
<i>Movements</i>		
Opening Balance	-	-
Credited to profit & loss and equity	(951,101)	(328,646)
Amount offset against deferred tax liability	951,101	328,646
Closing balance	-	-
Non-current deferred tax asset offsetting		
Deferred tax liabilities comprises:		
Investments	579,597	579,797
Share issue costs	95,913	128,869
Accruals and payables	16,229	28,222
Employee entitlements	2,846	2,370
Tax Losses utilised to offset DTL – (potential tax benefit at 30%)*	3,354,358	2,358,584
	4,048,943	3,097,842
Tax Loss amounts where benefit not recognised (potential benefit of 30%) **	20,925,163	20,704,489

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

** At 10 June 2008, the consolidated entity formed a tax consolidated group. These losses relate predominately to transferred losses incurred pre-tax consolidation. These losses are subject to further review by the consolidated entity to determine if they satisfy the necessary legislative requirements under the income tax legislation for the carry forward and recoupment of tax losses. Additionally, a deferred tax asset has not been recognised in respect of these items because at this stage of the Company's development, it is not currently considered that future taxable profit will be available against which the Company can utilise the benefits.

5 EARNINGS PER SHARE

Basic and diluted earnings per share

Basic and diluted earnings per share is calculated as follows:

Loss for the year	(1,604,405)	(1,886,339)
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Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

5 EARNINGS PER SHARE (CONT'D)

	Consolidated	
	2014 Number of shares	2013 Number of shares
Weighted average number of ordinary shares at the end of the financial year		
Pre consolidation		2,516,064,691
Post consolidation – 1 for 20	171,263,644	125,803,235
Earnings Per Share (cents)		
Pre consolidation		(0.075)
Post consolidation – 1 for 20	(0.937)	(1.499)

There were no outstanding options at reporting date (30 June 2013: NIL).

During the 2013 financial year, all options were non economically viable as to exercise at 10 cents per option when the market price was consistently less than 1 cent per share (pre-consolidation). At February 2013, all options had lapsed or been cancelled. As such at 30 June 2014 and 30 June 2013, there are no diluted earnings per share.

6 CASH AND CASH EQUIVALENTS

	Consolidated	
	2014 \$	2013 \$
Cash at bank	481,487	856,360
Term deposits	9,079,256	13,510,222
Total Cash and Cash Equivalents	9,560,743	14,366,582

7 TRADE AND OTHER RECEIVABLES

CURRENT

Joint Venture contribution	-	402,658
Other (i)	182,908	158,599
	182,908	561,257

(i) Other predominantly relates to GST receivable.
Trade and other receivables are current, not past due and not considered impaired.

8 OTHER CURRENT ASSETS

CURRENT

Prepayments	6,168	5,897
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Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

9 OTHER FINANCIAL ASSETS

Available for sale investments at fair value	1,801	1,135
Investments at fair value through the profit and loss	741	20
	2,542	1,155

10 EXPLORATION EXPENDITURE

	Consolidated	
	2014	2013
	\$	\$
Areas in the exploration phase At cost	13,555,476	10,801,139

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

Opening balance at 1 July	10,801,139	9,230,653
Costs incurred during the year	3,396,620	2,241,154
Exploration expenditure impaired during the year	(642,283)	(670,668)
Balance at 30 June	13,555,476	10,801,139

11 PLANT AND EQUIPMENT

Plant, equipment and motor vehicles		
Cost balance at 1 July	111,362	68,692
Acquisitions	20,083	42,670
Balance at 30 June	131,445	111,362
Accumulated depreciation		
Balance at 1 July	66,822	61,707
Depreciation charge for the year	15,368	5,115
Balance at 30 June	82,190	66,822
Carrying amounts		
At 1 July	44,540	6,985
At 30 June	49,255	44,540

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

12 TRADE AND OTHER PAYABLES

Payables and accrued expenses

387,902

1,208,561

13 CONTRIBUTED EQUITY

	Consolidated	
	2014 \$	2013 \$
Opening Balance	56,094,619	41,632,552
Issued October 2012 for cash pursuant to Fenghua consortium subscription – Tranche 1 (1.30c per share)	-	4,168,011
Transaction costs on share issue	-	(267,769)
Issued April 2013 for cash pursuant to Fenghua consortium subscription – Tranche 2 (1.11c per share)	-	10,794,079
Transaction costs on share issue	-	(232,254)
Balance at Year End	56,094,619	56,094,619

	2014 No. of Shares	2013 No. of Shares
Opening Balance	171,263,644	2,137,441,493
Issued October 2012 for cash pursuant to Fenghua consortium subscription – Tranche 1 (1.30c per share)	-	320,616,224
Issued April 2013 for cash pursuant to Fenghua consortium subscription – Tranche 2 (1.11c per share)	-	967,211,427
Balance	171,263,644	3,425,269,144
<u>Consolidation of ordinary shares on a 1 for 20 basis **</u>		
Cancellation of pre consolidation shares, and	-	(3,425,269,144)
Re-issue post consolidation shares	-	171,263,644
Balance at Year End	171,263,644	171,263,644

** Pursuant to a resolution of shareholders at the 2012 Annual General Meeting (AGM) in January 2013, the ordinary shares of the company were consolidated on a 1 for 20 basis on 15 May 2013.

Terms and Conditions of Issued Capital

Ordinary Shares (quoted): HAW

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

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

13 CONTRIBUTED EQUITY (CONT'D)

Options (quoted):

- (i) HAWOB: 165,084,231 options at an exercise price of \$0.10 lapsed automatically at close of business at 28 February 2013. None of these options were exercised during the year.

Options (unquoted)

- (i) 10,000,000 options at an exercise price of \$0.10 were cancelled by mutual agreement in December 2012. None of these options were exercised during the year.

The options were issued in January 2008, pursuant to a resolution of shareholders, whereby 10,000,000 options in total were issued at an exercise price of \$0.10 per option to the directors M. Kerr and M. Elliott.

- (ii) 2,500,000 options at an exercise price of \$0.10 were cancelled by mutual agreement in December 2012. None of these options were exercised during the year. Further details on unquoted options are included in Note 15.

14. RESERVES

Option premium reserve

Share based payment reserve

Consolidated	
2014	2013
\$	\$
1,459,349	1,459,349
208,625	208,625
1,667,974	1,667,974

Movement in reserves

Share based payment reserve:
at 1 July

Transfer of share based payment reserve upon
cancellation of employee share options

At 30 June

208,625	208,625
-	-
208,625	208,625

Option premium reserve

The option premium reserve represents the amounts contributed for the future right to acquire shares at a pre-determined price. The listed class of options details are ;

HAWOB lapsed on 28 February 2013.

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

14 RESERVES (CONT'D)

Available for sale investments at fair value reserve

The available for sale investments at fair value reserve represents the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised. No movement has occurred in this reserve in the current financial year (2013: Nil).

Share based payment reserve

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

15 SHARE BASED PAYMENTS

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

Grants of options made under this plan are as follows:

- (i) On 1 July 2008, 2,500,000 options were issued at an exercise price of \$0.10. Option holders must remain eligible (which would usually mean remaining eligible person although the Board has some discretion to allow continued participation in the event of an eligible person's death, mental incapacity, ill health, accident or redundancy) to participate in the plan throughout the one (1) year vesting period and can be exercised at any time following vesting up to 30 June 2018. These options were cancelled by mutual agreement in December 2012.
- (ii) 10,000,000 options were issued in January 2008 at an exercise price of \$0.10 per option which if exercised, will entitle the option holders to 1 fully paid share in the Company for each option. Options not exercised by 25 January 2018 will lapse. These options were cancelled by mutual agreement in December 2012. The options were issued pursuant to a resolution of shareholders at a general meeting, whereby 10,000,000 options in total were issued to directors M. Kerr and M. Elliott. (Refer below for further details on the terms of the options). These options were therefore granted outside of the share option plan disclosed above.

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

	2014		2013	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	-	-	\$0.100	12,500,000
Granted during the year	-	-	-	-
Cancelled during the year	-	-	-	(12,500,000)
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

The options outstanding at 30 June 2012 had an exercise price of \$0.10. These options were cancelled by mutual agreement in December 2012.

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

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

15 SHARE BASED PAYMENTS (CONT'D)

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

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

	2014	2013
	\$	\$
Employee expenses		
Total expense recognised as employee cost	-	-

The value of services received in return for share options granted have been expensed in prior periods (2013: Nil)

16. INTEREST IN JOINT VENTURES

	2014	2013
The Company has an interest in the following joint ventures:		
Edjudina – Pinjin (Metals X Limited)	80%	80%
Trouser Legs (Gel Resources Pty Limited)	70%	70%
Mt Bevan (Legacy Iron Ore Limited)	40%	40%

The principal activity of the joint ventures is mineral exploration.

Metals X Limited has a 20% interest that is free carried to decision to mine.

During the course of the 30 June 2011 financial year the company entered into a Joint Venture agreement with Legacy Iron Ore Limited ("Legacy") where Legacy can earn a 60% interest in the tenants known as the Mount Bevan Iron Ore project by expending a minimum of \$3.5 million to develop the project to a pre-feasibility status on or before 4th October 2012. At 30 June 2012, Legacy had spent the minimum expenditure requirements.

The Company's interest in this project is included in exploration expenditure (Note 10)

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

	Consolidated	
	2014	2013
	\$	\$
Assets		
Receivable JV contribution	-	402,658
Exploration expenditure	10,141,496	7,363,923
Total Assets	10,141,496	7,766,581
Liabilities		
Trade and other payables	59,000	475,000
Total Liabilities	59,000	475,000

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

Exploration		
Not later than 1 year	403,850	477,050
Later than one year but not later than five years	978,840	821,270
Later than five years but not later than twenty one years	1,857,200	1,831,900
Total	3,239,890	3,130,220

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

		Consolidated	
		2014	2013
		\$	\$
17	RECONCILIATION OF LOSS AFTER TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
<i>(a) Reconciliation of loss after tax to net cash used in operating activities</i>			
Loss for the year after tax		(1,604,405)	(1,886,339)
<i>Adjustment for:</i>			
Impairment of exploration expenditure		642,283	670,668
Unrealised gain/(loss) on foreign exchange		140	(493)
Impairment of available-for-sale investments		(665)	2,412
Depreciation		15,368	5,115
Net cash used in operating activities before change in assets and liabilities		(947,279)	(1,208,637)
<i>Change in assets and liabilities:</i>			
(Increase)/decrease in receivables and other assets		(64,845)	(54,898)
(Decrease)/increase in trade and other payables		(820,659)	288,196
Increase in provision for employee benefits		1,586	4,253
Net cash used in operating activities		(1,831,197)	(971,086)

(b) Reconciliation of cash

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

(c) Non cash financing and investing activities

During the year, there was no non cash financing or investing activities (2013: Nil)

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

18 COMMITMENTS

(a) Exploration

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

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

	Consolidated	
	2014	2013
	\$	\$
Not later than one year	1,199,797	1,189,550
Later than one year but not later than five years	3,017,112	1,491,630
Later than five years but not later than twenty one years	2,034,000	2,192,800
	6,250,909	4,873,980

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

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

19 RELATED PARTIES

(a) Key Management Personnel Disclosures

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

Directors

Mark G Kerr – Chairman and Non Executive Director	(Commenced 22 November 2007)
Mark E Elliott – Managing Director and Chief Executive Officer	(Commenced 22 November 2007)
David S Tyrwhitt – Non Executive Director	(Commenced 14 November 1996)
Liao, Yongzhong – Non Executive Director	(Commenced 30 October 2012)
Li, Yijie – Non Executive Director	(Commenced 30 October 2012)
Ye, Xiaohui – Non Executive Director	(Commenced 30 April 2013)

The key management personnel compensation are as follows:

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	462,000	437,100
Other long-term benefits	-	-
Post-employment benefits	24,836	23,850
Termination benefits	-	-
Share-based benefits	-	-
	486,836	460,950

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

19 RELATED PARTIES (CONT'D)

(b) Wholly Owned Group Transactions

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

As at 30 June 2014, Hawthorn Resources Limited loan balances with its subsidiary companies were:

Payable to Ellendale Resources Pty Ltd	\$498,491 (2013: \$498,963)
Receivable from Northern Resources Australia Pty Ltd	\$259,990 (2013: \$259,455)

As at 30 June 2014, Ellendale Resources Pty Ltd loan balances with its subsidiary companies were:

Payable to Sunderland Pty Ltd	\$478,946 (2013: \$479,182)
Receivable from Northern Resources Australia Pty Ltd	\$140,738 (2013: \$140,738)

All loan balances have been provided on an interest free basis and have no fixed repayment date. Movements in loan account during the year relate to payment of expenses. Expenses paid and charged through the loan accounts during the year relate to exploration, tenement costs and company administration expenses.

20 CONSOLIDATED ENTITIES

Name	Country of Incorporation	Ordinary Share Consolidated Equity Interest	
		2014 %	2013 %
Parent entity			
Hawthorn Resources Limited	Australia		
Controlled entities			
Ellendale Resources Pty Limited	Australia	100%	100%
Sunderland Pty Ltd *	Australia	100%	100%
Northern Resources Australia Pty Ltd *	Australia	100%	100%

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

21 FINANCIAL RISK MANAGEMENT

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

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

(a) Market risk

Foreign exchange risk

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

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

21 FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Market risk (cont'd)

Interest rate risk

Interest rate risk, is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. Fluctuations in interest rates will not have any material risk exposure to the cash held in bank deposits at variable rates.

The Company's exposure to market interest rates relates primarily to the Company's short term cash deposits held.

Sensitivity Analysis on Cash and Cash Equivalents

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the average monthly closing balances. A 100 basis point increase or decrease is used when reporting interest rate risk internally and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 100 basis points higher or lower and all other variables held constant, the Company's net profit and net assets would increase by \$117,543 (2013: \$61,186) and decrease by \$117,543 (2013: \$61,186). This is mainly attributable to the Company's exposure to interest rates on its cash and cash equivalents.

(b) Credit risk

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

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

(c) Liquidity Risk

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

(d) Price Risk

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

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

(f) Maturities of Financial Liabilities

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

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

21 FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Maturities of Financial Liabilities (cont'd)

Group – 30 June 2014

	<i>Less than 3 months \$</i>	<i>3 months to 1 year \$</i>	<i>1 - 5 years \$</i>	<i>5 + Years \$</i>	<i>Total \$</i>
Non-Interest Bearing	(387,902)	-	-	-	(387,902)

Group 30 June 2013

	<i>Less than 3 months \$</i>	<i>3 months to 1 year \$</i>	<i>1 - 5 years \$</i>	<i>5 + Years \$</i>	<i>Total \$</i>
Non-Interest Bearing	(1,208,561)	-	-	-	(1,208,561)

(f) Net Fair Values

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

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

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

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

All financial instruments recognised at fair value at 30 June 2014 have been classified within Level 1, and relate to listed investments. The fair value of these financial assets has been based on the closing quoted bid prices at the end of the reporting period, excluding transaction costs.

22 EVENTS AFTER THE BALANCE DATE

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial periods.

23 REMUNERATION OF AUDITORS

The auditor of Hawthorn Resources Limited is BDO East Coast Partnership.

Amounts received or due and receivable by BDO for:

An audit or review of the financial report of the Company and any other companies in the consolidated group

Consolidated	
2014	2013
\$	\$
47,000	45,250

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

24 PARENT ENTITY INFORMATION

As at, and throughout the financial year ended 30 June 2014, the parent entity of the Group was Hawthorn Resources Limited.

	2014	2013
	\$	\$
Current assets	9,731,661	14,914,054
Non current assets	13,863,932	11,106,024
Total assets	23,595,593	26,020,078
Current liabilities	397,388	1,216,461
Non current liabilities	238,501	239,508
Total liabilities	635,889	1,455,969
Net assets	22,959,704	24,564,109
Issued Capital	107,828,909	107,828,909
Reserves	1,035,890	1,035,145
Accumulated Losses	(85,905,095)	(84,299,945)
Total equity	22,959,704	24,564,109
Loss of the parent entity	(1,605,150)	(1,884,850)
Comprehensive loss of the parent entity	(1,605,150)	(1,884,850)

25 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no contingent liabilities and contingent assets in existence at 30 June 2014.

Hawthorn Resources Limited
Notes to the Consolidated Financial Statements for the Year Ended 30 June 2014

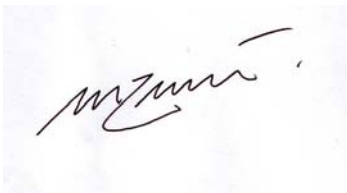
DIRECTORS' DECLARATION

The directors of Hawthorn Resources Limited declare that in their opinion:

- (a) the financial statements and notes set out on pages 2 to 31 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the Corporations Regulations 2001; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (c) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in Note 1 (c); and
- (d) the audited Remuneration Report set out on pages 10 to 17 of the Directors' Report is in accordance with the Corporations Act 2001.

The directors have been given declarations, as required by section 295A of the Corporations Act 2001, by the chief executive officer and the chief financial officer for the financial year ended 30 June 2014.

Signed in accordance with a Resolution of the Board of Directors at Melbourne this 30th day of September 2014.



M. E. Elliott
Managing Director and
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

To the members of Hawthorn Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Hawthorn Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 Note 1 (c), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Hawthorn Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Hawthorn Resources Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(c).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 17 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Hawthorn Resources Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO East Coast Partnership



James Mooney
Partner

Melbourne, 30 September 2014