

Mozambi Coal Limited

a n d c o n t r o l l e d e n t i t i e s

ABN 28 106 353 253

Financial Report for the year ended
30 June 2014

Financial Report for the Year Ended 30 June 2014

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Corporate Directory

Directors

Mr Alex Neuling – Executive Director

Mr Julian Jarman – Non-executive Director

Mr Robert Hemphill – Non-executive Director

Bankers

National Australia Bank Limited

Level 1, 1238 Hay Street

WEST PERTH WA 6005

Company Secretaries

Mr Alex Neuling

Mrs Natalie Madden

Securities Exchange Listing

Australian Securities Exchange

Home Exchange: Perth, Western Australia

Code: MOZ

Registered and Principal Administration Office

Level 1, 44 Ord Street

WEST PERTH WA 6005

PO Box 1571

WEST PERTH WA 6872

Tel: +(618) 9321 0774

Solicitors

Steinepreis Paganin

Level 4, The Read Buildings

16 Milligan Street

PERTH WA 6000

Auditors

HLB Mann Judd

Level 4, 130 Stirling Street

PERTH WA 6000

Website and Email

www.mozambicoal.com

info@mozambicoal.com

Share Registry

Advanced Share Registry Services

150 Stirling Hwy

NEDLANDS WA 6009

Postal Address

PO Box 1156

NEDLANDS WA 6909

Tel: (+618) 9389 8033

Directors' Report

Your Directors present their report on the consolidated entity consisting of Mozambi Coal Limited ("the Company" or "MOZ") and the entities it controlled during the financial year ended 30 June 2014 ("Consolidated Entity" or "Group").

Directors

The names of the Directors of Mozambi Coal Limited in office during the financial year and until the date of this report are:

Mr Alex Neuling – Executive director

Mr Robert Hemphill – Non-executive director

Mr Julian Jarman – Non-executive director (appointed 12 August 2013)

Mr Shiv Madan – Executive director (resigned 12 August 2013)

Principal activities

The principal activity of the Group during the financial year was coal exploration in Queensland, Australia and in Mozambique.

Review of operations

In November 2013 MOZ announced that it had secured rights to acquire a number of Queensland based exploration tenements and applications. The acquisition of these rights was staged and the final part of the transaction was formally completed on 31 March 2014 following shareholder approval.

Initial evaluation of the tenements identified the Bowen River project (EPC 1768) as a lead candidate for near-term exploration activities. During the year, pre-drill activities including technical evaluation of historical drilling results in the region and finalisation of access arrangements, including landholder compensation, environmental clearances and cultural heritage were progressed.

As at the date of this report MOZ has finalised landholder compensation arrangements with one of the two relevant holders of pastoral leases covering EPC 1768 and hopes to reach a mutually acceptable negotiated arrangement with the remaining leaseholder Imminently. In the event that this negotiated process is not satisfactorily concluded in an acceptable timeframe, MOZ notes that an efficient and equitable statutory arbitration process exists in Queensland to protect our rights of access to conduct exploration activities without further unreasonable delays. MOZ has complied with all relevant statutory provisions and timeframes for this alternative process to now be implemented should that prove necessary to ensure unhindered access for exploration.

MOZ also continues to evaluate other potential new resource project investment opportunities worldwide.

CORPORATE & FINANCE

Placement

In March and April 2014 the Company announced a share placement to sophisticated investors in two tranches plus a further placement as part of a strategic alliance with the Moultrie Group. In total 60,000,000 ordinary shares and 30 million attaching options (exercisable at 2c on or before 31 December 2017) were issued to raise a total of \$600,000 before costs. The second tranche of the placement was completed in early June 2014 and funds are being applied towards priority exploration activities and general working capital.

Directors' Report

Financial results

For the year ended 30 June 2014 the Company recorded a net loss after tax of \$960,308 (2013: \$9,771,722). The loss for the year included non-cash share-based payment expenses of \$93,200 (2013: \$38,690).

Board changes

On 12 August 2013, Mr. Shiv Madan resigned from the Board and was replaced by Mr. Julian Jarman.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Group during the year other than as noted above or elsewhere in this report.

Information on Directors

Current Directors

Mr Alex Neuling – Executive Director & Joint Company Secretary

Qualifications – FCA, ACIS, BSc

Special responsibilities - Member of audit and nomination committees

Other current directorship of Listed Public Companies – Ikwezi Mining Limited – from June 2014.

Former directorships (of Listed Public Companies) in last three years - Eureka Energy Limited.

Interests in Shares and Options over Shares in Group Companies

682,000 fully paid ordinary shares

3,350,000 unlisted options

Alex is a Chartered Accountant and Chartered Secretary with over 14 years corporate and financial experience. This experience includes 10 years as director, chief financial officer & or secretary of various ASX listed companies in the energy, mineral exploration, biotechnology and mining services sectors. Prior to those roles, Alex worked at Deloitte in London and Perth. Alex also holds an Honours degree in Chemistry from the University of Leeds in the United Kingdom and is principal of Erasmus Consulting Pty Ltd, which provides company secretarial and financial management consultancy services to a variety of ASX-listed companies.

Robert Hemphill – Non-executive Chairman

Qualifications – B. Bus, CA

Special responsibilities: Chair of audit, remuneration and nomination committees, lead independent director

Other current directorship of Listed Public Companies - None.

Former directorships (of Listed Public Companies) in last three years - None.

Interests in Shares and Options over Shares in Group Companies

174,250 fully paid ordinary shares

3,350,000 unlisted options

Robert has more than 16 year's experience in financial accounting, taxation and business advisory services both domestically and internationally. Robert completed a Bachelor of Business at Charles Sturt University, is a member of the Institute of Chartered Accountants in Australia and a registered tax agent. Robert is a director / company secretary of a number of public and private companies, although he holds no other directorships of Australian listed companies.

Directors' Report

Mr Julian Jarman – Non-executive director (appointed 12 August 2013)

Qualifications – B. Bus, CA

Other current directorship of Listed Public Companies - None.

Former directorships (of Listed Public Companies) in last three years - None.

Interests in Shares and Options over Shares in Group Companies

3,250,001 fully paid ordinary shares

3,000,000 unlisted options

Mr Jarman is a Director with Alignment Capital a small boutique financial services firm. With approximately 18 years in the finance sector, he commenced his career at Deloitte. Mr. Jarman is a qualified Chartered Accountant and has spent time working at Goldman Sachs JBWere in Melbourne before spending several years working in London, where he gained experience with numerous investment banks including Dresdner Kleinwort Wasserstein and Credit Suisse First Boston

Former Directors

Mr Shiv Madan – Managing Director – resigned 12 August 2013

Qualifications – Bcom, MBA

Special responsibilities – none

Other current directorship of Listed Public Companies – none

Former directorships (of Listed Public Companies) in last three years – none

Interests in Shares and Options over Shares in Group Companies (as at the date of resignation):

10,750,000 fully paid ordinary shares

11,070,000 unlisted options

Company Secretaries

Mr Alex Neuling – refer to Director details above

Mrs Natalie Madden – Joint Company Secretary (appointed 13 August 2013)

Qualifications – BSc, FCA

Natalie has over 10 years experience as an auditor and accountant and is employed by Erasmus Consulting Pty Ltd as a Client Manager for the Company and explorer Apollo Consolidated Limited (AOP) and Ikwezi Mining Limited (IKW). Prior to this, Natalie has held finance roles with Deloitte and Curtin University. Natalie holds a Bachelor of Science (Mathematics) from the University of Warwick (UK) and is a member of the Institute of Chartered Accountants in England and Wales (ICAEW).

Meetings of Directors

The following table sets out the number of meeting of the Company's directors held during the year ended 30 June 2014, and the number of meetings attended by each director.

	Directors' Meetings		Committee Meetings	
	Eligible to attend	Attended	Audit	Remuneration
Mr Robert Hemphill	7	7	2	1-
Mr Alex Neuling	7	7	2	-
Mr Julian Jarman	6	6	-	-
Mr Shiv Madan	1	-	-	-

* Not a member of the relevant committee.

Directors' Report

Share options

At the date of this report the following unlisted options have been granted over unissued capital.

Series	Number	Exercise Price	Expiry Date
6	475,000	25c	02/08/2016
7	2,200,000	25c	30/11/2016
8	50,000,000	2c	31/12/2017
9	9,000,000	2c	31/12/2017
TOTAL	61,675,000		

No ordinary shares have been issued by the Company during or since the end of the financial year as a result of the exercise of share options.

Performance rights

At the date of this report all performance rights have expired.

Subsequent events

There have been no matters or circumstances since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Company or Consolidated Entity in future financial years.

Likely Developments

The Group intends to continue its exploration activities on its existing tenements and to acquire further suitable tenements for exploration and/or development as opportunities arise.

Environmental regulation

The Group has a policy of exceeding or at least complying with its environmental performance obligations.

During the financial year, the Group did not materially breach any particular or significant Commonwealth, State, Territory or other regulation in respect to environmental management.

Dividends

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2014 (2013: None).

Indemnification and insurance of Officers and Auditors

Since the end of the year, the Group has paid a premium in respect of a contract insuring the directors and secretaries of the Group (as named above), against liabilities incurred as such a director, secretary or executive officer to the extent permitted by the *Corporation Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Group has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on behalf of company

No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceeding to which the Group is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Group was not a party to any such proceedings during the year.

Directors' Report

Non-audit services

The Board of Directors is satisfied that the provision of non-audit services performed during the year by the entity's auditors is compatible with the general standard of independence for auditors imposed by the *Corporation Act 2001*. The directors are satisfied that the services disclosed (refer Note 19) did not compromise the external auditor's independence for the following reasons:

- The nature of the services provided do not compromise the general principles relating to auditors independence as set out in *Code of Conduct APES 110 Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board.
- The Directors are satisfied that the provision of non audit services, specifically taxation compliance services, is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Auditor's Independence Declaration

The Auditor's independence declaration is included on page 16 of the financial report and forms part of this directors' report.

Directors' Report

Remuneration Report – Audited

This remuneration report outlines the key management personnel remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the specified executives.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives, asset managers and secretaries of the Parent and the Group.

Details of key management personnel

(i) Directors

Current:

Alex Neuling	Executive Director & Joint Company Secretary
Robert Hemphill	Non-Executive Director
Julian Jarman	Non-Executive Director

Former:

Michael Griffiths	Non-Executive Chairman
Shiv Madan	Managing Director

(ii) Executives

Current:

Natalie Madden	Joint Company Secretary
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Former:

Chalamaiah Kondragunta	General Manager - Exploration
Ryan Broom	Chief Financial Officer & Company Secretary

Remuneration committee

The remuneration committee of the board of directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executives. The remuneration committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

Remuneration philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives. To this end, the charter adopted by the remuneration committee aims to align rewards with achievement of strategic objectives. The remuneration framework applied provides for a mixture of fixed and variable pay and a blend of short and long term incentives as appropriate.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Directors' Report

Non-executive directors

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at General Meeting. The Company's policy is to remunerate non-executive directors at market rates (for comparable companies) for time, commitment and responsibilities. Fees for non-executive directors are not linked to the performance of the Company, however to align directors' interests with shareholders' interests, directors are encouraged to hold shares in the Company, and subject to approval by shareholders, are permitted to participate in the Employee Share Option Plan.

Retirement benefits and allowances

No retirement benefits or allowances are paid or payable to directors of the Company (other than statutory or mandatory superannuation contributions, where applicable).

Executives

Base pay

Executives are offered a competitive level of base pay which comprises the fixed (unrisked) component of their pay and rewards. Base pay for senior executives is reviewed annually to ensure market competitiveness. There are no guaranteed base pay increases included in any senior executives' contracts.

Short term incentives

Payment of short term incentives is dependent on the achievement of key performance milestones as determined by the remuneration committee. For the periods ended 30 June 2013 and 2014, these milestones required performance in relation to key strategic, non-financial measures linked to drivers of performance in future reporting periods.

No bonuses have been paid or are payable in respect of the year to 30 June 2014. There have been no forfeitures of bonuses by key management personnel during the current or prior periods and no cash bonuses remained unvested at year-end.

Long Term Incentives - Share-based compensation

Both performance rights and share options have been issued to Directors and executives as part of their remuneration. Share-based compensation instruments are not issued based on performance criteria, however, they are issued with vesting conditions and exercise prices set specifically to increase goal congruence between Directors, executives and shareholders.

Performance rights and options granted under the Plan carry no dividend or voting rights.

The company currently has no policy in place to limit an individual's risk exposure in relation to the issue of company securities as remuneration

Link to Group Performance

There was no performance-based remuneration paid to Directors in the financial year.

Directors' Report

Service agreements

The Company's consulting agreement with Shiv Madan was terminated at the end of July 2013.

The Company has entered into a consultancy agreement with Alex Neuling, in his capacities as Director and Company Secretary. The agreement is between Mozambi Coal Limited and Erasmus Consulting Pty Ltd ("Erasmus"), an associated company of Mr Alex Neuling.

Material terms of the contract with Erasmus are as follows:

- Role – to provide Company Secretarial and/or financial management consultancy advice
- Term of agreement – indefinite
- Consultancy fee varying, depending on work performed, subject to a minimum of \$2,700 plus GST per month (excluding Director Fees)
- Director fees – payable where an Erasmus staff member is appointed as a director of the Company for an amount equal to the amount paid to any non-executive director
- Subject to a three month termination period

Non-executive Directors are currently entitled to a monthly fee of \$3,067.

Remuneration of key management personnel

2014

	Short term benefits			Post-employment benefits		Share based payments	Total	Performance related
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement Benefits	Performance rights/options		
	\$	\$	\$	\$	\$	\$	\$	%
Non-executive Directors								
Robert Hemphill	36,800	-	-	-	-	14,400	51,200	-
Julian Jarman	32,557	-	-	3,012	-	14,400	49,969	-
Sub-total non-executive directors	69,357	-	-	3,012	-	28,800	101,169	-
Executive Directors								
Alex Neuling*	87,214	-	-	-	-	14,400	101,614	-
Shiv Madan	7,940	-	-	-	-	-	7,940	-
Sub-total executive directors	95,154	-	-	-	-	14,400	109,554	-
Other executives								
Natalie Madden *	-	-	-	-	-	-	-	-
Sub-total other executives	-	-	-	-	-	-	-	-
Total Key Management Personnel	164,511	-	-	3,012	-	43,200	210,723	-

* Amounts shown as remuneration for Mr Neuling are fees paid to Erasmus Consulting Pty Ltd ("Erasmus"), a Company controlled by Mr Neuling which provides Company Secretarial, Accounting, Financial and general management services as well as administrative support to the Company. The amounts include payments for services provided by Mr Neuling, Mrs Natalie Madden and by other members of staff employed or retained by Erasmus.

Directors' Report

2013

	Short term benefits			Post-employment benefits		Share based payments		Total	Performance related	
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Retirement Benefits	Performance rights/options				
	\$	\$	\$	\$	\$	\$		\$		%
Non-executive Directors										
Michael Griffiths	175,367	-	-	3,633	-	8,880		187,880		-
Robert Hemphill	39,867	-	-	-	-	2,100		41,967		-
Sub-total non-executive directors	215,234	-	-	3,633	-	10,980		229,847		-
Executive Directors										
Shiv Madan	239,000	-	-	-	-	13,260		252,260		-
Alex Neuling*	39,867	-	-	-	-	2,100		41,967		-
Sub-total executive directors	278,867	-	-	-	-	15,360		294,227		-
Other executives										
Chalamaiah Kondragunta	116,836	-	-	-	-	4,550		121,386		-
Ryan Broom	137,145	-	-	11,880	-	4,550		153,575		-
Sub-total other executives	253,981	-	-	11,880	-	9,100		274,961		-
Total Key Management Personnel	748,082	-	-	15,513	-	35,440		799,035		-

*Amounts shown as remuneration for Mr Neuling are fees paid to Erasmus Consulting Pty Ltd ("Erasmus"), a Company controlled by Mr Neuling which provides, Company Secretarial, Accounting, Financial and general management services as well as administrative support to the Company. The amounts include payments for services provided by Mr Neuling and by other members of staff employed or retained by Erasmus.

Share Based Compensation

Options

Details of options over ordinary shares provided as remuneration to each Director of Mozambi Coal Limited and each of the key management personnel of the parent entity and Group are set out below. When exercisable, each option is convertible into one ordinary share of Mozambi Coal Limited.

Terms and conditions of share-based payment arrangements affecting remuneration of key management personnel in the current financial year or future financial years:

Option Series	Grant date	Number	Vesting date	Expiry date	Exercise price	Grant date fair value	% vested
6	02/08/2012	475,000	02/08/2012	02/08/2016	\$0.25	\$0.026	100
7	26/11/2012	2,200,000	26/11/2012	30/11/2016	\$0.25	\$0.006	100
9	27/05/2014	9,000,000	27/05/2014	31/12/2017	\$0.02	\$0.0048	100

Details of share-based payments granted as compensation to key management personnel during the current financial year:

Name	Option Series	During the financial year				% of compensation for the year consisting of options
		No. granted	No. vested	% of grant vested	% of grant forfeited	
Alex Neuling	Series 9	3,000,000	3,000,000	100%	n/a	14%
Robert Hemphill	Series 9	3,000,000	3,000,000	100%	n/a	29%
Julian Jarman	Series 9	3,000,000	3,000,000	100%	n/a	28%

Directors' Report

During the year, there were no options exercised that were granted to key management personnel as part of their compensation.

The following table summarises the value of options granted, exercised or lapsed during the financial year, in relation to options granted to key management personnel as part of their remuneration:

	Value of options granted at the grant date (i) \$	Value of options exercised at the exercise date \$	Value of options lapsed at the date of lapse \$
Alex Neuling	14,400	-	-
Robert Hemphill	14,400	-	-
Julian Jarman	14,400	-	-

- (i) The value of options granted during the financial year is calculated as at the grant date using a binomial pricing model. The grant date value is allocated to remuneration of key management personnel on a straight-line basis over the period from grant date to vesting date.

Performance Rights

The terms and conditions of each grant of performance rights affecting remuneration in the current period is as follows:

Tranche	Grant date	Number	Vesting Hurdle price	Expiry date	Fair value per right at grant date	% vested
3B (i)	21/02/2011	204,000	\$0.42	21/02/2014	\$0.117	0%
3C (i)	21/02/2011	198,000	\$0.50	21/02/2014	\$0.072	0%

- (i) Performance Rights expired, unexercised during the current financial year.

No performance rights were granted or vested during the years ended 30 June 2014 and 30 June 2013.

Key management personnel equity holdings

Fully paid ordinary shares of Mozambi Coal Limited

	Balance at beginning of period *	Issued as remuneration	On Exercise of Options/Perf Rights	Net Other Change	Balance at end of period *
30 June 2014	Ord	Ord	Ord	Ord	Ord
Directors					
Alex Neuling	682,000	-	-	-	682,000
Robert Hemphill	174,250	-	-	-	174,250
Julian Jarman	3,250,001	-	-	-	3,250,001
Shiv Madan	10,750,000	-	-	-	10,750,000
Other Executives					
Natalie Madden	-	-	-	-	-
	14,856,251	-	-	-	14,856,251

* or when appointed/resigned

Directors' Report

	Balance at beginning of period *	Issued as remuneration	On Exercise of Options	Net Change Other	Balance at end of period *
	Ord	Ord	Ord	Ord	Ord
30 June 2013					
Directors					
Michael Griffiths	198,000	-	-	-	198,000
Shiv Madan	10,750,000	-	-	-	10,750,000
Alex Neuling	682,000	-	-	-	682,000
Robert Hemphill	174,250	-	-	-	174,250
	11,804,250	-	-	-	11,804,250

* or when appointed/resigned

Share options of Mozambi Coal Limited

	Balance at beginning of period *	Granted as remune- ration	Exercised	Net change Other	Balance at end of period *	Vested as at end of period		
						Exercisable	Not Exercisable	Options vested during the year
30 June 2014								
Directors								
Alex Neuling	350,000	3,000,000	-	-	3,350,000	3,350,000	-	3,000,000
Robert Hemphill	350,000	3,000,000	-	-	3,350,000	3,350,000	-	3,000,000
Julian Jarman	3,200,000	3,000,000	-	(3,200,000)	3,000,000	3,000,000	-	3,000,000
Shiv Madan	11,070,000	-	-	-	11,070,000	11,070,000	-	-
Other Executives								
Natalie Madden	-	-	-	-	-	-	-	-
Total	14,970,000	9,000,000	-	(3,200,000)	20,770,000	20,770,000	-	9,000,000

	Balance at beginning of period	Granted as remune- ration	Options exercised	Net change Other	Balance at end of period *	Vested as at end of period		
						Total	Exercisable	Not Exercisable
30 June 2013								
Directors								
Michael Griffiths	-	750,000	-	-	750,000	750,000	750,000	-
Shiv Madan	10,320,000	750,000	-	-	11,070,000	11,070,000	11,070,000	-
Alex Neuling	-	350,000	-	-	350,000	350,000	350,000	-
Robert Hemphill	-	350,000	-	-	350,000	350,000	350,000	-
Other Executives								
Chalamaiah								
Kondragunta	500,000	175,000	-	-	675,000	675,000	675,000	-
Ryan Broom	250,000	175,000	-	-	425,000	425,000	425,000	-
Total	11,070,000	2,550,000	-	-	13,620,000	13,620,000	13,620,000	-

* or when appointed/resigned

Directors' Report

All share options issued to key management personnel were made in accordance with the provisions of the employee share option plan.

During the financial year, no options were exercised by key management personnel (2013: nil). No amounts remain unpaid on the options at year-end.

For details of the employee share option plan and of share options granted during the 2014 and 2013 financial years, please refer to Note 13.

Performance Rights of Mozambi Coal Limited

Mr Michael Griffiths and Mr Shiv Madan respectively held 268,000 and 536,000 performance rights as at 1 July 2012; all performance rights lapsed unexercised during the year ended 30 June 2013.

Other transactions with key management personnel of the Group

During the financial year, the Group paid \$36,000 as a placement fee, on normal commercial terms to Alignment Capital Pty Ltd, a company related to Mr Julian Jarman. In addition, from April 2014 Alignment Capital Pty Ltd has been paid \$5,000 per month as an ongoing retainer for corporate advisory services on normal commercial terms.

End of Remuneration Report

Signed in accordance with a resolution of the Directors made pursuant to s.298 (2) of the *Corporations Act 2001*.

On behalf of the Directors



Alex Neuling

Director

Perth, Western Australia

30 September 2014

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Mozambi Coal Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.



**Perth, Western Australia
30 September 2014**

**L Di Giallonardo
Partner**

INDEPENDENT AUDITOR'S REPORT

To the members of Mozambi Coal Limited

Report on the Financial Report

We have audited the accompanying financial report of Mozambi Coal Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss, the consolidated statement of 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 for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

In Note 1 (c), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial report complies 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 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Mozambi Coal 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).

Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 1 to the financial report which indicates that the in order to continue as a going concern, the Group is dependent on maintaining the current low fixed cost base of the Group's operations, and will be required to raise further funds when required. If the Group is unable to maintain the current low fixed cost base of the Group's operations, or, if necessary, raise further funds when required, there exists a material uncertainty that may cast significant doubt over whether the Group will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business.

Report on the Remuneration Report

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

Auditor's opinion

In our opinion the remuneration report of Mozambi Coal Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.



HLB Mann Judd
Chartered Accountants



L Di Giallonardo
Partner

Perth, Western Australia
30 September 2014

Directors' Declaration

1. In the opinion of the directors of Mozambi Coal Limited (the 'Company'):
 - a. the accompanying financial statements and notes and the additional disclosures are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations regulations 2001; 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.
2. The financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
3. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

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



Alex Neuling

Director

Perth, Western Australia

30 September 2014

Mozambi Coal Limited

Consolidated statement of profit or loss for the year ended 30 June 2014

		Consolidated 2014	2013
	Note	\$	\$
Revenue	2	11,677	55,451
Office costs		(43,231)	(91,962)
Corporate management costs		(206,709)	(513,365)
Corporate compliance costs		(75,212)	(221,127)
Evaluation expenses		(65,022)	(282,662)
Impairment of exploration expenditure	2	-	(8,155,408)
Share based payments	2	(93,200)	(38,690)
Impairment of other assets		-	(51,017)
Blackall exploration acquisition costs	2	(396,000)	-
Other gains and losses	2	(6,161)	-
Foreign exchange loss		(20,173)	(3,927)
Other expenses from ordinary activities		(66,277)	(469,015)
Loss before income tax	3	(960,308)	(9,771,722)
Income tax expense	3	-	-
Loss after tax from continuing operations		(960,308)	(9,771,722)
Net loss for the year		(960,308)	(9,771,722)
Loss attributable to:			
Owners of the parent		(955,402)	(9,677,399)
Non-controlling interests		(4,906)	(94,323)
		(960,308)	(9,771,722)
<i>Loss per share (cents per share)</i>			
Basic / diluted loss per share	4	(0.71)	(8.26)
Basic /diluted loss per share from continuing operations	4	(0.71)	(8.26)

The accompanying notes form part of these financial statements

Mozambi Coal Limited

Consolidated statement of other comprehensive income
for the year ended 30 June 2014

	Note	Consolidated 2014 \$	2013 \$
Loss for the year		(960,308)	(9,771,722)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		17,682	(85,428)
		<u>17,682</u>	<u>(85,428)</u>
Other comprehensive loss for the year net of income tax		17,682	(85,428)
Total comprehensive loss for the year		<u>(942,626)</u>	<u>(9,857,150)</u>
Total comprehensive loss attributable to:			
Owners of the parent		(937,720)	(9,762,827)
Non-controlling interests		(4,906)	(94,323)
		<u>(942,626)</u>	<u>(9,857,150)</u>

The accompanying notes form part of these financial statements

Mozambi Coal Limited

Consolidated statement of financial position as at 30 June 2014

		Consolidated	
	Note	2014	2013
		\$	\$
Current Assets			
Cash and cash equivalents	5	515,075	870,301
Trade and other receivables	6	40,118	22,407
Total Current Assets		555,193	892,708
Non-Current Assets			
Property, plant and equipment	7	2,548	14,404
Deferred exploration expenditure	8	455,015	-
Total Non-Current Assets		457,563	14,404
Total Assets		1,012,756	907,112
Current Liabilities			
Trade and other payables	9	89,363	87,703
Total Current Liabilities		89,363	87,703
Non-Current Liabilities			
Amounts due under contract	10	-	-
Total Non-Current Liabilities		-	-
Total Liabilities		89,363	87,703
Net Assets		923,393	819,409
Equity			
Issued capital	11	31,758,385	30,874,975
Reserves	12(a)	2,758,783	2,577,901
Accumulated losses	12(b)	(33,375,776)	(32,420,374)
Parent entity interest		1,141,392	1,032,502
Non-controlling interests		(217,999)	(213,093)
Total Equity		923,393	819,409

The accompanying notes form part of these financial statements

Mozambi Coal Limited

Consolidated statement of changes in equity for the year ended 30 June 2014

Consolidated

	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total \$	Non- controlling interests \$	Total \$
Balance as at 1 July 2012	30,482,928	(22,742,975)	2,624,639	10,364,592	(118,770)	10,245,822
Loss for the year	-	(9,677,399)	-	(9,677,399)	(94,323)	(9,771,722)
Exchange differences arising on translation of foreign operations	-	-	(85,428)	(85,428)	-	(85,428)
Total comprehensive loss for the year	-	(9,677,399)	(85,428)	(9,763,872)	(94,323)	(9,857,150)
Shares issued during the year	400,000	-	-	400,000	-	400,000
Less transaction costs	(7,953)	-	-	(7,953)	-	(7,953)
Recognition of share-based payments	-	-	38,690	38,690	-	38,690
Balance at 30 June 2013	30,874,975	(32,420,374)	2,577,901	1,032,502	(213,093)	819,409
Balance as at 1 July 2013	30,874,975	(32,420,374)	2,577,901	1,032,502	(213,093)	819,409
Loss for the year	-	(955,402)	-	(955,402)	(4,906)	(960,308)
Exchange differences arising on translation of foreign operations	-	-	17,682	17,682	-	17,682
Total comprehensive Loss for the year	-	(955,402)	17,682	(937,720)	(4,906)	(942,626)
Shares issued during the year	926,000	-	-	926,000	-	926,000
Less transaction costs	(42,590)	-	-	(42,590)	-	(42,590)
Recognition of share-based payments	-	-	163,200	163,200	-	163,200
Balance at 30 June 2014	31,758,385	(33,375,776)	2,758,783	1,141,392	(217,999)	923,393

The accompanying notes form part of these financial statements

Mozambi Coal Limited

Consolidated statement of cash flows for the year ended 30 June 2014

		Consolidated	
		2014	2013
	Note	\$	\$
		Inflows/(Outflows)	
Cash flows from operating activities			
Payments to suppliers and employees		(451,090)	(1,403,720)
Net cash applied to operating activities	5	(451,090)	(1,403,720)
Cash flows from investing activities			
Payments for property, plant & equipment	7	-	(3,334)
Proceeds from disposal of property, plant & equipment		1,396	-
Payments for exploration expenditure		(472,127)	(322,497)
Interest received		11,677	55,451
Net cash applied to investing activities		(459,054)	(270,380)
Cash flows from financing activities			
Proceeds from share issues		600,000	400,000
Share issue costs		(42,590)	(7,953)
Net cash provided by financing activities		557,410	392,047
Net decrease in cash and cash equivalents		(352,734)	(1,282,053)
Cash and cash equivalents at the beginning of the year		870,301	2,144,477
Effects of exchange rate changes on the balance of cash held in foreign currencies		(2,492)	7,877
Cash and cash equivalents at the end of the year	5	515,075	870,301

The accompanying notes form part of these financial statements

Mozambi Coal Limited

Notes to the Financial Statements for the Year ended 30 June 2014

1. Statement of significant accounting policies

(a) Basis of Preparation

These financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and comply with other requirements of the law.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the Group consisting of Mozambi Coal Limited and its subsidiaries.

The financial statements have also been prepared on a historical cost basis. Cost is based on the fair values of the consideration given in exchange for assets.

The Company is a listed public company, incorporated in Australia. The entity's principal activities are mineral exploration in Australia and Mozambique (as more fully described in the Directors' Report & Note 16).

Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group incurred a net loss of \$960,308 for the year ended 30 June 2014 (2013: \$9,771,722) and had a net cash outflow from operations of \$451,090 for the year (2013: \$1,403,720). Notwithstanding this, the financial report has been prepared on a going concern basis which the Directors consider to be appropriate based upon period-end consolidated cash assets of \$515,075 as at 30 June 2014, the current low fixed cost base of the Group's operations and an expectation that the Group will be able to raise further funds when required.

Should the Group be unable to maintain the current low fixed cost base of the Group's operations or, if necessary, raise further funds when required, there exists a material uncertainty that may cast significant doubt over whether the Group will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business.

(b) Adoption of new and revised standards

Standards and Interpretations applicable to 30 June 2014

In the year ended 30 June 2014, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period.

As a result of this review, the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change is necessary to Group accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2014. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and, therefore, no change necessary to Group accounting policies.

(c) Statement of Compliance

The financial report was authorised for issue on 30 September 2014.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(d) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement in with the investee; and
- has the ability to its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the controlling interest having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members are eliminated in full on consolidation.

(e) Critical accounting judgements and key sources of estimation uncertainty

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Share-based payment transactions:

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black and Scholes formula taking into account the terms and conditions upon which the instruments were granted.

(f) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest income

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

(g) Borrowing Costs

Borrowing costs are recognised as an expense when incurred except those that relate to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

(h) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(i) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group may not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

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

(k) Derecognition of financial assets and financial liabilities***(i) Financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset, or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(l) Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss for the period. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(m) Foreign currency translation

Both the functional and presentation currency of Mozambi Coal Limited and its Australian subsidiaries is Australian dollars. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

Mozambi Coal Limited

Notes to the Financial Statements for the Year ended 30 June 2014

All exchange differences in the consolidated financial report are taken to profit or loss.

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

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

The functional currency of foreign operations through Dugal Resources Lda and Xiluva Mozambi Lda, is Mozambique New Metical (MZN).

As at the balance date the assets and liabilities of these subsidiaries are translated into the presentation currency of Mozambi Coal Limited at the rate of exchange ruling at the reporting date and their statements of comprehensive income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(n) 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 the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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 liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Mozambi Coal Limited and its 100% owned Australian resident subsidiary have implemented the tax consolidation legislation. Current and deferred tax amounts are accounted for in each individual entity as if each entity continued to act as a taxpayer on its own.

Mozambi Coal Limited recognises both its own current and deferred tax amounts and those current tax liabilities, current tax assets and deferred tax assets arising from unused tax credits and unused tax losses which it has assumed from its controlled entities within the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts payable or receivable from or payable to other entities in the Group. Any difference between the amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) controlled entities in the tax consolidated group.

(o) Other taxes

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

- when 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, which 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.

(p) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- Plant and equipment – over 3 years

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

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. 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.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in profit or loss for the year as a separate line item.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(q) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

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

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(r) Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

(s) Impairment of assets

The Group 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 Group 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 cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any 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 profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(t) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(u) Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

(v) 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.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

(w) Issued capital

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

(x) Earnings per share

Basic earnings per share is calculated as net profit or loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit or loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(y) Segment reporting

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

(z) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

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An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of the disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

(aa) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(bb) Share-based payment transactions

(i) Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

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

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Mozambi Coal Limited (market conditions) if applicable.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see Note 4).

(cc) Exploration and evaluation

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

- (i) the rights to tenure of the area of interest are current; and
- (ii) at least one of the following conditions is also met:
 - (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
 - (b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not

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exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(dd) Parent entity financial information

The financial information for the parent entity, Mozambi Coal Limited, disclosed in Note 21 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Mozambi Coal Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Share-based payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black-Scholes model.

2. Revenue and Expenses

	Consolidated	
	2014	2013
	\$	\$
(a) Revenue		
<i>Continuing Operations</i>		
Interest Income	11,677	55,451
(b) Expenses		
Loss before income tax has been determined after charging:		
<i>Continuing Operations</i>		
Depreciation	(3,074)	(5,604)
Impairment of exploration expenditure	-	(8,155,408)
Impairment loss recognised on trade receivables	-	(37,278)
Impairment loss recognised on property, plant and equipment	-	(13,739)
Loss on disposal of property, plant and equipment	(6,161)	-
<u>Share-based payments</u>		
Ordinary shares	(26,000)	-
Options	(67,200)	(25,550)
Performance rights	-	(13,140)
	(93,200)	(38,690)
Blackall exploration – acquisition costs (Note 17(b))		-
Ordinary shares	(300,000)	-
Options	(96,000)	-
	(396,000)	-
Total share-based payments	(489,200)	(38,690)

Further details of share-based payments can be found in Note 13.

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Notes to the Financial Statements for the Year ended 30 June 2014

3. Income Tax

	Consolidated 2014 \$	2013 \$
The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax expense in the financial statements as follows:		
Accounting loss before income tax	(960,308)	(9,771,722)
Income tax benefit calculated at 30%	288,093	2,931,517
Share based payments	(146,760)	(11,607)
Non-deductible expenses	(6,837)	(2,471,356)
Capital raising costs deductible	25,642	23,451
Income tax losses not brought to account	160,138	472,005
Income tax benefit from continuing operations reported in the consolidated statement of profit or loss	-	-
Income tax benefit attributable to discontinued operations	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

The Group has tax losses arising in Australia of \$15,256,301 (2013: \$14,697,796) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. The availability of these losses is subject to the satisfaction of either the same business or continuity of ownership tests.

Deferred tax assets have not been recognised in respect of these items because it is not sufficiently probable that future taxable profit will be available against which the Group can utilise the benefits thereof.

4. Loss per share

	Consolidated 2014 Cents per share	2013 Cents per share
<i>Basic / diluted loss per share:</i>		
Continuing operations	(0.71)	(8.26)
Discontinued operations	-	-
Total basic loss per share	(0.71)	(8.26)
Loss after tax (used in calculation of basic / diluted loss per share)	(960,308)	(9,771,722)
Adjustment for discontinued operations	-	-
Loss from continuing operations after tax (used in calculation of basic / diluted loss per share from continuing operations)	(960,308)	(9,771,722)
	Consolidated 2014 No.	2013 No.
Weighted average number of ordinary shares used as the denominator in calculating basic / diluted loss per share	135,574,185	117,188,557

As the entity is loss-making in both the current and prior year, no potential ordinary shares are considered to be dilutive as they would act to decrease the loss per share (& loss per share from continuing activities).

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Notes to the Financial Statements for the Year ended 30 June 2014

The options on issue (Note 13) represent potential ordinary shares but are not dilutive and accordingly have been excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share.

5. Cash and Cash Equivalents

	Consolidated	
	2014	2013
	\$	\$
Cash at bank and on hand	515,075	870,301
Cash at bank earns interest at floating rates based on daily bank deposit rates		

(i) Reconciliation to Statement of Cash Flows:

Cash and cash equivalents	515,075	870,301
	515,075	870,301

(ii) Reconciliation of loss for the year to net cash outflows from operating activities

Loss for the year	(960,308)	(9,771,722)
Depreciation	3,074	5,604
Interest received	(11,677)	(55,451)
Non-capitalised exploration expenditure	396,000	160,457
Impairment of assets	-	8,206,425
Loss on sale of property, plant and equipment	7,386	-
Foreign Exchange (gain)/loss	20,173	3,927
Share based payments	93,200	38,690
(Increase)/decrease in debtors	(598)	(1,504)
Increase/(decrease) in creditors and accruals	1,660	9,854
Net cash used in operating activities	(451,090)	(1,403,720)

6. Current Trade and Other Receivables

	Consolidated	
	2014	2013
	\$	\$
Trade and other receivables	80,421	63,487
Allowance for impairment	(40,303)	(41,080)
	40,118	22,407

Ageing of past due but not impaired

90-120 days	-	-
More than 120 days	17,823	5,036
Total	17,823	5,036

Ageing of impaired receivables

More than 120 days	40,303	41,080
Total	40,303	41,080

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Notes to the Financial Statements for the Year ended 30 June 2014

7. Property, Plant and Equipment

	Consolidated	
	2014	2013
	\$	\$
Cost	8,156	24,237
Accumulated depreciation	(5,608)	(9,833)
Net carrying amount	2,548	14,404

A reconciliation of movements in plant & equipment during the current & prior financial year is as follows:

Opening balance	14,404	30,564
Depreciation	(3,074)	(5,604)
Additions	-	3,334
Disposals	(8,782)	-
Net impairment	-	(13,890)
Closing balance	2,548	14,404

Impairment of property, plant and equipment:

During the previous financial year, recoverable amount was estimated for certain items of property, plant and equipment. An impairment loss of \$13,890 in total was recognised to reduce the carrying amount of certain of those assets to recoverable amount.

8. Deferred Exploration Expenditure

	Consolidated	
	2014	2013
	\$	\$
Opening balance	-	9,951,803
Acquisition of Bowen River & Carmilla	426,000	-
Expenditure during the year	29,015	162,041
Contingent consideration reversed	-	(1,958,436)
Impairment	-	(8,155,408)
Closing balance	455,015	-

Capitalised exploration and evaluation expenditure represents the accumulated cost of acquisition and subsequent cost of exploration and evaluation of the properties.

Ultimate recoupment of these costs is dependent on the successful development and commercial exploitation, or alternatively sale, of the respective areas of interest.

Acquisition of Bowen River and Carmilla coal tenements

On 19 November 2013, the Group acquired EPC 1768 ("Bowen River") and EPC 2098 ("Carmilla") from Rio Tinto Exploration. The acquisition was pursuant to a sale and purchase agreement with an initial cash consideration paid of \$375,000. Additional costs of \$51,000 were incurred in relation to the transaction.

Deferred Exploration Expenditure (continued)**Contingent consideration derecognised – prior year**

On acquisition of the exploration licences 3245L and 3246L, the Group entered into a contract where the Group will be required to pay US\$500,000 for every 50,000,000 tonnes of commercially exploitable coal resources identified on the areas covered by the exploration licences up to a cap of US\$3,000,000 (the cap included the US\$1,000,000 already paid for acquisition of the license areas) upon satisfaction of the conditions of the contract.

On acquisition, the Group recognised the liability (see note 10) and a corresponding increase in deferred exploration expenditure.

At the prior year's balance date, Management's expectation, based on information available at that time and the uncertainties regarding the forward exploration program for the assets, was that the likelihood of discovering a commercially exploitable coal resource of a size to trigger payment of contingent consideration was remote and therefore the most likely value of the contingent consideration was nil.

Impairment – prior year**License 2738L**

On 14 July 2011, Mozambi entered into a Memorandum of Understanding ("MOU") with Xiluva Mineral Resources Limitada for the purchase of exploration license 2738L. Under the terms of the MOU, Mozambi had the right to complete a legal and technical due diligence on 2738L. On 13 December 2012, Mozambi announced it had completed its due diligence and on 17 December 2012 announced that it had exercised its right to withdraw from its agreement to acquire the license. As a result, Mozambi no longer retained the right to explore 2738L and recognised an impairment loss of \$1,053,864 of all expenditure incurred on the license in the prior year.

Licenses 3245L and 3246L

As noted in the 2013 Directors' Report, Mozambi's board implemented a number of measures to reduce administrative expenditure during the 2013 financial year, including salary and fee reductions as well as staff retrenchments and a reduction in the size of the Company's board. These measures would allow the Company to preserve its working capital while the Board investigated alternatives for both new investment opportunities and development / exploitation of its existing assets. Accordingly there was significant resultant uncertainty regarding the timing and extent of further exploration activity on the Company's Mozambican assets. In accordance with accounting standards, as substantive expenditure on further exploration for and evaluation of mineral resources in the specific area was neither budgeted nor planned, the Company recognised an accounting impairment in the value of those assets in the prior year. Based on information available at that time and in the absence of reliably estimable measures of the future value in use or potential recoverable amount through sale of the assets, management had assigned a recoverable amount of zero to the assets and recognised a full impairment accordingly in the prior year.

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Notes to the Financial Statements for the Year ended 30 June 2014

9. Trade & Other Payables

	Consolidated	
	2014	2013
	\$	\$
Trade Creditors & Accruals	46,650	70,172
Related party payables	42,713	17,531
Total Trade & Other Payables	89,363	87,703

Trade payables are non-interest bearing and are normally settled on 30-day terms.

Related party payables as at reporting date relate to Company Secretarial and consulting fees owed to Erasmus Consulting Pty Ltd (an entity associated with Mr Alex Neuling, a Director, which is owed \$31,715 (2013: \$17,531)) and Alignment Capital Pty Ltd (an entity associated with Mr Julian Jarman, a Director, which is owed \$11,000 (2013: nil)). No interest is currently being levied on these payables.

10. Amounts due under contract

	Consolidated	
	2014	2013
	\$	\$
<u>Non-Current</u>		
Opening balance	-	1,861,353
Revaluation of amounts due under contract due to currency fluctuations	-	294,981
Reclassified as non-current	-	-
Reversal of amounts due under contract	-	(2,156,334)
	-	-

Amounts due under contract represented amounts payable under contract to the vendors of exploration licences 3245L and 3246L upon satisfaction of the conditions of the contract. Under the agreement, the Group was required to pay US\$500,000 for every 50,000,000 tonnes of commercially exploitable coal resource identified on the areas covered by the exploration licences up to a cap of US\$3,000,000 (the cap includes the US\$1,000,000 already paid for acquisition of the license areas).

Management's expectation in the prior year, based on information available at that time, including an independent geologist's report, was that a commercially exploitable coal resource would not be identified and the liability would not eventuate. Consequently, the liability was derecognised and the amount previously recognised as deferred exploration expenditure was reversed in the prior year (see note 8).

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Notes to the Financial Statements for the Year ended 30 June 2014

11. Contributed Equity

Share Capital

	Consolidated		Consolidated	
	2014	2013	2014	2013
	Shares	Shares	\$	\$
Ordinary shares issued and fully paid	212,541,987	119,941,987	31,758,386	30,874,975
Total Contributed Equity			31,758,386	30,874,975

Movements in Share Capital during the current and prior financial years are as follows:

Ordinary Shares

	Date	No.	Issue Price	\$
Balance as at 1 July 2012		114,941,987		30,482,928
Shares issued	17/01/13	5,000,000	\$0.08	400,000
Less costs of issue		-		(7,953)
Balance as at 30 June 2013		119,941,987		30,874,975
Blackall acquisition	31/03/14	30,000,000	\$0.01	300,000
Tranche 1 placement	31/03/14	19,990,331	\$0.01	199,903
Placement costs	31/03/14	2,000,000	\$0.01	20,000
Tranche 2 placement	06/06/14	30,009,669	\$0.01	300,097
Moultrie placement	06/06/14	10,000,000	\$0.01	100,000
Placement costs	06/06/14	600,000	\$0.01	6,000
Less costs of issue		-		(42,589)
Balance as at 30 June 2014		212,541,987		31,758,386

- On 17 March 2014 the Company announced a share placement of 50,000,000 ordinary shares plus 25,000,000 attaching options exercisable at 2c on or before 31 December 2017. The placement was conducted in two tranches to raise \$500,000 before costs; Tranche 1 was issued on 31 March 2014 and Tranche 2 on 6 June 2014;
- Concurrently with Tranche 1 of the share placement, the Company issued 30,000,000 ordinary shares plus 15,000,000 options exercisable at 2c on or before 31 December 2017 to acquire Blackall Capital Pty Ltd. Further details of the acquisition are at note 17.
- A total of 2,600,000 shares were issued in lieu of cash for costs associated with the placement and acquisition of Blackall Capital.

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Notes to the Financial Statements for the Year ended 30 June 2014

Options

The following options were in existence during the current and prior reporting periods:

Series	Number	Grant date	Fair value at grant date \$	Exercise price \$	Expiry date	Vesting date
1	20,000,000	21/02/2011	\$0.1002	\$0.25	21/02/2014	21/02/2011
2	250,000	6/07/2011	\$0.1280	\$0.35	30/06/2014	6/07/2011
3	250,000	6/07/2011	\$0.1140	\$0.45	30/06/2014	6/07/2011
4	250,000	6/07/2011	\$0.1030	\$0.55	30/06/2014	6/07/2011
5	2,500,000	22/07/2011	n/a	\$0.30	22/07/2013	n/a
6	475,000	2/08/2012	\$0.0260	\$0.25	2/08/2016	2/08/2012
7	2,200,000	26/11/2012	\$0.0060	\$0.25	30/11/2016	26/11/2012
8	50,000,000	27/05/2014	\$0.0048	\$0.02	31/12/2017	27/05/2014
9	9,000,000	27/05/2014	\$0.0048	\$0.02	31/12/2017	27/05/2014

The options are not listed and carry no dividend or voting rights. Upon exercise, each option is convertible into one ordinary share to rank pari passu in all respects with the Company's existing fully paid ordinary shares. All options on issue vested at the grant date.

The following table illustrates the number and weighted average exercise prices of and movements in share options during the year:

	2014		2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at the beginning of the year	25,925,000	\$0.26	23,250,000	\$0.26
Granted during the year	59,000,000	\$0.02	2,675,000	\$0.25
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(23,250,000)	\$0.26	-	-
Outstanding at the end of the year	61,675,000	\$0.03	25,925,000	\$0.26
Exercisable at the end of the year	61,675,000		25,925,000	

Share options exercised during the year

No shares were issued during the year to 30 June 2014 as a result of the exercise of options (2013: nil).

Share options outstanding at the end of the year

The share options outstanding at the end of the year had an exercise price of \$0.03 (2013: \$0.26) and a weighted average remaining contractual life of 1,262 days (2013: 321 days).

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Notes to the Financial Statements for the Year ended 30 June 2014

12. Reserves and accumulated losses

(a) Reserves

	Consolidated	
	2014	2013
	\$	\$
<i>Option Reserve</i>		
Balance at beginning of year	2,672,000	2,633,310
Share based payments	163,200	38,690
Balance at end of year	2,835,200	2,672,000

The option reserve has historically been used to record the fair value of share-based payments made by the Company to employees and directors as part of their remuneration.

<i>Foreign currency translation reserve</i>		
Balance at beginning of year	(94,099)	(8,671)
Currency translation differences	17,682	(85,428)
Balance at end of year	(76,417)	(94,099)

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

	2014	2013
	\$	\$
Total Reserves	2,758,783	2,577,901

(b) Accumulated Losses

At the beginning of the financial year	(32,420,374)	(22,742,975)
Loss for the year	(955,402)	(9,677,399)
Balance at end of financial year	(33,375,776)	(32,420,374)

13. Share Based Payments

The following share-based payments were made during the current year:

Description	Security type	Number issued	Fair value
			\$
Issue of related party options (i)	Options	9,000,000	43,200
Issue of options to consultants (ii)	Options	5,000,000	24,000
Shares issued as payment for services (ii)	Ordinary shares	2,600,000	26,000
			93,200
Blackall asset acquisition (iii)	Ordinary shares	30,000,000	300,000
	Options	15,000,000	96,000
			396,000

- (i) 9,000,000 related party options were issued to the directors of the Company as a performance incentive on 6 June 2014.

Mozambi Coal Limited

Notes to the Financial Statements for the Year ended 30 June 2014

(ii) A total of 5,000,000 options and 2,600,000 ordinary shares were issued to consultants of the Company for services provided in relation to the Blackall acquisition and capital raising.

(iii) Blackall asset acquisition

100% of the issued capital of Blackall Capital Pty Ltd was acquired for a consideration of 30,000,000 ordinary shares issued at \$0.01 per share plus 15,000,000 options with an expiry date of 31 December 2017 and exercise price of \$0.02. See Note 17 for further details.

Fair value of share options granted during the year

The fair value of the equity-settled share options granted during the year is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which the options were granted.

	Series 8	Series 9
Dividend yield	0%	0%
Expected volatility	100%	100%
Risk-free interest rate	2.86%	2.86%
Expected life of option	3.6 years	3.6 years
Exercise price	\$0.02	\$0.02
Grant date share price	\$0.009	\$0.009

14. Financial Instruments

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from 2013.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

None of the Group's entities are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

Consolidated	
2014	2013
\$	\$

(b) Categories of financial instruments

Financial assets

Loans and receivables	40,118	22,407
Cash and cash equivalents	515,075	870,301

Financial liabilities

Trade & other payables	89,363	87,705
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Notes to the Financial Statements for the Year ended 30 June 2014

(c) Financial risk management objectives

The Group is exposed to market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effect of these risks, by using derivative financial instruments to hedge these risk exposures where appropriate. The use of financial derivatives is governed by the Group's policies approved by the board of directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(d) Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, commodity prices and exchange rates. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(e) Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters. No forward contracts or other hedging instruments have been used during the current or prior year as the Group's foreign exchange exposure is not considered to be sufficiently material to justify such activities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the balance date expressed in Australian dollars are as follows:

	Liabilities		Assets	
	2014	2013	2014	2013
US dollars	(25,241)	(15,794)	160,413	179,352

Foreign currency sensitivity analysis

The Group is exposed to US Dollar (USD) currency fluctuations.

The following table details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

	USD Impact	
	2014	2013
	\$	\$
Result for the year*	10,779	4,947
Other equity	-	-

* This is mainly attributable to the exposure outstanding on USD receivables and payables at year end in the Group.

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Notes to the Financial Statements for the Year ended 30 June 2014

(f) Interest rate risk

As at and during the year ended on reporting date the Group had no significant interest-bearing assets or liabilities other than liquid funds on deposit. As such, the Group's income and operating cash flows (other than interest income from funds on deposit) are substantially independent of changes in market interest rates. The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below.

		Consolidated	
		2014	2013
		\$	\$
Financial Assets			
Cash assets	Floating interest	515,075	870,301

Weighted average effective interest rate 3.33% (2013: 4.85%).

Group and Parent Company sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the balance date and the stipulated change taking place at the beginning of the financial year and held constant through the reporting period.

At balance date, if interest rates had been 80 basis points higher or lower and all other variables were held constant, the Group's net result would increase or decrease by \$5,542 (2013: \$12,059). This is mainly attributable to the Group's exposure to interest rates on its variable rate cash holdings.

(g) Credit risk

The Group seeks to trade only with recognised, trustworthy third parties and it is the Group's policy to perform credit verification procedures in relation to any customers wishing to trade on credit terms with the Group. The Group has no significant concentrations of credit risk.

(h) Liquidity risk

Prudent liquidity management involves the maintenance of sufficient cash, marketable securities, committed credit facilities and access to capital markets. It is the policy of the board to ensure that the Group is able to meet its financial obligations and maintain the flexibility to pursue attractive investment opportunities through keeping committed credit lines available where possible, ensuring the Group has sufficient working capital and preserving the 15% share issue limit available to the Company under the ASX Listing Rules.

Maturities of financial liabilities

Group - As at reporting date the Group had total financial liabilities of \$89,363 (2012: \$87,705), comprised of non interest-bearing payables to related parties, trade creditors and accruals with a maturity of less than 6 months.

(i) Net fair value

The carrying amount of financial assets and liabilities recorded in the financial statements approximate their fair value as at 30 June 2014.

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Notes to the Financial Statements for the Year ended 30 June 2014

15. Commitments and Contingencies

In order to maintain and preserve rights of tenure to granted coal exploration tenements, the Group is required to meet certain minimum levels of exploration expenditure specified by the State Government of Queensland.

As at reporting date these future minimum exploration expenditure commitments are as follows:

	30/06/14	30/06/13
	\$	\$
Not longer than 1 year	420,000	-
Longer than 1 year and not longer than 5 years	1,828,453	-
Longer than 5 years	-	-
Total	2,248,453	-

16. Segment Reporting

a) Description

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The function of the chief operating decision maker is performed by the Board collectively. Information reported to the Board for the purposes of resource allocation and assessment of performance is focused broadly on the Group's diversified activities across different sectors.

The Group's reportable segments under AASB 8 are therefore as follows:

- Mineral Exploration – Mozambique
- Mineral Exploration – Australia

Information regarding the activities of these segments during the current and prior financial period is set out in the following tables.

b) Segment revenues and results

	Segment revenue		Segment profit/(loss)	
	Year ended	Year ended	Year ended	Year ended
	30/06/14	30/06/13	30/06/14	30/06/13
	\$	\$	\$	\$
Mineral Exploration – Mozambique	-	-	(19,347)	(8,588,389)
Mineral Exploration – Australia	-	-	(462,358)	-
Total for continuing operations	-	-	(481,705)	(8,588,389)
Investment income			11,677	55,451
Share based payments			(93,200)	(38,689)
Central administration costs and directors' salaries			(397,080)	(1,200,095)
Loss before tax (continuing operations)			(960,308)	(9,771,722)

Mozambi Coal Limited

Notes to the Financial Statements for the Year ended 30 June 2014

c) Segment assets and liabilities

	30/06/14	30/06/13
	\$	\$
Segment assets		
Mineral Exploration – Mozambique	23,973	25,685
Mineral Exploration – Australia	455,015	-
Total segment assets	478,988	25,685
Unallocated	533,768	881,427
Consolidated total assets	1,012,756	907,112

	30/06/14	30/06/13
	\$	\$
Segment liabilities		
Mineral Exploration – Mozambique	5,283	5,385
Mineral Exploration – Australia	-	-
Total segment liabilities	5,283	5,385
Unallocated	84,080	82,318
Consolidated total liabilities	89,363	87,703

d) Other segment information

	Impairment		Additions to non-current assets	
	Year ended	Year ended	Year ended	Year ended
	30/06/14	30/06/13	30/06/14	30/06/13
	\$	\$	\$	\$
Mineral Exploration – Mozambique	-	8,155,408	-	162,041
Mineral Exploration – Australia	-	-	455,015	-
	-	8,155,408	455,015	162,041

17. Subsidiaries

The consolidated financial statements include the financial statements of Mozambi Coal Limited and the subsidiaries listed in the following table.

Name	Principal activity	Country of Incorporation	% Equity Interest	
			2014	2013
Mine Mixers Pty Ltd	Dormant	Australia	100	100
Dugal Pty Ltd	Holding company	Australia	100	100
Dugal Resources Lda	Coal exploration	Mozambique	70	70
Xiluva Mozambi Lda	Coal exploration	Mozambique	80	80
Mozambi Resources Pty Ltd	Dormant	Australia	100	100
Mozambi Ventures Lda	Coal exploration	Mozambique	80	80
MNBB Pty Ltd (a)	Coal exploration	Australia	100	-
Blackall Capital Pty Ltd (b)	Coal exploration	Australia	100	-

Mozambi Coal Limited is the ultimate Australian parent entity and ultimate parent of the Group.

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Notes to the Financial Statements for the Year ended 30 June 2014

None of the non-wholly owned subsidiaries are considered to have material non-controlling interests to the Group.

(a) MNBB Pty Ltd

MNBB Pty Ltd was established during the year ended 30 June 2014 for the acquisition of the Bowen River and Carmilla tenements in Queensland.

(b) Acquisition of Blackall Capital Pty Ltd

On 31 March 2014, Mozambi Coal Limited acquired 100% of the share capital of Blackall Capital Pty Ltd. Blackall was not actively operating as a business and therefore the acquisition has been treated as an asset purchase as opposed to a business combination.

Blackall was acquired for a consideration of 30,000,000 ordinary shares issued at \$0.01 per share plus 15,000,000 options with an expiry date of 31 December 2017 and exercise price of \$0.02.

At acquisition, Blackall held options to acquire a beneficial interest of 95% in two exploration licences and a further application for coal tenements in Queensland. Net assets at acquisition were \$1,475. As no tenure is held by Blackall, the acquisition cost, which on consolidation would be represented by exploration and evaluation expenditure, does not meet the conditions for being able to be capitalised as exploration and evaluation expenditure in accordance with the Company's accounting policy, and as a result, has been expensed in the current year.

18. Events After the Balance Date

There have been no matters or circumstances since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Company or Consolidated Entity in future financial years.

19. Auditor's Remuneration

The auditor of Mozambi Coal Limited is HLB Mann Judd.

	Consolidated	
	2014	2013
	\$	\$
<i>Amounts received or due and receivable by HLB Mann Judd for:</i>		
An audit or review of the financial report of the entity and any other entity in the Group	28,050	34,000
	28,050	34,000

20. Key Management Personnel Remuneration

Total remuneration paid to key management personnel during the year:

	Consolidated	
	2014	2013
Short-term benefits	164,511	748,082
Post-employment benefits	3,012	15,513
Share based payments	43,200	35,440
	210,723	799,035

Mozambi Coal Limited

Notes to the Financial Statements for the Year ended 30 June 2014

21. Parent Entity Information

The following details information related to the parent entity, Mozambi Coal Limited, at 30 June 2014. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

Financial position	Parent	
Assets	2014	2013
Current Assets	986,921	853,326
Non-Current Assets	2,548	14,404
Total Assets	989,469	867,730
Liabilities		
Current Liabilities	(68,082)	(48,321)
Total Liabilities	(68,082)	(48,321)
Equity		
Issued capital	31,758,386	30,874,975
Reserves	2,835,200	2,672,000
Accumulated losses	(33,672,199)	(32,727,566)
Total Equity	921,387	819,409
Financial performance		
Loss for the year	(944,633)	(9,857,150)
Total comprehensive loss for the year	(944,633)	(9,857,150)

The Company has a receivable owing to it by its wholly owned subsidiary Dugal Pty Ltd of \$1,026,170 (2013:\$1,026,170). The amount has been advanced interest free, unsecured and with no fixed terms for repayment. An allowance for impairment for the full amount outstanding has been recognised at 30 June 2014.

The Company has a receivable owing to it by its 70% owned subsidiary Dugal Resources Lda of \$538,885 (2013:\$538,885). The amount has been advanced interest free, unsecured and with no fixed terms for repayment. An allowance for impairment for the full amount outstanding has been recognised at 30 June 2014.

The Company has a receivable owing to it by its 80% owned subsidiary Xiluva Mozambi Lda of \$388,820 (2013:\$388,820). The amount has been advanced interest free, unsecured and with no fixed terms for repayment. An allowance for impairment for the full amount outstanding has been recognised at 30 June 2014.

The Company has a receivable owing to it by its 100% owned subsidiary Mine Mixers Pty Ltd of \$1,271,070 (2013:\$1,270,305). The amount has been advanced interest free, unsecured and with no fixed terms for repayment. An allowance for impairment for the full amount outstanding has been recognised at 30 June 2014.

The Company has a receivable owing to it by its 80% owned subsidiary Mozambi Ventures Lda of \$19,399 (2013:\$19,399). The amount has been advanced interest free, unsecured and with no fixed terms for repayment. An allowance for impairment for the full amount outstanding has been recognised at 30 June 2014.

The Company has a receivable owing to it by its 100% owned subsidiary MNBB Pty Ltd of \$455,015 (2013: Nil). The amount has been advanced interest free, unsecured and with no fixed terms for repayment.

For details of commitments, see Note 15.