AUSTRALIAN MINES
LIMITED

# ANNUAL REPORT 2017

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# CORPORATE DIRECTORY

## DIRECTORS

Michael Ramsden, Chairman
Benjamin Bell, Managing Director
Michael Elias, Non-Executive Director
Dominic Marinelli, Non-Executive Director
Neil Warburton, Non-Executive Director

## COMPANY SECRETARY

Michael Ramsden

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Dear Shareholder,

I am pleased to provide this update detailing the significant progress achieved by Australian Mines in the 2016-17 financial year, as it continued to deliver on its strategy to establish the Company as a major supplier of in-demand battery and technology metals.

With the announcement following the end of the reporting period that we have moved to acquire 100% ownership of our flagship Sconi Cobalt-Nickel-Scandium Project in northern Queensland, we are now in a leading position in Australia when it comes to both footprint and near-term development potential of cobalt-nickel-scandium ore bodies like Sconi and our other priority Flemington Cobalt-Nickel-Scandium Project in New South Wales, which we are also acquiring a 100% interest in.

We are currently completing a Bankable Feasibility Study on the Sconi Project, which is the most advanced project of its type in Australia, having all necessary regulatory approvals in place. We have continued to advance the Flemington Project towards a Pre-Feasibility Study in the past financial year, following the release of a positive Scoping Study and the completion of a significant resource extension drill program that doubled the cobalt mineralisation footprint of the project and tripled the known scandium mineralisation area.

Just before the end of the reporting period, Australian Mines also moved to expand its tenement holding around Sconi 10-fold by applying for five new exploration licences, designed to future-proof the construction of the existing project and provide additional exploration potential on what is highly prospective tenure for this type of mineralisation in its own right.

Having control of both the Sconi and Flemington projects puts us in an enviable position to further progress already advanced off-take discussions with international battery and vehicle manufacturers on the more favourable basis of being able to market 100% of the expected output from any future mining operations.

Also in response to interest from potential end-customers, we committed significant capital in the period to constructing a demonstration-size processing plant in Perth, using proven and off-the-shelf technology, to process bulk samples of ore from both Sconi and Flemington to produce commercially saleable samples of cobalt and nickel sulphates as well as scandium oxide products by the end of the year to facilitate more detailed negotiation with interested parties.

Despite Sconi and Flemington's separate locations, the projects offer many synergies being virtually identical in terms of ore, and we expect some of what we learn on the BFS at Sconi can transfer across to the PFS on Flemington to deliver cost savings and other benefits. We are processing bulk samples of ore from Sconi and Flemington through the same plant, with no modification, reinforcing the similarities of the mineralisation.

The company continued to expand its battery metals portfolio in the financial year, acquiring and negotiating a land access agreement for the Thackaringa Cobalt Project, a pure cobalt play for Australian Mines on highly promising ground adjacent to a known cobalt resource in the west of New South Wales.

Demand for nickel and cobalt for use in batteries is predicted to increase with the global trend by car manufacturers towards electric vehicle fleets and retail prices approaching parity with internal combustion alternatives, while scandium-reinforced aluminium alloys are being increasingly used in car frames and panels as a result of their strength, lightweight nature and ability to be welded.

We would like to acknowledge the support we have received during the year from existing shareholders in our capital raising activities as well as the strong interest we have enjoyed from new investors internationally, which I believe is in-part recognition of our near-term opportunity to return to the ranks of producers – having previous mining experience as the owner and operator of the Blair nickel mine in Western Australia until 2009.

I would also like to thank managing director Benjamin Bell and my fellow directors for successfully relaunching Australian Mines in the battery and technology metals space and delivering on its project development plans to date, with the focus now delivering our two cobalt-nickel projects in eastern Australia.

The initial focus will be on completing the BFS at Sconi by April 2018 in parallel with work on the PFS at Flemington due to start in October. Pending the final investment decision shortly after the BFS results next year, we believe we can achieve full scale production at Sconi by mid-2019. To assist with this delivery, we boosted our processing expertise through the recent appointment of experienced plant builder Tim Maclean as chief operating officer.

We have a busy period ahead in terms of news flow and I look forward to updating shareholders further as we achieve key milestones.

Regards

**Michael Ramsden**

*Non-Executive Chairman*

The Directors present their report together with the financial statements of the Consolidated Group comprising Australian Mines Limited ("the Company" or "Australian Mines") and its controlled entities for the year ended 30 June 2017, and the auditor's report thereon.

## 1. DIRECTORS

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

**Michael Ramsden – Non-Executive Chairman appointed 9 March 2011**
**BEc, LLB, FFIN**
Michael Ramsden is a lawyer with more than 25 years' experience as a corporate advisor. He has been involved with all forms of finance, including money markets, futures trading, lease finance, trade finance and foreign exchange. Mr Ramsden is the Managing Director of Terrain Capital Limited in Australia, and has previously worked for international companies including CIBC Australia, JP Morgan and Scandinavian Pacific Investments Limited. He is also a director of the Victoria Racing Club Ltd, Chairman of Cremore Capital Ltd and formerly Chairman of Terrain Australia Ltd and Director of D&D Tolhurst Ltd. Mr Ramsden is a member of the Company's Remuneration Committee and Audit and Risk Committee.

**Benjamin Bell – Managing Director appointed 23 January 2012**
**BSc, MMET, MBA**
Benjamin Bell has more than 20 years' experience as a geologist and geophysicist in the minerals industry. Mr Bell joined the Company as Chief Executive Officer on 8 November 2011 and was subsequently appointed as Managing Director in January 2012. Previously Mr Bell was CEO of Ausgold Limited, and has held senior exploration roles to other ASX-listed gold and base metal explorers.

**Michael Elias – Non-Executive Director appointed 1 July 2005**
**BSc(Hons), FAusIMM, CPGeo**
Michael Elias has more than 35 years' of extensive, international experience in all aspects of nickel resource development in both laterites and sulphides, from project generation and evaluation, exploration planning and management, development studies, open cut and underground mine geology, resource/reserve estimation, and resource economics. He has been a Principal Consultant with mining consultancy CSA Global Pty Ltd since 2001.

He previously held the positions of Chief Geologist – WA Nickel Operations and Chief Geologist – Nickel Resource Development at WMC Resources Ltd and was a director of Silver Swan Group Ltd until his resignation on 19 November 2012. Mr Elias holds a Bachelor of Science (Honours) in Geology from the University of Melbourne and is a Fellow of the Australasian Institute of Mining and Metallurgy.

**Dominic Marinelli – Non-Executive Director appointed 9 March 2011**
**MBA, BEng, PGD Sc**
Dominic Marinelli has over 20 years of corporate fundraising and mergers and acquisitions experience covering a wide range of industries including resources and other emerging technologies. Mr Marinelli is a Director of Terrain Capital Limited in Australia and of unlisted explorer West Africa Coal Pty Ltd. He holds an MBA from the Melbourne Business School, a degree in Electrical and Computer Systems Engineering from Monash University and a diploma in Nanotechnology from Leeds University. Mr Marinelli is a member of the Company's Remuneration Committee and Audit and Risk Committee.

## 1. DIRECTORS (cont.)

**Neil Warburton – Non-Executive Director appointed 22 April 2003**
**Associate Degree in Mining Engineering – WASM, AusIMM, FAICD**
Neil Warburton is a non-executive director at Australian Mines Limited, since April 2003. He is a member of the Company's Remuneration Committee and Chairman of the Audit and Risk Committee.

He is also the non-executive director of Independence Group Limited, a diversified gold and base metal producer with operations in Western Australia, and non-executive Chairman of Flinders Mines Limited, an iron ore explorer and developer in Western Australia.

Previously, he was Chief Executive Officer at Barminco, an Australian based international leader in hard rock underground mining, setting industry benchmarks in safety, service and knowledge. During his tenure as CEO at Barminco from August 2007 to March 2012, Mr Warburton managed the Australian operations and coordinated the international expansion into West Africa and Egypt. He is an experienced corporate and senior manager with over 37 years in the mining industry. Mr. Warburton graduated from the Western Australia School of Mines with an Associate Degree in Mining Engineering, and is a Fellow of the Australian Institute of Company Directors and Member of the Australasian Institute of Mining and Metallurgy.

## 2. COMPANY SECRETARY

The Company Secretary of the Company during or since the end of the financial year is:

**Michael Ramsden – appointed 18 June 2013**
(See details above)

## 3. DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year is as follows:

| | Board Meetings | | Remuneration Committee | | Audit & Risk Committee | |
|---|---|---|---|---|---|---|
| **Director** | **Held** | **Attended** | **Held** | **Attended** | **Held** | **Attended** |
| Michael Ramsden | 7 | 7 | 2 | 2 | 4 | 4 |
| Benjamin Bell | 7 | 7 | - | - | - | - |
| Michael Elias | 7 | 7 | - | - | - | - |
| Dominic Marinelli | 7 | 7 | 2 | 2 | 4 | 4 |
| Neil Warburton | 7 | 7 | 2 | 2 | 4 | 4 |

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The Audit & Risk Committee is required to meet at least twice per year, review annual and half-year accounts, and report to the Board of Directors. The Audit & Risk Committee also oversees the Company's risk management systems and procedures.

## 4. PRINCIPAL ACTIVITIES

The consolidated entity's principal activity during the course of the financial year was the exploration for gold and base metals.

## 5. OPERATING AND FINANCIAL REVIEW

Australian Mines achieved a series of transformational milestones over the past 12 months. The most significant related to the Company's strategy to pursue a dominant position in the global production and supply of battery and technology metals.

Central to this strategy was the signing of agreements to acquire the Sconi Cobalt-Nickel-Scandium Project in Queensland and the Flemington Cobalt-Scandium-Nickel Project in New South Wales. The execution of these agreements in late 2016 paved the way for Australian Mines to make significant progress on both projects over the remainder of year.

Australian Mines, in response to requests from potential off-take customers, also began construction of a demonstration-size treatment plant to process ore from Sconi and Flemington producing commercial grade cobalt sulphate, scandium oxide and nickel sulphate.

**Cobalt-Nickel-Scandium Strategy**

Australian Mines has a clear strategy to develop world-class cobalt-nickel-scandium projects. The strategy recognises the rapid global shift to cleaner, more sustainable energy sources. This includes the use of batteries to power vehicles, homes and industry.

Australian Mines aggressively pursued its strategy to take a dominant position in the global supply of cobalt sulphate, nickel sulphate and scandium oxide throughout FY2017. The first step was to sign agreements to acquire through separate transactions two projects with established resources that offered near-term development potential.

The two projects, Sconi and Flemington, have the potential to provide a significant quantity of the raw materials used in emerging battery technologies, with both projects having projected mine lives of at least the next 20 years.

The Sconi Cobalt-Nickel-Scandium Project is one of the most advanced cobalt projects in Australia, with all necessary approvals for mining in place and a Bankable Feasibility Study underway. Flemington was the subject of a highly positive Scoping Study released in the March quarter. A resource extension drilling program was completed in the June quarter of 2017.

In response to strong preliminary interest from prospective customers across Europe, Asia and the Middle East, Australian Mines began construction of a demonstration-size processing plant in May 2017. The plant is expected to begin producing commercial grade samples of cobalt sulphate, scandium oxide and nickel sulphate in the latter part of 2017. Australian Mines regards production of these samples for assessment by potential customers as significant in expediting future off-take agreements.

The pressure acid leach (PAL) and solvent extraction (SX) plant will be capable of processing more than 15 tonnes of ore per week from the Sconi and Flemington projects and will provide proof of concept ahead of a final investment decision on a full-scale processing operation at Sconi.

In line with the strategy to take a dominant position in the supply of battery and technology metals, Australian Mines signed a Land Access Agreement in the June quarter for its Thackaringa Cobalt Project. Australian Mines' 100% owned Thackaringa Cobalt Project immediately adjoins Cobalt Blue's Pyrite Hill/Railway/Thackaringa cobalt project in New South Wales.

## 5. OPERATING AND FINANCIAL REVIEW (cont.)

**Sconi Cobalt-Nickel-Scandium Project**

Australian Mines has signed an agreement to acquire 100% interest in the Sconi Project, located near the historic mining centre of Greenvale in Queensland, from Metallica Minerals Limited through funding the Bankable Feasibility Study (BFS) and subsequently securing project finance.

The Sconi Project BFS is progressing to schedule and Australian Mines anticipates announcing a final investment decision after the release of the BFS.

The BFS is assessing the feasibility of a number of scenarios for any future operation at Sconi, including significantly higher production of cobalt and nickel than contemplated in the Pre-Feasibility Study and Scoping Study.

Australian Mines announced in June 2017 that it was moving to substantially increase the Sconi tenement portfolio through five Exploration Permits for Mineral (EPM) applications. If the EPMs are granted, the size of the Sconi tenement holding will increase by approximately 1,185 square kilometres. This would represent a 10-fold increase of the tenement holding in comparison to when the joint venture agreement was signed with Metallica Minerals in October 2016.

The Mineral Resource Estimate for the Sconi Project is reported under JORC 2012 Guidelines and was reported by Australian Mines on 31 March 2017.

Included in the Australian Mines' 31 March 2017 announcement was full disclosure on the published cobalt, nickel and scandium production targets as contemplated by both the Scoping Study and subsequent Pre-Feasibility Study, with both studies completed by leading independent mining consulting firms. These published studies demonstrate that the Sconi Project could support a mine life in excess of 30 years.

Based on the throughput contemplated for a full-size processing plant under the Sconi Project's PFS, average annual production at Sconi would equate to 3,010 tonnes of cobalt sulphate, 24,420 tonnes of nickel sulphate and 77 tonnes of scandium oxide for at least the first 20 years of operations. This production is based on the project's expected average cobalt feed grade for the first 20 years of production of 0.11% and average nickel feed grade for the first 20 years of production of 0.81%.

Preliminary financial modelling for the Sconi Project completed in the June quarter of 2017 suggested the Project may support a larger operation than outlined in the PFS. One scenario being assessed as part of the BFS, is construction of a mining and processing operation capable of trebling the amount of cobalt and nickel produced annually at Sconi in comparison to the levels outlined in the PFS.

The move by Australian Mines to expand the tenement portfolio through the EPM applications lodged in June 2017 offers the potential to: create a larger buffer around the existing Mining Leases and thereby provide increased flexibility for the development of infrastructure for mining operations; and create the potential to expand the existing Mineral Resource beyond its current five-kilometre strike length as well as unlocking additional exploration potential.

The annual production schedule, together with the optimal pit design, will be confirmed as part of the BFS. The Sconi Project is effectively development-ready once the BFS is completed and, subject to funding, Sconi remains on track to be Australia's first cobalt-nickel-scandium project in production.

## 5. OPERATING AND FINANCIAL REVIEW (cont.)

**Flemington Cobalt-Scandium-Nickel Project**

Australian Mines has the right to acquire 100% of the Flemington Project in the highly prospective Fifield region in New South Wales from Jervois Mining Limited through a series of Options and payment of associated fees.

Australian Mines completed a 239-hole resource extension drilling program at the Flemington Project in the June 2017 quarter. The drilling program was in preparation for a Pre-Feasibility Study (PFS) scheduled to start in October, and the Company anticipates releasing a Mineral Resource update in September.

Post period-end, Australian Mines announced highly encouraging results from the resource extension drilling, which in addition to demonstrating consistent cobalt grades approaching 1% over individual metres across the deposit, identified instances of outcropping cobalt and scandium mineralisation at Flemington, with outstanding shallow cobalt intersections including:

13 metres @ 2,060 ppm (or 0.20%) Cobalt from 7 metres (drill hole FMA17_148);

5 metres @ 3,152 ppm (or 0.31%) Cobalt from 4 metres (drill hole FMA17_151); and

19 metres @ 1,748 ppm (or 0.17%) Cobalt from 7 metres (drill hole FMA17_208).

These results have successfully doubled the previous footprint of the project's cobalt mineralisation and have confirmed beyond doubt that the Flemington and Syerston mineralisation are part of the same ore body, which is divided by a single tenement boundary.

Australian Mines' recently completed resource extension drill program also effectively trebled the footprint of the known scandium mineralisation, as well as confirming high-grade scandium outcrops across the Flemington project area.

Scandium intersections returned for the Company's drill program include:

18 metres @ 472 ppm Sc from surface (drill hole FMA17_123);

15 metres @ 478 ppm Sc from surface (drill hole FMA17_155); and

16 metres @ 556 ppm Sc from surface (drill hole FMA17_220).

There has been no material change or re-estimation of the Flemington Mineral Resource since the Australian Mines' announcement of 31 March 2017, which includes full details. Flemington Mineral resource: Measured 2.67Mt @ 435g/t Sc and Indicated 0.47Mt @ 425g/t Sc for a Total Mineral Resource of 3.14Mt @ 434g/t Sc.

The recent drilling program followed the release of the positive findings of a Scoping Study released in March 2017, which found that:

- Cobalt and scandium mineralisation potentially continues beyond the current Mineral Resource;
- A future mining operation at Flemington will have a low strip ratio of 0.9 tonne waste:1.0 tonne of ore, meaning more mineralised ore than waste is moved during mining;
- The Flemington ore is well suited to a hydrometallurgical processing flowsheet, thereby permitting Australian Mines to use proven processing equipment and methodologies; and
- Flemington will have a long projected operating life, estimated at over 30 years of production.

## 5. OPERATING AND FINANCIAL REVIEW (cont.)

Australian Mines submitted a Mining Lease Application for the Project to the New South Wales Department of Trade and Investment (Resource and Energy Division) during the March 2017 quarter. The Mining Lease Application, which covers an area of 3,900 hectares, was assigned the new tenement number of MLA 538 by the NSW Government. It includes the existing Mineral Resource as well as a significant percentage of the prospective geology that hosts the cobalt, nickel and scandium mineralisation targeted in the recent drilling program.

**Demonstration-size Processing Plant**

Construction of the demonstration-size cobalt-nickel-scandium processing plant began in May 2017. The plant, located in Perth due to the relevant metallurgical expertise in Western Australia, is on target to be fully operational and processing bulk samples of ore from the Sconi and Flemington projects by November 2017.

The plant uses a conventional pressure acid leach (PAL) front end to dissolve the metals into solution with a solid liquid separation and standard solvent extraction (SX) and sulphate crystallisation back end to separate out the cobalt, nickel and scandium to produce final products.

Australian Mines engaged The Simulus Group to carry out construction. Australian Mines is employing standard, readily available processing equipment sourced from dedicated PAL/SX suppliers, combined with an established processing flow chart already in use at several large-scale commercial operations around the world.

The plant will have throughput capacity of 2.2 tonnes per day and, when run on a continuous basis, has the potential to deliver a weekly output of 67 kilograms of cobalt sulphate; 500 kilograms of nickel sulphate and 8 kilograms of scandium oxide.

Positive engagement from potential customers and Australian Mines' strategy to progress negotiations was one of the catalysts for building the plant. Shipping samples of cobalt sulphate and nickel sulphate to potential international customers is to reinforce certainty around expected product quality.

The plant will produce bulk samples of scandium oxide for a European auto-manufacturer and other parties interested in producing high strength weldable aluminium.

The demonstration-size processing plant is designed in a way to make it readily scalable to a full-size plant. The design allows Australian Mines to optimise the processing flow chart and metal recoveries at a smaller scale prior to the design and construction of at least a 750,000 tonne per annum processing plant currently proposed to be built at Sconi subject to completion of the BFS and funding being secured.

**Thackaringa Cobalt Project**

The Australian Mines' Thackaringa Cobalt Project immediately adjoins Cobalt Blue's Pyrite Hill/Railway/Thackaringa Cobalt Project in New South Wales.

Australian Mines holds a 100% interest in its Thackaringa Project with no royalty or any other payments attached to the tenements.

Australian Mines signed a Land Access Agreement with the relevant landholders in the June 2017 quarter which allows initial exploration to be undertaken across the project area.

## 5. OPERATING AND FINANCIAL REVIEW (cont.)

The Thackaringa Project takes in Exploration Licences 8477 purchased from Dashell Pty Ltd (an unrelated, private exploration company) in the March 2017 quarter for a total consideration value of $78,000 (being 9,750,000 fully paid ordinary shares in Australian Mines at an issue price of $0.008).

Mapping undertaken by the New South Wales Geological Survey indicated that the favourable geology hosting Cobalt Blue's neighbouring cobalt mineralisation appears to continue through the Australian Mines project area. Australian Mines expects to begin exploration activities in September including:

- Close-spaced surface geochemical sampling program over three high-priority cobalt target areas; and/or
- Airborne electromagnetic (EM) survey over the entire tenement area.

**Arunta West Copper-Gold Project**

The Arunta West Copper-Gold Project is a joint venture between Australian Mines and Jervois Mining Limited, and takes in three tenements covering 345 square kilometres in the proven Lake Mackay district of Western Australia. Australian Mines separately holds a 100% interest in two tenements adjoining the Arunta West JV area.

During the past year, the Company engaged geophysical contractor Haines Surveys to carry out a detailed ground gravity survey over the North Dovers copper-gold target, as well as completing further reconnaissance of the secondary Mantati base metal prospect. It is anticipated the program will be completed in the latter part of CY2017.

**Doolgunna-Marymia Gold Project**

The Doolgunna-Marymia Gold Project is situated approximately 900 kilometres north of Perth and within 50 kilometres of the Canadian-listed Superior Gold's Plutonic Gold Mine.

The Project is being explored under a joint venture agreement with Riedel Resources Limited, with Australian Mines on target to satisfy its exploration spending obligations to earn an 80% interest in the project by May 2018.

Previous drilling has focused on just a few hundred metres of an identified 6-kilometre-long target zone. The drilling has centred around the Company's maiden drill hole (MMRC016), which returned a very encouraging 10 metres @ 8.79 g/t gold from 130 metres downhole in late 2015 at its Dixon prospect.

During the June 2017 quarter, Australian Mines completed the necessary on-ground preparation for a proposed air core drilling program at Dixon, which has been designed to test the prospect's 6-kilometre-long auriferous target zone. The timetable for this drilling program is still to be confirmed.

**Marriotts Nickel Project**

No significant activity was undertaken on Australian Mines' 100%-owned Marriotts Nickel Project during the past 12 months and the Company has no immediate plans to commence further exploration or development activities in the coming year.

Australian Mines believes potential remains to increase the existing Mineral Resource at Marriotts given the right economic environment.

## 5. OPERATING AND FINANCIAL REVIEW (cont.)

### CORPORATE ACTIVITY

Australian Mines completed a capital raising in October 2016 to progress development of its cobalt-nickel- scandium projects and to fund ongoing work in its exploration portfolio. The placement to sophisticated and professional investors was oversubscribed and raised $840,000 before costs.

In the March 2017 quarter, Australian Mines completed a fully-underwritten Entitlement Offer to shareholders, which raised approximately $2 million before costs. The funds were directed, in part, to the construction of the demonstration-size processing plant.

Australian Mines also raised funds totalling $4.3 million in the first half of 2017 through a strategic placement of 60,745,071 fully paid ordinary shares (at $0.008 per share to raise $485,960) and the issue of zero-coupon unsecured convertible notes (also at $0.008 to raise a further $3,804,309) to professional investors. The mandatory conversion of the convertible notes was triggered in the March 2017 quarter and subsequently approved by shareholders at the Company's April 2017 General Meeting.

**Cobalt-Nickel-Scandium Asset Agreements, Acquisitions**

Australian Mines executed a joint venture agreement with Metallica Minerals Limited in October 2016 to farm-in to the Sconi Cobalt-Nickel-Scandium Project in Queensland, Australia. Under this agreement, Australian Mines made a payment of $250,000 to Metallica Minerals on execution of the agreement.

The other terms of the agreement require Australian Mines to:

- Complete a Bankable Feasibility Study (BFS) on the project within four years to earn a 50% interest (or spend $10 million on the project within four years – whichever occurs first); and
- Procure the funding contemplated in the BFS no later than 18 months following the completion of this study to earn a maximum 75% interest.

Refer to Note 8 and Note 25, events occurring after the reporting period, for additional information on the progress of this agreement.

Australian Mines also executed an option agreement with Jervois Mining Limited to acquire the Flemington Cobalt-Scandium-Nickel Project. The agreement, similarly executed in October 2016, granted Australian Mines a series of options to enable it to purchase 100% of the Flemington Project:

Option 1: non-refundable $250,000 fee upon execution of agreement for a period of 3 months

Option 2: non-refundable $250,000 fee upon expiry of Option 1 for a further 3 months;

Option 3: non-refundable $500,000 fee upon expiry of Option 2 for a further 6 months;

Option 4: non-refundable $500,000 fee upon expiry of Option 3 for a further 6 months; and

Option 5: non-refundable $500,000 fee upon expiry of Option 4 for a further 6 months.

Under the agreement with Jervois Mining, the total purchase price for Flemington will be $6 million, minus the total of all option fees paid. Australian Mines has been making scheduled option payments under the agreement (payments made under Option 1, Option 2, Option 3 and Option 4 to date). The agreement with Jervois Mining also includes a 1.5% gross sales royalty on all proceeds from the sale of products derived from the Flemington assets.

### GENERAL ECONOMIC CONDITIONS

The Consolidated Group made a loss for the year of $1,675,932 (2016: loss $1,023,221). There was no impairment of exploration assets during the year (2016: $389,880).

## 5. OPERATING AND FINANCIAL REVIEW (cont.)

A comparison of the consolidated financial performance is included in the table below.

| Financials 2017 2016 | 2017 $ | 2016 $ |
|---|---|---|
| Revenue from operating activities | - | - |
| Net Loss | (1,675,932) | (1,023,221) |
| Cash and cash equivalents | 4,638,766 | 1,516,917 |

The company's financial results demonstrate a net loss due to the company's position of mineral explorer, rather than producer. At this point in the company's development, whilst it incurs expenditure through the ongoing exploration of tenements, no return has been generated as the company is yet to move into production, thus providing income.

## 6. DIVIDENDS

No dividends were paid or declared by the Company during the year (2016: nil).

## 7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Group during the financial year.

## 8. EVENTS SUBSEQUENT TO REPORTING DATE

On 10 July 2017 the Company received a refund of $329,782 from the Australian Taxation Office in relation to the research and development tax incentive.

On 6 September 2017 the Company announced that it would enter into an agreement to acquire 100% of the Sconi project from Metallica Minerals Ltd for $10 million. The acquisition will supersede the previous farm-in agreement which was announced in October 2016. The consideration includes $3.5 million in cash upon satisfaction of transaction conditions precedent, issue of $1.5 million of Australian Mines shares and a final issue of $5 million Australian Mines shares or cash upon commercial production.

One of the conditions for the purchase of the Sconi project was the raising of capital to fund the cash payment of $3.5 million to Metallica Minerals Ltd. On 11 September 2017 233,333,337 shares at $0.015 each were issued, raising $3.5 million.

On 1 September 2017, the Company paid Option 4 of $500,000 to Jervois Mining as part of the Flemington acquisition progress payments.

There have been no other events subsequent to reporting date.

## 9. LIKELY DEVELOPMENTS

Australian Mines will be continuing to focus its activities on the exploration and development of its Sconi and Flemington project area. The Company will also be actively assessing further growth opportunities as they arise and only if they represent a sound opportunity to increase shareholder value.

## 10. DIRECTORS' INTERESTS

As at the date of this report, the number of shares and options in the Company held by each Director of Australian Mines Limited and other key management personnel of the Consolidated Group, including their personally-related entities, are as follows:

| Specified Directors and Key Management Personnel | Shares | Listed Options | Unlisted Options |
|---|---|---|---|
| M Ramsden (i) | 59,767,958 | - | - |
| B Bell (ii) | 24,027,228 | - | - |
| M Elias (iii) | 12,601,777 | - | - |
| D Marinelli (iv) | 38,734,690 | - | - |
| N Warburton (v) | 20,670,140 | - | - |
| T Maclean(vi) | - | - | - |

(i) Mr M Ramsden has a relevant interest in the following shares – 28,304,611 shares held by Pacrim Investment Consultants Pty Ltd <Pacrim Super Fund A/c>, 1,158,562 shares owned by Whitehaven Investments Pty Ltd <Ramsden Family Trust>, 3,167,605 shares held by Doverpoint Pty Ltd, 18,864,452 shares in the name of Ormley Pty Ltd <Andrew Ramsden Super Fund>, and 8,272,728 shares owned by Mr M Ramsden.

(ii) Mr B Bell has a relevant interest in 11,027,228 shares owned by B & R Bell <Kestrel Investment Fund>, and 13,000,000 shares owned by Mr B Bell.

(iii) Mr M Elias has a relevant interest in 4,329,049 shares held by M & C Elias <Elias Super Fund>, and 8,272,728 shares held by Mr M Elias.

(iv) Mr D Marinelli has a relevant interest in the following shares – 8,243,946 shares held by Dominic Marinelli and Vicki Marinelli <Monte Amaro Super Fund>, 22,218,016 shares held by Dominic Orlando Marinelli <The Monte Acquaviva Trust>, and 8,272,728 shares held by Mr D Marinelli.

(v) Mr N Warburton has a relevant interest in the following shares – 8,029,473 shares held by Michlange Pty Ltd <Warburton Family Trust>, 1,290,482 held by Michlange Pty Ltd <N F Warburton Super Fund>, 3,077,457 held by Michlange Pty Ltd <Warburton Self Admin Super Fund>, and 8,272,728 shares held by Mr N Warburton.

(vi) Mr Maclean was appointed as Chief Operating Officer on 17 July 2017.

## 11. SHARE OPTIONS

**Unissued shares under options**
There are no unissued shares under options.

## 12. REMUNERATION REPORT – AUDITED

The directors present the Company's 2017 remuneration report outlining key aspects of our remuneration policy and framework, and remuneration awarded this year. The report includes the following:

a) Key management personnel covered in this report
b) Overview of remuneration policies
c) Principals of compensation
d) Directors and executive officers remuneration
e) Terms of equity settled share based payment transactions
f) Equity instruments held by key management personnel
g) Remuneration consultants
h) Voting and comments made at the company's 2016 Annual General Meeting
i) Loans to key management personnel
j) Other key management personnel transactions

## 12. REMUNERATION REPORT - AUDITED (cont.)

### A) KEY MANAGEMENT COVERED IN THIS REPORT

**Non-executive and executive directors and officers (see pages 4 to 5 for director details)**

Michael Ramsden (non-executive chairman)

Benjamin Bell (managing director)

Michael Elias (non- executive director)

Dominic Marinelli (non-executive director)

Neil Warburton (non-executive director)

Tim Maclean (chief operating officer) (appointed 17 July 2017)

### B) OVERVIEW OF REMUNERATION POLICIES

The board remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and Executives with a remuneration package that reflects the person's responsibilities, duties and personal performance. An employee option scheme for key Executives is in place.

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to Non-Executive Directors by other companies of similar size in the mining industry.

The Board has established a Remuneration and Nomination Committee (Remuneration Committee) responsible for making recommendations to the Board on remuneration arrangements for Directors and Executives of the Company.

**Assessing performance and clawback of remuneration**

The remuneration committee is responsible for assessing performance against Key Performance Indicators (KPI) and determining Short Term Incentives (STI) and Long Term Incentive (LTI) to be paid. To assist in this assessment, the committee receives detailed reports on performance criteria from BDO Reward (WA) Pty Ltd which are based on independently verifiable data such as financial measures, market capitalisation and data from independently run surveys.

In the event of serious misconduct or a material misstatement in the company's financial statements, the remuneration committee can cancel or defer performance-based remuneration and may also claw back performance based remuneration paid in the previous financial years.

### c) PRINCIPLES OF COMPENSATION

Remuneration of directors and executives is referred to as compensation throughout this report. Compensation levels for key management personnel, and for relevant key management personnel of the Consolidated Group, are competitively set to attract and retain appropriately qualified and experienced directors and executives.

**Fixed Compensation**

Fixed compensation consists of base compensation as well as employer contributions to superannuation funds. Compensation levels are reviewed annually by the Remuneration Committee through a process that considers individual and overall performance of the Consolidated Group.

## 12. REMUNERATION REPORT - AUDITED (cont.)

### C) PRINCIPLES OF COMPENSATION (CONT.)

**Performance-linked Compensation**

The Company has a Long Term Incentive performance-based compensation scheme commencing 1 July 2017 to issue Performance Shares subject to various KPI's being achieved and subject to Shareholders Approval. No Performance based compensation was paid this year, or in the prior year.

**Short term Incentive Bonus**

The company has no scheme to pay discretionary bonuses based on short term performance. However a bonus of $50,000 was paid to Mr Ben Bell during the year (2016: Nil).

**Long Term Incentive Bonus**

On 26 November 2014 the Directors' were invited to participate in a Loan Share Plan. Under the Plan, the directors were granted Performance Shares issued at market value. A limited recourse loan was provided by the Group to allow the Directors to purchase the Performance Shares pursuant to the terms of the loan agreement.

The shares were purchased at a market rate of $0.007 per share. The Plan shares are divided into 3 tranches and subject to service period vesting conditions. As a result of the plan 41,000,000 shares were issued to the Directors. The fair value of the shares was estimated at the date of grant using the Black Scholes model. Refer to note 18 for further details. All 41,000,000 share have vested.

The Directors contracts were renewed, effective 1 July 2017, and includes long term incentive equity which is subject to shareholder approval.

**Consequences of Performance on Shareholder Wealth**

In considering the Consolidated Group's performance and benefits for shareholder wealth, the Remuneration Committee takes into account profitability and share price movements when setting the total amount of any bonuses. No performance bonuses were paid in the current financial year.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Loss for the year | $1,675,932 | $1,023,221 | $2,573,585 |
| Change in Share Price | 7% | 133% | 50% |

## 12. REMUNERATION REPORT - AUDITED (cont.)

### C) PRINCIPLES OF COMPENSATION (CONT.)

**Service Contracts - Executive Director**

The Company entered into a service agreement contract with Executive Director, Mr Benjamin Bell, effective from 1 July 2012. Mr Bell was employed on a salary of $200,000 per annum plus superannuation. Mr Bell's contract was renewed effective 1 July 2017 and his fixed remuneration package will increase to $325,000 per annum including superannuation. The new agreement includes an invitation to apply for $235,000 Performance Share Benefits which are subject to shareholder approval. The contract has no defined term however either party may terminate this agreement by providing written notice in accordance with the agreement.

At any time, contracts of employment may be terminated by the Company forthwith if the Executive Director (amongst other items) breaches duties connected with the performance of services; enters bankruptcy; engages in misconduct; or is of ill health or unsound mind. Under such circumstances the Company will pay an amount equal to the aggregate of unpaid salary, annual leave and long service leave accrued to the date of termination.

The Company provides insurance for the Executive Director for any liability arising from statute or common law and public indemnity insurance in respect of shareholder or third-party actions.

The Remuneration Committee undertakes to review Directors' remuneration on an annual basis to take into account changes to the cost of living and changes in the scope of the Directors' roles and responsibilities. If warranted the Board may approve bonus payments up to a reasonable limit for exceptional performance to the Executive Director.

**Service Contracts – Executive Officers**

The Company has entered into an executive employment agreement with Tim Maclean as Chief Operating Officer effective 17 July 2017. Mr Maclean has been employed on a salary of $273,750 per annum inclusive of superannuation. The agreement includes an invitation to participate in the Loan Share Plan whereby the executive can apply for shares up to $111,250. The contract has no defined term however either party may terminate this agreement by providing written notice in accordance with the agreement.

At any time, contracts of employment may be terminated by the Company forthwith if the Executive Officer (amongst other items) breaches duties connected with the performance of services; engages in misconduct; or becomes incapacitated. Under such circumstances the Company will pay an amount equal to the aggregate of unpaid salary, annual leave and long service leave accrued to the date of termination.

The remuneration of executive officers will be reviewed annually by the Company in conjunction with a performance review. If warranted the Company may approve bonus payments however they are under no obligation to pay a bonus each year.

## 13. REMUNERATION REPORT - AUDITED (cont.)

### C) PRINCIPLES OF COMPENSATION (CONT.)

**Non-Executive Directors**

Total remuneration for all Non-Executive Directors is not to exceed $400,000 per annum, excluding options and other share based incentives which are approved separately at a general meeting. Non Executive Directors' fees are set with reference to fees paid to other Non-Executive Directors of comparable companies, and are presently $40,000 (2016: $40,000) per annum each. The Non- Executive Chairman received a fee of $67,500 (2016: $60,000) per annum. The Non-Executive Chairman is also employed as Company Secretary for no further remuneration and his fee has been increased to $145,000 per annum for FY2018 including equity payments subject to shareholder approval. Non- Executive Director's fees for FY2018 have been increased to $90,000 per annum including equity payments subject to shareholder approval.

Directors' fees cover all main board activities and membership of committees. The directors have participated in the Employees Loan Share Plan and received an allotment of shares as detailed in note 18.

### ) DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

Details of the nature and amount of each major element of the remuneration of each Director of the Consolidated Group and other key management personnel of the Consolidated Group are shown on the following table.

## 12. REMUNERATION REPORT - AUDITED (cont.)

| | | SHORT TERM (C) | | | POST EMPLOYMENT | | SHARE-BASED PAYMENTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Directors | | Non-Exec Directors' Fees | Executive Salaries | Bonus | Super-annuation Contribution | Termination and Retirement Benefits | Other Long-Term Benefits (A) | Shares Issued (B) | TOTAL | Proportion of remuneration performance based % | Value of share-based payments as a proportion of remuneration |
| **Non-executive** | | $ | $ | $ | $ | $ | $ | $ | $ | | |
| Mr M Ramsden | 2017 | 61,644 | - | - | 5,856 | - | - | 3,830 | 71,330 | 5 | 5 |
| | 2016 | 54,794 | - | - | 5,205 | - | - | 10,544 | 70,543 | 15 | 15 |
| Mr M Elias | 2017 | 36,530 | - | - | 3,470 | - | - | 3,830 | 43,830 | 9 | 9 |
| | 2016 | 36,530 | - | - | 3,470 | - | - | 10,544 | 50,544 | 21 | 21 |
| Mr D Marinelli | 2017 | 36,530 | - | - | 3,470 | - | - | 3,830 | 43,830 | 9 | 9 |
| | 2016 | 36,530 | - | - | 3,470 | - | - | 10,544 | 50,544 | 21 | 21 |
| Mr N Warburton (D) | 2017 | 40,000 | - | - | - | - | - | 3,830 | 43,830 | 9 | 9 |
| | 2016 | 40,000 | - | - | - | - | - | 10,544 | 50,544 | 21 | 21 |
| **Executive** | | | | | | | | | | | |
| Mr B Bell | 2017 | - | 200,000 | 50,000 | 23,750 | - | 37,873 | 7,113 | 318,736 | 2 | 2 |
| | 2016 | - | 200,000 | - | 19,000 | - | 26,591 | 19,583 | 265,174 | 7 | 7 |
| **Total compensation: Directors** | 2017 | 174,704 | 200,000 | 50,000 | 36,546 | - | 37,873 | 22,433 | 521,556 | 4 | 4 |
| | 2016 | 167,854 | 200,000 | - | 31,145 | - | 26,591 | 61,759 | 487,349 | 13 | 13 |
| **Executive Officers** | | | | | | | | | | | |
| Mr T Maclean (E) | 2017 | - | - | - | - | - | - | - | - | - | - |
| | 2016 | - | - | - | - | - | - | - | - | - | - |
| **Total compensation Executive Officers** | 2017 | - | - | - | - | - | - | - | - | - | - |
| | 2016 | - | - | - | - | - | - | - | - | - | - |

(A) Other long term benefits include movement in the annual and long service leave provision.

(B) The estimated options value disclosed above is calculated at the date of grant using a Black-Scholes model. Share-based payments expense relates to the Performance Shares granted to Directors on 26 November 2014.

(C) No non-monetary benefits were provided as compensation during the 2017 and 2016 financial years.

(D) Payments made to Michlange Pty Ltd of which Mr N Warburton is a director and shareholder.

(E) Appointed 17 July 2017 as Chief Operating Officer.

## 12. REMUNERATION REPORT – AUDITED (cont.)

### E) TERMS OF EQUITY SETTLED SHARE BASED PAYMENT TRANSACTIONS

Directors and executives employment related shares granted on 26 November 2014 are vested in three tranches. The details of the vesting plan are set out below. The fair values of all granted Performance Shares are included in remuneration over the vesting period from December 2014 to June 2017.

| Director Grant | Date | Number Issued | Vesting Date | No. Vested | Share Value at Grant Date ($) | Fair Value ($) |
|---|---|---|---|---|---|---|
| N Warburton | 26/11/2014 | 2,333,333 | 1 June 2015 | 2,333,333 | 0.007 | 0.004 |
| N Warburton | 26/11/2014 | 2,333,333 | 1 June 2016 | 2,333,333 | 0.007 | 0.004 |
| N Warburton | 26/11/2014 | 2,333,334 | 1 June 2017 | 2,333,334 | 0.007 | 0.004 |
| M Elias | 26/11/2014 | 2,333,333 | 1 June 2015 | 2,333,333 | 0.007 | 0.004 |
| M Elias | 26/11/2014 | 2,333,333 | 1 June 2016 | 2,333,333 | 0.007 | 0.004 |
| M Elias | 26/11/2014 | 2,333,334 | 1 June 2017 | 2,333,334 | 0.007 | 0.004 |
| B Bell | 26/11/2014 | 4,333,333 | 1 June 2015 | 4,333,333 | 0.007 | 0.004 |
| B Bell | 26/11/2014 | 4,333,333 | 1 June 2016 | 4,333,333 | 0.007 | 0.004 |
| B Bell | 26/11/2014 | 4,333,334 | 1 June 2017 | 4,333,334 | 0.007 | 0.004 |
| M Ramsden | 26/11/2014 | 2,333,333 | 1 June 2015 | 2,333,333 | 0.007 | 0.004 |
| M Ramsden | 26/11/2014 | 2,333,333 | 1 June 2016 | 2,333,333 | 0.007 | 0.004 |
| M Ramsden | 26/11/2014 | 2,333,334 | 1 June 2017 | 2,333,334 | 0.007 | 0.004 |
| D Marinelli | 26/11/2014 | 2,333,333 | 1 June 2015 | 2,333,333 | 0.007 | 0.004 |
| D Marinelli | 26/11/2014 | 2,333,333 | 1 June 2016 | 2,333,333 | 0.007 | 0.004 |
| D Marinelli | 26/11/2014 | 2,333,334 | 1 June 2017 | 2,333,334 | 0.007 | 0.004 |
| | | 41,000,000 | | 41,000,000 | | |

## 12. REMUNERATION REPORT – AUDITED (cont.)

### F) EQUITY INSTRUMENTS HELD BY KEY MANAGEMENT PERSONNEL

**Movement in shares**

The movement during the reporting period in the number of ordinary shares held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 1 July 2016 | Purchases | Sales | Held at 30 June 2017 |
|---|---|---|---|---|
| **Directors** | | | | |
| M Ramsden (i) | 46,201,522 | 13,566,436 | - | 59,767,958 |
| B Bell (ii) | 22,080,731 | 1,946,497 | - | 24,027,228 |
| N Warburton (iii) | 16,152,357 | 4,517,783 | - | 20,670,140 |
| M Elias (iv) | 10,553,847 | 2,047,930 | - | 12,601,777 |
| D Marinelli (v) | 32,775,505 | 5,959,185 | - | 38,734,690 |

(i) Mr M Ramsden has a relevant interest in the following shares – 28,304,611 shares held by Pacrim Investment Consultants Pty Ltd <Pacrim Super Fund A/c>, 1,158,562 shares owned by Whitehaven Investments Pty Ltd <Ramsden Family Trust>, 3,167,605 shares held by Doverpoint Pty Ltd, 18,864,452 shares in the name of Ormley Pty Ltd <Andrew Ramsden Super Fund>, and 8,272,728 shares owned by Mr M Ramsden.

(ii) Mr B Bell has a relevant interest in 11,027,228 shares owned by B & R Bell <Kestrel Investment Fund>, and 13,000,000 shares owned by Mr B Bell.

(iii) Mr N Warburton has a relevant interest in the following shares – 8,029,473 shares held by Michlange Pty Ltd <Warburton Family Trust>, 1,290,482 held by Michlange Pty Ltd <N F Warburton Super Fund>, 3,077,457 held by Michlange Pty Ltd <Warburton Self Admin Super Fund>, and 8,272,728 shares held by Mr N Warburton.

(iv) Mr M Elias has a relevant interest in 4,329,049 shares held by M & C Elias <Elias Super Fund>, and 8,272,728 shares held by Mr M Elias.

(v) Mr D Marinelli has a relevant interest in the following shares – 8,243,946 shares held by Dominic Marinelli and Vicki Marinelli <Monte Amaro Super Fund>, 22,218,016 shares held by Dominic Orlando Marinelli <The Monte Acquaviva Trust>, and 8,272,728 shares held by Mr D Marinelli.

### G) REMUNERATION CONSULTANTS

The remuneration committee engaged BDO Reward (WA) Pty Ltd as independent remuneration consultants to provide advice on Executive and Non-Executive Director Remuneration Structures. BDO Reward (WA) Pty Ltd was paid $15,125 (inc GST) during the year for a board and executive remuneration review. BDO Reward (WA) Pty Ltd were also engaged in the prior year.

### H) VOTING AND COMMENTS MADE AT THE COMPANY'S 2016 ANNUAL GENERAL MEETING

The Company received 99% "for" votes on its remuneration report for the 2016 financial year at the Annual General Meeting on 22 November 2016. The Company did not receive any specific feedback at the Annual General Meeting on its remuneration practices.

## 12. REMUNERATION REPORT – AUDITED (cont.)

### I) LOANS TO KEY MANAGEMENT PERSONNEL

A limited recourse loan has been provided to Directors to allow them to purchase performance shares pursuant to the terms of the Loan Share Plan, detailed in point (c). No interest is payable on the loan and repayment is due upon forfeiture or sale of the shares. Details of the shares and loans can be found below:

| Name | Issue Date | Shares Issued | Issue Price | Loan Balance |
|---|---|---|---|---|
| Michael Ramsden | 28 Nov 2014 | 7,000,000 | $0.007 | $49,000 |
| Michael Elias | 28 Nov 2014 | 7,000,000 | $0.007 | $49,000 |
| Dominic Marinelli | 28 Nov 2014 | 7,000,000 | $0.007 | $49,000 |
| Neil Warburton | 28 Nov 2014 | 7,000,000 | $0.007 | $49,000 |
| Benjamin Bell | 28 Nov 2014 | 13,000,000 | $0.007 | $91,000 |
| | | 41,000,000 | | $287,000 |

### J) OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS

The terms and conditions of the transactions with key management personnel were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel were as follows:

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **Director(s)** | **Transaction** | | |
| Mr M Elias | Geological services (i) | - | 26,130 |
| Mr M Ramsden | Reimbursements (ii) | 21,180 | 8,644 |
| Mr M Ramsden and Mr D Marinelli | Underwriting Agreement (iii) | 134,791 | - |
| Mr M Ramsden and Mr D Marinelli | Placement Fees (iv) | 62,406 | 181,500 |

(i) The Group used the geological services of CSA Global Pty Ltd, a company significantly influenced by Mr M Elias. Amounts were billed based on normal market rates for these types of services, and amounts are payable under normal monthly payment terms. There were no amounts owing to CSA Global Pty Ltd at 30 June 2017 (2016: $4,736).

(ii) The group reimbursed Terrain Capital Unit Trust for Mr M Ramsden's travel costs associated with his role as a director of Australian Mines. No amounts were owing to Terrain Capital Unit Trust at 30 June 2017.

(iii) The Group used Terrain Capital Markets Ltd as the underwriters for share issues. Mr M Ramsden is a director of Terrain Capital Markets Ltd and Mr D Marinelli received fees from Terrain Capital Markets Ltd. No amounts were owing to Terrain Capital Markets Ltd for underwriting services at 30 June 2017.

(iv) The Group used Terrain Capital Unit Trust to assist with the placement of shares. Mr M Ramsden and Mr D Marinelli are Directors of Terrain Capital Ltd. No amounts were owing to Terrain Capital Ltd for placement services at 30 June 2017.

## 12. REMUNERATION REPORT – AUDITED (cont.)

### J) OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS (CONT.)

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

This is the end of the audited Remuneration Report

## 13. CORPORATE GOVERNANCE

The Consolidated Group's corporate governance policies and practices are set out in pages 70 to 78.

## 14. ENVIRONMENTAL REGULATIONS

The Consolidated Group conducts mining and exploration activities on mineral tenements. The right to conduct these activities is granted, subject to environmental conditions and requirements and as such is governed by a range of environment legislation. The Directors have considered the requirements of the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. As the Company is in the early exploration phase of its exploration projects, the Company is not yet subject to the public reporting requirements of the NGER Act. The Consolidated Group aims to ensure a high standard of environmental care is achieved and, as a minimum, to comply with relevant environmental regulations. To the best of the Directors knowledge, the Company has adequate systems in place to ensure compliance with the requirements of the applicable legislation and is not aware of any material breach of those requirements during the financial year and up to the date of the Directors' Report.

## 15. FINANCIAL REPORTING

The Directors have declared, in writing to the Board that the Company's financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

## 16. INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has entered into Director and Officer Protection Deeds (Deed) with each Director and the Company Secretary (officers). Under the Deed, the Company indemnifies the officers to the maximum extent permitted by law and the Constitution against legal proceedings, damage, loss, liability, cost, charge, expense, outgoing or payment (including legal expenses on a solicitor/client basis) suffered, paid or incurred by the officers in connection with the officers being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed.

Also pursuant to the Deed, the Company must insure the officers against liability and provide access to all Board papers relevant to defending any claim brought against the officers in their capacity as officers of the Company.

The Company has paid insurance premiums during the year of $6,883 (2016: $6,883) in respect of liability for any current and future Directors, Company Secretary, executives and employees of the Company.

## 17. NON-AUDIT SERVICES

BDO Reward (WA) Pty Ltd, was appointed to provide independent advice in relation to Executive and Non-Executive Directors Remuneration Structures. Refer to Note 7 for auditor's remuneration. A BDO Reward (WA) Pty Ltd were paid $13,750 (2016: $5,000) for these services.

The board has established, subsequent to year-end, certain procedures to ensure that the provision of non-audit services are compatible with, and do not compromise, the auditor independence requirements of the Corporations Act 2001. These procedures include:

- Non-audit services are subject to the corporate governance procedures adopted by the Company and will be reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- Ensuring non-audit services do not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the consolidated Group, acting as an advocate for the Consolidated Group or jointly sharing risks and rewards.

18. LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 24 and forms part of this Directors' Report

for the year ended 30 June 2017.

This report is made with a resolution of the Directors.

**Benjamin Bell**

**Managing Director**

**Dated: 25 September 2017**

# AUDITOR'S INDEPENDENCE DECLARATION

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Australia

## DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF AUSTRALIAN MINES LIMITED

As lead auditor of Australian Mines Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Australian Mines and the entities it controlled during the period.

**Jarrad Prue**

**Director**

**BDO Audit (WA) Pty Ltd**

**Perth, 25 September 2017**

# AUSTRALIAN MINES LIMITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | 2017 | 2016 |
|---|---|---|---|
| | | $ | $ |
| Other income | 4 | - | 230 |
| Personnel Expenses | 5 | (521,168) | (386,669) |
| Impairment of exploration | 6 | - | (389,880) |
| Depreciation and amortisation | 6 | (12,097) | (11,178) |
| Corporate overheads and indirect expenses | 6 | (1,149,611) | (249,590) |
| **Results from operating activities** | | **(1,682,876)** | **(1,037,087)** |
| Finance income | 8 | 6,944 | 13,866 |
| **Net finance income** | | **6,944** | **13,866** |
| **Loss before income tax** | | **(1,675,932)** | **(1,023,221)** |
| Income tax | 9 | - | - |
| Loss after income tax | | (1,675,932) | (1,023,221) |
| **Total comprehensive loss for the period** | | **(1,675,932)** | **(1,023,221)** |
| **Loss per share attributable to the ordinary equity holders of the Company** | | | |
| Basic loss per share (cents) | 10 | (0.12) | (0.10) |
| Diluted loss per share (cents) | 10 | (0.12) | (0.10) |

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | Issued Capital | Accumulated Losses | Share Option Reserve | Share Based Payment Reserve | Total Equity |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| **Contributions by and distribution to members** | | | | | | |
| Opening balance at 1 July 2016 | | 37,243,377 | (34,821,471) | 168,424 | 1,381,816 | 3,972,146 |
| Total comprehensive income for the period: | | | | | | |
| (Loss) for the year | | - | (1,675,932) | - | - | (1,675,932) |
| Other comprehensive (loss)/income | | - | - | - | - | - |
| Total comprehensive loss for the period | | - | (1,675,932) | - | - | (1,675,932) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Share based payment transactions | 19 | - | - | - | 22,433 | 22,433 |
| Shares issued during the year | 19 | 8,376,086 | - | - | - | 8,376,086 |
| Transaction costs from issue of shares | 19 | (557,794) | - | - | - | (557,794) |
| Total transactions with owners, recorded directly in equity | | 7,818,292 | - | - | 22,433 | 7,840,725 |
| **Closing balance at 30 June 2017** | | **45,061,669** | **(36,497,403)** | **168,424** | **1,404,249** | **10,136,939** |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2016

| | Notes | Issued Capital | Accumulated Losses | Share Option Reserve | Share Based Payment Reserve | Total Equity |
|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ |
| **Contributions by and distribution to members** | | | | | | |
| Opening balance at 1 July 2015 | | 34,455,957 | (33,798,250) | 168,424 | 1,320,057 | 2,146,188 |
| Total comprehensive income for the period: | | | | | | |
| (Loss) for the year | | - | (1,023,221) | - | - | (1,023,221) |
| Other comprehensive (loss)/income | | - | - | - | - | - |
| Total comprehensive loss for the period | | - | (1,023,221) | - | - | (1,023,221) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Share based payment transactions | 19 | - | - | - | 61,759 | 61,759 |
| Shares issued during the year | 19 | 3,025,000 | - | - | - | 3,025,000 |
| Transaction costs from issue of shares | 19 | (237,580) | - | - | - | (237,580) |
| Total transactions with owners, recorded directly in equity | | 2,787,420 | - | - | 61,759 | 2,849,179 |
| **Closing balance at 30 June 2016** | | **37,243,377** | **(34,821,471)** | **168,424** | **1,381,816** | **3,972,146** |

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2017

| | Notes | 2017<br>$ | 2016<br>$ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 11 | 4,638,766 | 1,516,917 |
| Trade and other receivables | 13 | 41,262 | 42,692 |
| **TOTAL CURRENT ASSETS** | | **4,680,028** | **1,559,609** |
| **NON-CURRENT ASSETS** | | | |
| Exploration and evaluation assets | 14 | 5,579,964 | 2,901,715 |
| Property, plant and equipment | 15 | 15,102 | 12,127 |
| **TOTAL NON-CURRENT ASSETS** | | **5,595,066** | **2,913,842** |
| **TOTAL ASSETS** | | **10,275,094** | **4,473,451** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 16 | 98,359 | 460,088 |
| Employee benefits | 17 | 39,796 | 30,252 |
| **TOTAL CURRENT LIABILITIES** | | **138,155** | **490,340** |
| **NON-CURRENT LIABILITIES** | | | |
| Employee benefits | 17 | - | 10,965 |
| **TOTAL NON- CURRENT LIABILITIES** | | **-** | **10,965** |
| **TOTAL LIABILITIES** | | **138,155** | **501,305** |
| **NET ASSETS** | | **10,136,939** | **3,972,146** |
| **EQUITY** | | | |
| Contributed equity | 19 | 45,061,669 | 37,243,377 |
| Reserves | 19 | 1,572,673 | 1,550,240 |
| Accumulated losses | 20 | (36,497,403) | (34,821,471) |
| **TOTAL EQUITY** | | **10,136,939** | **3,972,146** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2017

| | | CONSOLIDATED | |
|---|---|---|---|
| | Notes | 2017 | 2016 |
| | | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Cash payments to suppliers and employees | | (1,505,161) | (578,051) |
| Interest received | | 6,944 | 13,866 |
| Sundry Income | | - | 230 |
| **Net cash (used in) operating activities** | **12** | **(1,498,217)** | **(563,955)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments for exploration and evaluation | | (3,076,897) | (1,209,916) |
| Payments for property, plant and equipment | | (15,072) | - |
| **Net cash (used in) investing activities** | | **(3,091,969)** | **(1,209,916)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from share issue (net of costs) | | 7,712,035 | 2,893,677 |
| **Net cash provided by financing activities** | | **7,712,035** | **2,893,677** |
| **Net increase in cash held** | | **3,121,849** | **1,119,806** |
| **Cash at the beginning of the financial year** | | **1,516,917** | **397,111** |
| **Cash at the end of the financial year** | **11** | **4,638,766** | **1,516,917** |

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

## 1. REPORTING ENTITY

Australian Mines Limited (the ‘Company’) is a company domiciled in Australia. The address of the Company’s registered office is 83 Havelock Street West Perth WA 6005 Australia. The consolidated financial statements of the Company for the financial year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the ‘Consolidated Group’) and the Consolidated Group’s interest in jointly controlled entities.

The Consolidated Group is a for-profit entity and is primarily involved in the exploration for gold, cobalt, nickel and scandium in Australia.

The consolidated financial statements were authorised for issue by the directors on 25 September 2017.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (‘AASBs’) adopted by the Australian Accounting Standards Board (‘AASB’) (including interpretations) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

### (b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Company’s functional currency and the functional currency of the majority of the Consolidated Group.

### (c) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: available-for-sale financial assets and non-derivative financial instruments measured at fair value through profit or loss.

Certain comparative amounts have been reclassified to conform to current year presentation.

### (d) Use of judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Consolidated Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

## 2. BASIS OF PREPARATION (cont.)

### (d) Use of judgements and estimates (cont.)

Judgements made by management that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3(m).

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

### (e) Going Concern

For the year ended 30 June 2017, the Company has incurred a net loss of $1,675,932 (2016: net loss of $1,023,221) and has net cash outflows from operating and investing activities of $4,590,186 (2016: $1,773,871).

The ability of the Company to continue as a going concern is dependent on the Company's ability to successfully raise the necessary funding through equity to continue to fund it's operational and exploration activities.

These conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been prepared on the basis that the Company is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business. The Directors believe the Company will be successful in raising the necessary funding through equity to enable successful exploration and subsequent exploitation of the Company's tenements.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (a) Basis of consolidation (cont.)

(ii) Transactions eliminated on consolidation.
Intragroup balances, and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

### (b) Foreign currency

(i) Foreign currency transactions
Transactions in foreign currencies are translated at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars at the foreign exchange rate at that date. Foreign exchange differences arising on translation are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates at the dates the fair value was determined.

### (c) Property, plant and equipment

(i) Owned assets
Items of property, plant and equipment are measured at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see note 3(f)). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Mining property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable and subsequent costs to develop the mine to the production phase.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets
Leases in terms of which the Consolidated Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy note 3(f)). Lease payments are accounted for as described in accounting policy note 3(i).

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (c) Property, plant and equipment (cont.)

(iii) Subsequent costs
The Consolidated Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the Consolidated Group and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Profit or Loss and Other Comprehensive Income as an expense as incurred.

(iv) Dep reciation
With the exception of freehold land and mining property and development assets, depreciation is charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the estimated life of the asset, using rates per annum as set out below:

| | **2017** | **2016** |
|---|---|---|
| Buildings | 33% | 33% |
| Plant & equipment | 33% | 33% |
| Leased plant & equipment 2 | 5% | 25% |

Land is not depreciated, while buildings on mining tenements are given a short life. Exploration and development costs for reserves not yet in production are not amortised.

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

### (d) Exploration and evaluation assets

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Consolidated Group has obtained the legal rights to explore an area are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or

(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (d) Exploration and evaluation assets (cont.)

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see impairment note, accounting policy note 3(f)). For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation assets to mining property and development assets within property, plant and equipment.

### (e) Financial instruments

(i) Non-derivative financial assets
The Consolidated Group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Consolidated Group becomes a party to the contractual provisions of the instrument.

The Consolidated Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Consolidated Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Consolidated Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Consolidated Group has the following non-derivative financial assets: loans and receivables, and cash and cash equivalents.

*Loans and receivables*
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see note 3(f)).

Loans and receivables comprise trade and other receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (e) Financial instruments (cont.)

*Cash and cash equivalents*
Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Consolidated Group in the management of its short-term commitments.

(ii) Non-derivative financial liabilities

The Consolidated Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Consolidated Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Consolidated Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Other financial liabilities comprise trade and other payables.

(iii) Share capital

*Ordinary shares*
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### (f) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (f) Impairment (cont.)

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Consolidated Group on terms that the Consolidated Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

*Financial assets measured at amortised cost*

The Consolidated Group considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the Consolidated Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Consolidated Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU unit is the greater of its value in use and its fair value less costs to sell. 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (f) Impairment (cont.)

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (g) Employee benefits

(i) Long-term service benefits
The Consolidated Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related oncosts and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating to the terms of the Consolidated Group's obligations.

(iii) Wages, salaries, annual leave, sick leave and non-monetary benefits
Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Consolidated Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(iv) Share-based payment transactions
The share option programme allows Consolidated Group employees to acquire shares of the Company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and recorded over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a Black - Scholes model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

(v) Defined contribution superannuation funds
Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income as incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (h) Provisions

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

*Mine rehabilitation*

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the mine's operation up to reporting date but not yet rehabilitated. Provision has been made in full for all disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cash flows. The estimated cost of rehabilitation includes the current cost of re-contouring, topsoiling and revegetation employing legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Significant uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation. The amount of the provision relating to rehabilitation of mine infrastructure and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time. The provision is recognised as a non-current liability with a corresponding asset included in mining property and development assets.

At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amount of the costs to be incurred. Changes in the liability relating to rehabilitation of mine infrastructure and dismantling obligations are added to or deducted from the related asset, other than the unwinding of the discount, which is recognised as a finance cost in the Statement of Profit or Loss and Other Comprehensive Income as it occurs.

If the change in the liability results in a decrease in the liability that exceeds the carrying amount of the asset, the asset is written-down to nil and the excess is recognised immediately in the Statement of Profit or Loss and Other Comprehensive Income. If the change in the liability results in an addition to the cost of the asset, the recoverability of the new carrying amount is considered. Where there is an indication that the new carrying amount is not fully recoverable, an impairment test is performed with the writedown recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which it occurs.

The amount of the provision relating to rehabilitation of environmental disturbance caused by on-going production and extraction activities is recognised in the Statement of Profit or Loss and Other Comprehensive Income as incurred. Changes in the liability are charged to the Statement of Profit or Loss and Other Comprehensive Income as rehabilitation expense, other than the unwinding of the discount which is recognised as a finance cost.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (i) Leases

(i) Operating lease payments

Payments made under operating leases are recognised in the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the Statement of Profit or Loss and Other Comprehensive Income as an integral part of the total lease expense and spread over the lease term.

(ii) Finance lease payments

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

### (j) Finance income and expenses

Finance income comprises interest income on funds invested and fair value gains on financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

### (k) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (k) Income tax (cont.)

**Tax consolidation**

The Company and its wholly-owned Australian resident entity, Blair Nickel Mine Pty Ltd, formed a tax-consolidated group with effect from 9 April 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Australian Mines Limited. From 29 June 2012, Nigeria Gold Pty Ltd was added to the tax-consolidated group and from 20 September 2016, Flemington Mining Operations Pty Ltd and Sconi Mining Operations Pty Ltd also joined the tax-consolidated group.

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

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

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

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

**Nature of tax funding arrangements and tax sharing arrangements**

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable/(payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

**(l) Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

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

**(m) Accounting estimates and judgments**

Management discussed with the Board the development, selection and disclosure of the Consolidated Group's critical accounting policies and estimates and the application of these policies and estimates.

Note 21 contains detailed analysis of the interest rate and liquidity risk of the Consolidated Group.

The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

The significant estimates and judgements are as follows:

(i) Fair Value of Share Based Payment Transactions
The fair value of the employee option plan and loan share plan are measured using the Black Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average  expected life of the instrument, risk-free interest rate.

(ii) Impairment of exploration and evaluation assets.
The ultimate recoupment of the value of exploration and evaluation assets is dependent of successful development and commercial exploitation, or alternatively, sale, of the underlying mineral exploration properties. The Consolidated Group undertakes at least on an annual basis, a comprehensive review for indicators of impairment of those assets. Should an indicator of impairment exist, there is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverable amounts.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (m) Accounting estimates and judgments (cont.)

The key issues that are considered in this review include:

- Recent drilling results and reserves and resources estimates;
- Environmental issues that may impact the underlying tenements;
- The estimated market value of assets at the review date;
- Independent valuations of the underlying assets that may be available;
- Fundamental economic factors such as the cobalt, scandium, gold and nickel price, exchange rates and current and anticipated operating costs in the industry; and

Information used in the review process is rigorously tested to externally available information as appropriate. In addition, an allocation of the costs of acquired mineral rights to individual projects was performed during the year. This allocation process required estimates and judgement as to the value of these projects acquired.

The fair value of exploration assets is based on fair value less costs to sell, using a multiples of exploration method. The impairment of mining tenements is assessed in accordance with accounting policy note 3(f).

### (n) Segment reporting

An operating segment is a component of the Consolidated Group that engages in business activities of which it may earn revenue and incur expenses. Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

### (o) Assets held for sale

Non-current assets and liabilities that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale the assets are re-measured in accordance with the Consolidated Group's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale or distribution, assets are not amortised or depreciated.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

The following new and amended accounting standards adopted by the Group for the first time for the financial year beginning 1 July 2016 or any prior periods.

| Reference | Title | Summary | Application date | Impact |
|---|---|---|---|---|
| AASB 2014-3 | Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations | This Standard amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. | Financial years beginning on or after 1 January 2016 | No material impact |
| AASB 2014-4 | Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation | This Standard amends AASB 116 and AASB 138 to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset, and to clarify that revenue is generally presumed to be an inappropriate basis for that purpose. | Financial years beginning on or after 1 January 2016 | No material impact |
| AASB 2014-9 | Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements | This amending standard allows entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements. | Financial years beginning on or after 1 January 2016 | No material impact |
| AASB 2014-10 | Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | This amending standard requires a full gain or loss to be recognised when a transaction involves a business (even if the business is not housed in a subsidiary), and a partial gain or loss to be recognised when a transaction involves assets that do not constitute a business (even if those assets are housed in a subsidiary). | Financial years beginning on or after 1 January 2016 | No material impact |
| AASB 2015-1 | Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle | The Standard makes amendments to various Australian Accounting Standards arising from the IASB's Annual Improvements process, and editorial corrections. | Financial years beginning on or after 1 January 2016 | No material impact |
| AASB 2015-2 | Amendments to Australian Accounting Standards –Disclosure Initiative: Amendments to AASB 101 | The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. | Financial years beginning on or after 1 January 2016 | Disclosures Only |

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

(q) New accounting standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They have not been applied in preparing this financial report.

| Reference | Title | Summary | Application date | Expected Impact |
|---|---|---|---|---|
| AASB 15 | Revenue from Contracts with Customers | This Standard establishes principles (including disclosure requirements) for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. | Financial years beginning on or after 1 January 2018 | No expected impact |
| AASB 2016-1 | Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Tax Losses | Clarifies four issues with respect to recognising deferred tax assets (DTAs) for unrealised tax losses:<br>• If all other recognition criteria are met, DTAs must be recognised for the deductible temporary difference between the fair value and tax base on fixed rate debt instruments that are not deemed to be impaired.<br>• Deductible temporary differences must be compared to taxable profits of the same type (e.g. capital or revenue profits) to determine whether there are sufficient taxable profits against which the deductible temporary differences can be utilised.<br>• When comparing deductible temporary differences against the amount of future taxable profits, the calculation of future taxable profits must exclude tax deductions resulting from the reversal of those deductible temporary differences.<br>• The estimate of future taxable profits can include recovery of certain assets at amounts more than their carrying amount if there is enough evidence that it is probable that the entity will recover the asset for more than its carrying amount. Examples would include:<br>  • Property measured using cost model for which an external valuation has been conducted<br>  • Fixed rate debt instruments held to maturity. | Financial years beginning on or after 1 January 2017 | No expected impact |
| AASB 2016-3 | Amendments to Australian Accounting | Clarifies AASB 15 application issues relating to:<br>• Identifying performance obligations<br>• Principal vs. agent considerations | Financial years beginning | No expected impact |

| Reference | Title | Summary | Application date | Expected Impact |
|---|---|---|---|---|
| | Standards – Clarifications to AASB 15 | • Licensing<br>• Practical expedients | on or after 1 January 2018 | |
| AASB 9 | Financial Instruments | AASB 9 (December 2014) is a new standard which Replaces AASB 139. This new version supersedes AASB issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting.<br>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. | Financial years beginning on or after 1 January 2018 | No expected impact |
| AASB 16 | Leases | AASB 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its balance sheet in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its balance sheet for most leases.<br>There are some optional exemptions for leases with a period of 12 months or less and for low value leases.<br>Lessor accounting remains largely unchanged from AASB 117. | Financial years beginning on or after 1 January | No expected impact |
| IFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions Amendments to IFRS 2 | This standard amends to IFRS 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:<br>• The effects of vesting and non-vesting conditions on the measurement of cash settled share-based payments<br>• Share-based payment transactions with a net settlement feature for withholding tax obligations<br>A modification to the terms and conditions of a sharebased payment that changes the classification of the transaction from cash-settled to equity-settled | 1 January 2018 | No expected impact |

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (r) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest. Where this fair value is determined for disclosure purposes the market rate of interest is that at reporting date. Where this fair value is determined when acquired in a business combination, the market rate of interest is that at the date of acquisition.

(ii) Share-based payment transactions

The fair value of the employee share options and loan share plan are measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

### (s) Earnings per share

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (t) Compound interest instruments

Compound financial instruments issued by the Company comprise convertible notes that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of the compound financial instruments is initially recognised at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognised at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured.

Interest related to the financial liability is recognised in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **4.** | **OTHER INCOME** | | |
| | Sundry income | - | 230 |
| | | - | 230 |
| **5.** | **PERSONNEL EXPENSES** | | |
| | Wages and salaries | 15,342 | 277,385 |
| | Salary Recharges | (45,556) | (182,417) |
| | Non-executive directors fees | 173,836 | 167,854 |
| | Other associated personnel expenses | 1,583 | (11,967) |
| | Contributions to superannuation funds | 43,189 | 39,962 |
| | Increase in leave liability | 10,341 | 34,093 |
| | Employee share-based payment expenses (note 18) | 22,433 | 61,759 |
| | | 521,168 | 386,669 |
| **6.** | **OTHER EXPENSES** | | |
| | **Depreciation and amortisation of:** | | |
| | Plant and equipment | 12,097 | 11,178 |
| | | 12,097 | 11,178 |
| | **Impairment of Exploration:** | | |
| | Impairment of Exploration | - | 389,880 |
| | **Corporate overheads and indirect expenses** | | |
| | Insurance | 12,807 | 12,829 |
| | Travel and Accommodation | 120,110 | 7,459 |
| | Exploration | 87,207 | 2,677 |
| | Legal Fees | 152,875 | 6,099 |
| | Accounting, Tax and Audit Services | 126,345 | 46,927 |
| | Share Registry Services | 118,790 | 19,130 |
| | Conferences | 87,166 | 12,951 |
| | Public Relations Fees | 73,135 1 | 3,563 |
| | Advisors and Consultants | 67,534 | 5,000 |
| | Other Fees and Services | 172,253 | 57,487 |
| | General Administration | 131,389 | 65,468 |
| | | 1,149,611 | 249,590 |

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **7.** | **AUDITOR'S REMUNERATION** | | |
| | **Audit services** | | |
| | BDO Audit (WA) Pty Ltd – Audit and review of financial reports | 28,223 | 28,427 |
| | **Non-Audit services** | | |
| | BDO Reward (WA) Pty Ltd – Remuneration advice | 13,750 | 5,000 |
| | Total for year | 41,973 | 33,427 |
| **8.** | **FINANCE INCOME AND FINANCE COSTS** | | |
| | Interest income | 6,944 | 13,866 |
| | Finance income | 6,944 | 13,866 |
| **9.** | **INCOME TAX EXPENSE** | | |
| | **Current tax expense/(benefit)** | | |
| | Current year | (454,266) | (288,057) |
| | Adjustment for prior periods | - | - |
| | | (454,266) | (288,057) |
| | **Deferred tax expense/(benefit)** | | |
| | Origination and reversal of temporary differences | - | - |
| | Recognition of previously unrecognised tax losses | - | - |
| | Current year losses for which no deferred tax asset was recognised | 454,266 | 288,057 |
| | | 454,266 | 288,057 |
| | Total income tax in statement of profit or loss and other comprehensive income | - | - |

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **9.** | **INCOME TAX EXPENSE (cont.)** | | |
| | **Numerical reconciliation between tax expense and pre-tax profit** | | |
| | Loss for the period | (1,675,932) | (1,023,221) |
| | Income tax benefit using the domestic corporate tax rate of 27.5% (2016: 30%) | (460,881) | (306,966) |
| | Increase in income tax expense due to: | | |
| | Non-deductible expenses | 6,615 | 18,909 |
| | Tax losses not brought to account | 454,266 | 288,057 |
| | Income tax expense | - | - |
| | **Unrecognised deferred tax assets** | | |
| | Deferred tax assets have not been recognised in respect of the following items: | | |
| | Tax losses | 6,612,279 | 6,158,013 |

The deductible temporary differences and tax losses do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Consolidated Group can utilise the benefits from.

| | 2017 $ | 2016 $ |
|---|---|---|
| **Recognised deferred tax assets and liabilities** | | |
| **The balance comprises temporary differences attributable to:** | | |
| Amounts recognised in profit or loss | | |
| Exploration | (1,534,489) | (870,515) |
| Capital raising costs | 107,245 | 31,430 |
| Property Plant & Equipment | 1,741 | 791 |
| Provisions | 10,944 | 12,365 |
| Accruals | 11,206 | 3,825 |
| Tax losses | 1,403,353 | 822,103 |
| **Net deferred tax assets** | **-** | **-** |
| **Movements in temporary differences** | | |
| Exploration | 663,975 | 334,747 |
| Capital raising costs | (75,815) | 10,782 |
| Property Plant & Equipment | (950) | (560) |
| Provisions | 1,421 | (5,603) |
| Accruals | (7,381) | 375 |
| Total movement in temporary differences | 581,250 | 339,741 |

| | 2017<br>$ | 2016<br>$ |
|---|---|---|

## 10. LOSS PER SHARE

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Loss per share from total operations** | | |
| Loss after income tax attributable to the ordinary shareholders of the Company | (1,675,932) | (1,023,221) |
| Basic loss per share (cents) | (0.12) | (0.10) |
| Diluted loss per share (cents) | (0.12) | (0.10) |

The calculation of basic loss per share at 30 June 2017 was based on the operating loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2017 of 1,399,164,199 (2016: 1,009,500,182), calculated as follows:

| **Number of ordinary shares 2017 2016** | | |
|---|---|---|
| Issued ordinary shares at 1 July | 1,101,986,521 | 821,986,521 |
| Share Placement | 562,101,018 | 280,000,000 |
| Conversion of Convertible Notes | 475,538,678 | - |
| Issued ordinary shares at 30 June | 2,139,626,217 | 1,101,986,521 |
| **Weighted average number of ordinary shares for year ending 30 June** | **1,399,164,199** | **1,009,500,182** |

**Diluted Earnings per Share**

The calculation of diluted earnings per share at 30 June 2017 was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding during the year ended 30 June 2017 of 1,399,164,199 (2016: 1,009,500,182). There were no options that were considered dilutive.

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **11.** | **CASH AND CASH EQUIVALENTS** | | |
| | Bank balances | 4,638,766 | 416,917 |
| | Term Deposits (i) | - | 1,100,000 |
| | Cash and cash equivalents in the statement of cash flows | 4,638,766 | 1,516,917 |

(i) These deposits are available in the short term and as such form part of the Group's cash and cash equivalents balance. Refer to note 21 for Financial Risk Management

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **12.** | **RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| | **Cash flows from operating activities:** | | |
| | Net (loss) | (1,675,932) | (1,023,221) |
| | **Add/(less) items classified as investing/financing activities:** | | |
| | Depreciation and amortisation | 12,097 | 11,178 |
| | Impairment of capitalised exploration | - | 389,880 |
| | Exploration expenditure not capitalised | 87,207 | - |
| | Share-based payment expense | 22,433 | 61,759 |
| | **Movement in operating assets and liabilities:** | | |
| | Decrease/(increase) in receivables | 1,430 | (41,192) |
| | Increase/(decrease) in payables | 55,969 | 18,964 |
| | Increase/(decrease) in employee leave provisions | (1,421) | 18,677 |
| | **Net cash used in operating activities** | **(1,498,217)** | **(563,955)** |

During the year equity was issued as consideration for the purchase of a new tenement and in accordance with the Arlington agreement (2016: nil).

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **13.** | **TRADE AND OTHER RECEIVABLES** | | |
| | **Current** | | |
| | Prepayments - corporate overheads and indirect expenses | 41,262 | 42,053 |
| | Other debtors | - | 639 |
| | | 41,262 | 42,692 |

No trade receivables in the current or prior financial years have been impaired or are past due.

Refer to note 21 for Financial Risk Management.

| | 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **14. EXPLORATION AND EVALUATION ASSETS** | | |
| Exploration and evaluation | | |
| Opening balance | 2,901,715 | 1,935,892 |
| Acquisition of assets | 1,328,000 | - |
| Expenditure incurred for year | 1,437,456 | 1,355,703 |
| Expenditure expensed | (87,207) | - |
| Exploration expenditure impairment | - | (389,880) |
| Exploration costs carried forward | 5,579,964 | 2,901,715 |

The ultimate recoupment of costs carried forward for mineral properties in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

In April 2014 Australian Mines entered into a Heads of Agreement with Riedel Resources (ASX: RIE) over the Marymia nickel-copper-gold project. Australian Mines was able to acquire a 51% interest in the project by making cash payments to Riedel Resources of $250,000 by 30 October 2014 and by spending $1 million on exploration within an initial two-year period. In addition, Australian Mines may acquire an additional 29% interest (taking the total to 80%) in the project by spending a further $2 million on exploration within a further 36-month period. As at 30 June 2017, this earn-in target had not yet been met.

In May 2016 Australian Mines entered into a joint venture agreement with Jervois Mining Limited (ASX: JRV) to acquire a majority interest in its promising Arunta West Project in the Lake Mackay district of Western Australia. Under the agreement, Australian Mines must spend a minimum of $350,000 on exploration within 24 months of the signing of the agreement to acquire a 51% interest in the project.

Australian Mines may elect to acquire an additional 29% (taking the total to 80%) in the project by spending a further $3.15 million on exploration within a further 24 month period. It's anticipated that surveying will be completed in the latter part of 2017.

In late 2016 the Company entered into agreements regarding two new projects being the Sconi Scandium-Cobalt Project and the Flemington Scandium-Cobalt Project. The Company entered into a joint venture agreement with Metallica Minerals Limited to earn up to 75% interest in the Sconi Project for a total consideration of $10 million or completion of a Bankable Feasibility Study (BFS) and subsequently securing project finance. The Company signed an option agreement to acquire 100% of the Flemington Project from Jervois Mining Limited for a total consideration of $6 million.

Subsequent to reporting date the Company announced that it would be acquiring 100% of the Sconi project from Metallica Minerals Ltd for $10 million. The acquisition will supersede the previous agreement. The consideration includes $3.5 million in cash upon satisfaction of transaction conditions precedent, issue of $1.5 million of Australian Mines shares and a final issue of $5 million Australian Mines shares or cash upon commercial production. The capital raising to finance the initial payment of $3.5 million was completed in September 2017.

## 14. EXPLORATION AND EVALUATION ASSETS (cont.)

During the year the Company also acquired 100% of the Thackaringa Cobalt Project. There are no royalties or any other payments attached to the tenements. This project includes the purchase of an exploration licence from Dashell Pty Ltd for total consideration of $78,000 which was paid through the issue of 9,750,000 fully paid ordinary shares in Australian Mines at an issue price of $0.008.

Refer to the Directors' Report for detailed information on the progress of the individual projects.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **15. PROPERTY, PLANT AND EQUIPMENT** | | |
| **Plant and equipment** | | |
| At cost | 142,739 | 127,667 |
| Accumulated depreciation | (127,637) | (115,540) |
| **Total property, plant and equipment** | 15,102 | 12,127 |
| Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below: | | |
| **Plant and equipment** | | |
| Carrying amount at beginning of year | 12,127 | 23,305 |
| Additions | 15,072 | - |
| Disposals | - | - |
| Depreciation | (12,097) | (11,178) |
| arrying amount at the end of year | 15,102 | 12,127 |
| **16. TRADE AND OTHER PAYABLES** | | |
| **Current (unsecured)** | | |
| Trade creditors and accruals | 73,359 | 328,830 |
| Unissued Share Capital | - | 106,258 |
| Other creditors and accruals | 25,000 | 25,000 |
| | 98,359 | 460,088 |
| **17. EMPLOYEE BENEFITS** | | |
| **Current** | | |
| Liability for annual leave | 39,796 | 30,252 |
| | 39,796 | 30,252 |
| **Non Current** | | |
| Liability for long services leave | - | 10,965 |
| | - | 10,965 |

## 18. SHARE BASED PAYMENTS

On 28 November 2014, the Directors were invited to apply for Plan Shares under the Loan Share Plan. A limited recourse loan was provided to allow the Directors' to purchase the Plan Shares at market value being $0.007 per share, pursuant to the terms of the loan agreement. The Plan Shares are divided into 3 tranches and subject to service period vesting conditions.

The Plan aims to recognise long-term performance by rewarding the Directors with Performance Shares which will allow them to share in the growth in the value of the Company.

Each Performance Share is an ordinary share in Australian Mines Limited however the shares are subject to vesting conditions. The terms of the Plan are as follows:

| | |
|---|---|
| Grant Date | 26 November 2014 |
| Number of Shares | 41,000,000 |
| Share Price at Grant Date | $0.007 |
| Vesting Conditions | The Performance Shares are divided into 3 tranches and subject to the following vesting conditions:<br>(i) 1/3 for service to the Company as an Eligible Person until 1 June 2015<br>(ii) 1/3 for service to the Company as an Eligible Person until 1 June 2016<br>(iii) 1/3 for service to the Company as an Eligible Person until 1 June 2017<br>No tranche of Performance Shares is conditional upon the vesting of another tranche. |
| Lapse of Performance Shares | Performance Shares will be forfeited in the following circumstances:<br>• Employment, office or contractual relationship with the Company ceases;<br>• Relevant vesting conditions are not satisfied by the relevant time;<br>• The Director acts fraudulently or dishonestly or in breach of their obligations to the Group; or<br>• They become insolvent.<br>If the Performance Shares are forfeited and sold pursuant to the Plan Rules, the proceeds will first be applied against the respective loan and any surplus applied in accordance with the Plan Rules. |
| Loan Arrangements | Under the Loan Agreement, the Group will lend the Directors' the funds required to purchase the Performance Shares. No interest will be payable on the loan and it is a limited recourse loan. |

## 18. SHARE BASED PAYMENTS (cont.)

**Shares issued pursuant to Loan Share Plan**

| Name | Issue Date | Shares Issued | Issue Price | Loan Balance |
|---|---|---|---|---|
| Michael Ramsden | 28 Nov 2014 | 7,000,000 | $0.007 | $49,000 |
| Michael Elias | 28 Nov 2014 | 7,000,000 | $0.007 | $49,000 |
| Dominic Marinelli | 28 Nov 2014 | 7,000,000 | $0.007 | $49,000 |
| Neil Warburton | 28 Nov 2014 | 7,000,000 | $0.007 | $49,000 |
| Benjamin Bell | 28 Nov 2014 | 13,000,000 | $0.007 | $91,000 |
| | | 41,000,000 | | $287,000 |

The fair value of the Loan Share Plan was calculated using the Black Scholes pricing model per the table below. The value of the shares has been expensed on a proportionate basis for each period from grant date to vesting date. The proportion of the value of the shares that has been expensed during the year to 30 June 2017 and accounted for in the share based payment reserve is $22,433.

| Tranche | Grant Date | Number Issued | Value Per Right ($) | Probability | Condition | Total Value ($) | Vesting Period (Years) | Value Vested Current Period ($) | Value Not Vested ($) |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 26/11/2014 | 13,666,666 | $0.00449 | 100% | Service Period | 61,356 | 0.5 | 61,356 | - |
| 2 | 26/11/2014 | 13,666,667 | $0.00449 | 100% | Service Period | 61,357 | 1.5 | 61,357 | - |
| 3 | 26/11/2014 | 13,666,667 | $0.00449 | 100% | Service Period | 61,357 | 2.5 | 61,357 | - |
| | | 41,000,000 | | | | 184,070 | | 184,070 | - |

The above fair value calculation was based on the following inputs:

| | Directors Shares |
|---|---|
| Share price at date granted | 0.7c |
| Risk free rate | 2.520% |
| Volatility factor | 135% |
| Exercise Price | 0.6c |
| Time to maturity | 3 years |
| Expected dividend yield | 0% |

## 19. CAPITAL AND RESERVES

| | 2017 $ | 2017 No. | 2016 $ | 2016 No. |
|---|---|---|---|---|
| **Issued and paid up capital** | | | | |
| Ordinary shares, fully paid | 45,061,669 | 2,139,626,217 | 37,243,376 | 1,101,986,521 |
| **Reconciliation of contributed equity** | | | | |
| Balance at beginning of year | 37,243,37 | 1,101,986,521 | 34,455,957 | 821,986,521 |
| Shares issued during the year: | | | | |
| Share placement @ $0.005 | - | - | 525,000 | 105,000,000 |
| Share placement @ $0.01 | - | - | 1,000,000 | 100,000,000 |
| Share placement @ $0.02 | - | - | 1,500,000 | 75,000,000 |
| Share placement @ $0.02 | 106,258 | 5,312,914 | - | - |
| Share placement @ $0.011 | 840,101 | 76,372,837 | - | - |
| Share placement @ $0.0063 | 807,528 | 128,179,029 | - | - |
| Share placement @ $0.008 | 2,482,474 | 310,309,216 | - | - |
| Convertible Notes @ $0.008 (i) | 3,804,309 | 475,538,678 | - | - |
| Non-Cash Placements @ $0.008 | 335,416 | 41,927,022 | - | - |
| Costs of capital raising | (557,794) | - | (237,580) | - |
| Balance at end of year | 45,061,669 | 2,139,626,217 | 37,243,377 | 1,101,986,521 |

The Company does not have authorised capital or par value in respect of its issued shares.

(i) The Convertible Notes were unsecured, non-interest bearing and had a maturity date of 20 February 2019. Shareholder approval was required to convert the Convertible Notes into shares at the issue price of $0.008. The mandatory conversion date was the date in which the Company's share price closed at $0.012 or above for any twenty consecutive trading days during the period from issue date (20 February 2017) to maturity date.

The terms of the Convertible Notes were met and conversion was approved at a General Meeting held on 11 April 2017.

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **19.** | **CAPITAL AND RESERVES (cont.)** | | |
| | **Share Option Reserve** | | |
| | Balance at beginning of year | 168,424 | 168,424 |
| | Options issued to shareholders | - | - |
| | Balance at end of year | 168,424 | 168,424 |
| | **Share Based Payments Reserve** | | |
| | Balance at beginning of year | 1,381,816 | 1,320,057 |
| | Share based payment employees/directors transactions | 22,433 | 61,759 |
| | Balance at end of year | 1,404,249 | 1,381,816 |
| | **Total Reserves** | 1,572,673 | 1,550,240 |

The Foreign Exchange Reserve comprises all foreign currency differences arising from the translation of the financial statement of foreign operations.

The Share Option Reserve represents the cost of options issued to shareholders.

The Share Based Payment Reserve represents the fair value of share options granted. The estimate of fair value of the services received is based on the Black-Scholes model. The calculated fair value is based on parameters as set out in note 18.

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **20.** | **ACCUMULATED LOSSES** | | |
| | Balance at beginning of year | (34,821,471) | (33,798,250) |
| | Net (loss)for the year | (1,675,932) | (1,023,221) |
| | Accumulated losses at end of year | (36,497,403) | (34,821,471) |

## 21. FINANCIAL RISK MANAGEMENT

**Overview**

The Consolidated Group has exposure to the following risks from its use of financial instruments:

- Interest rate risk
- Liquidity risk
- Credit risk

This note presents information about the Consolidated Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk of the management framework. The Board is responsible for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Consolidated Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Consolidated Group's activities.

The Consolidated Group does not enter into financial instruments for trade or speculative purposes.

However, in the normal course of its business, it is exposed to interest rate and liquidity risks, credit risk  and foreign currency risk.

## 21. FINANCIAL RISK MANAGEMENT (cont.)

**(a) Interest rate risk**

The Consolidated Group does not have a policy in place to hedge interest rate risks.

The Consolidated Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

| | Weighted Average Interest Rate | 6 Months or Less | 6 – 12 Months | 1 to 5 Years | Non interest Bearing | Total |
|---|---|---|---|---|---|---|
| **2017** | | **$** | **$** | **$** | **$** | **$** |
| *Financial assets* | | | | | | |
| Cash and cash equivalents | 1.5% (variable) | 4,638,766 | - | - | - | 4,638,766 |
| Trade and other receivables | | - | - | - | 41,262 | 41,262 |
| | | 4,638,766 | - | - | 41,262 | 4,680,028 |
| *Financial liabilities* | | | | | | |
| Trade and other payables | | - | - | - | 104,512 | 104,512 |
| | | - | - | - | 104,512 | 104,512 |
| **2016** | | **$** | **$** | **$** | **$** | **$** |
| *Financial assets* | | | | | | |
| Cash and cash equivalents | 2.25% (variable) | 1,516,917 | - | - | - | 1,516,917 |
| Trade and other receivables | | - | - | - | 42,692 | 42,692 |
| | | 1,516,917 | - | - | 42,692 | 1,559,609 |
| *Financial liabilities* | | | | | | |
| Trade and other payables | | - | - | - | 460,088 | 460,088 |
| | | - | - | - | 460,088 | 460,088 |

## 21. FINANCIAL RISK MANAGEMENT (cont.)

### (a) Interest rate risk

**Sensitivity analysis for variable rate instruments**

A change in interest rates at the reporting date would have resulted in the following impact on profit or loss, assuming the amounts of variable rate instruments at 30 June were constant throughout the preceding year. A change in interest rates does not impact equity.

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Net financial assets subject to variable interest rates 4,638,766 | 4,638,766 | 1,516,917 |
| Decrease in loss resulting from a 1% pa increase in variable interest rates | 46,387 | 15,169 |
| (Increase) in loss resulting from a 1% pa decrease in variable interest rates | (46,387) | (15,169) |

### (b) Liquidity risk

Liquidity risk is the risk that the Consolidated Group will encounter difficulty in meeting the obligations associated with its financial liabilities. The Consolidated Group manages its liquidity risk by monitoring cashflows using monthly cashflow forecasts and by paying creditors on 30 day terms.

The following are the Consolidated Group's contractual maturities of financial liabilities, including estimated interest payments:

| | Carrying amount<br>$ | Contractual cash flows<br>$ | 6 months or less<br>$ | 6 to 12 months<br>$ | 1 to 5 years<br>$ |
|---|---|---|---|---|---|
| **2017** | | | | | |
| Trade and other payables | 98,359 | 98,359 | 98,359 | - | - |
| | 98,359 | 98,359 | 98,359 | - | - |
| **2016** | | | | | |
| Trade and other payables | 460,088 | 460,088 | 460,088 | - | - |
| | 460,088 | 460,088 | 460,088 | - | - |

## 21. FINANCIAL RISK MANAGEMENT (cont.)

### (c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and it arises principally from the Group's cash held at banks and trade receivables. The Consolidated Group lodges its cash deposits with international banks of good standing.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at reporting date was as follows:

| | Carrying Amount 2017 $ | Carrying Amount 2016 $ |
|---|---|---|
| Cash at bank | 4,638,766 | 1,516,917 |
| Other Debtors | 41,262 | 42,692 |
| | 4,680,028 | 1,559,609 |

| *Credit Rating* | **2017** | **2016** |
|---|---|---|
| *Cash at Bank* | **$** | **$** |
| Standard & Poor's rating AA- | 4,638,766 | 1,516,917 |

### (d) Currency risk

The Consolidated Group is exposed to currency risk on receivables and borrowings that are denominated in a currency other than the Australian Dollar. The Group minimises this risk by limiting funds held in overseas bank accounts and paying creditors promptly. As at 30 June 2017 there were no funds or borrowings in a foreign currency (2016: nil).

### (e) Capital management

The Consolidated Group monitors its capital performance and reviews its adequacy at regular intervals to ensure it is achieving a reasonable return on capital. There are no externally imposed capital requirements. The directors monitor the market capitalisation and net assets of the Consolidated Group to ensure performance is maintained for shareholders.

### (f) Fair values

The fair values of significant financial assets and liabilities approximates the carrying amounts shown in the Statement of Financial Position.

## 22. COMMITMENTS

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Lease of offices** | | |
| Within one year | 23,305 | 23,305 |
| **Exploration expenditure commitment** | | |
| Within one year | 3,890,000 | 225,000 |
| Between 12 months and 5 years | 1,640,000 | 900,000 |
| | 5,530,000 | 1,125,000 |

In accordance with the relevant joint venture and heads of agreements there are requirements to meet minimum spending levels in order to acquire an interest in the projects. The Company has committed to the project expenditure for Marriotts, Doolgunna-Marymia, Arunta West, Sconi and Flemington.

## 23. CONTINGENT LIABILITIES

In accordance with the agreement with Jervois Mining Ltd for the Flemington project, a royalty of 1.5% of gross sales is payable on all proceeds from the sale of products. At this time it is not possible to quantify the value of this royalty.

The Company's mining tenements are subject to native title applications. At this stage it is not possible to quantify the impact (if any) that native title may have on the operations of the Company.

There are no other contingent liabilities

## 24. CONSOLIDATED ENTITIES

| | Country of Incorporation | Ownership interest | |
|---|---|---|---|
| **Parent entity** | | **2017** | **2016** |
| Australian Mines Limited | Australia | | |
| **Subsidiaries** | | | |
| Blair Nickel Mine Pty Ltd | Australia | 100% | 100% |
| Nigeria Gold Pty Ltd | Australia | 100% | 100% |
| Auz Mining Ltd | Nigeria | 100% | 100% |
| Flemington Mining Operations Pty Ltd | Australia | 100% | N/A |
| Sconi Mining Operations Pty Ltd | Australia | 100% | N/A |

## 25. EVENTS OCCURING AFTER THE REPORTING PERIOD

On 10 July 2017, the Company received a refund of $329,782 from the Australian Taxation Office in relation to the research and development tax incentive.

On 6 September 2017, the Company announced that it would enter into an agreement to acquire 100% of the Sconi project from Metallica Minerals Ltd for $10 million. The acquisition will supersede the previous farm-in agreement which was announced in October 2016. The consideration includes $3.5 million in cash upon satisfaction of transaction conditions precedent, issue of $1.5 million of Australian Mines shares and a final issue of $5 million Australian Mines shares or cash upon commencement of commercial production.

One of the conditions for the purchase of the Sconi project was the raising of capital to fund the cash payment of $3.5 million to Metallica Minerals Ltd. On 11 September 2017 233,333,337 shares at $0.015 each were issued, raising $3.5 million (before costs).

On 1 September 2017, the Company paid Option 4 of $500,000 to Jervois Mining as part of the Flemington acquisition progress payments.

There have been no other events subsequent to reporting date.

## 26. SEGMENT INFORMATION

Up until January 2015 the Company operated predominantly in two reportable geographical segments being mining and exploration activities in Australia and Nigeria.

The Nigeria subsidiary was sold in January 2015 and since then the Company only operates in a single reportable geographical segment. As a result, no additional segment information is provided.

## 27. PARENT ENTITY DISCLOSURES

| Australian Mines Limited | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **STATEMENT OF FINANCIAL POSITION** | | |
| Current Assets | 4,679,853 | 1,559,364 |
| Non-Current Assets | 3,226,469 | 2,913,842 |
| Total Assets | 7,906,322 | 4,473,206 |
| Current Liabilities | 138,156 | 490,340 |
| Non-Current Liabilities | - | 10,965 |
| Total Liabilities | 138,156 | 501,305 |
| **Net Assets** | 7,768,166 | 3,971,901 |
| EQUITY | | |
| Contributed equity | 45,061,669 | 7,243,376 |
| Share option reserves | 1,572,674 | 1,550,241 |
| Accumulated losses | (38,866,177) | (34,821,716) |
| **TOTAL EQUITY** | **7,768,166** | **3,971,901** |
| **Loss attributable to equity holders of the Company** | **(4,044,461)** | **(1,826,027)** |
| **COMMITMENTS** | | |
| **Lease of offices** | | |
| Within one year | 23,305 | 23,305 |
| **Exploration expenditure commitment** | | |
| Within one year | 260,000 | 225,000 |
| Between 12 months and 5 years | 1,040,000 | 900,000 |
| | 1,300,000 | 1,125,000 |

### CONTINGENT LIABILITIES

In accordance with the agreement with Jervois Mining Ltd for the Flemington project, a royalty of 1.5% of gross sales is payable on all proceeds from the sale of products. At this time it is not possible to quantify the value of this royalty.

The Company's mining tenements are subject to native title applications. At this stage, it is not possible to quantify the impact (if any) that native title may have on the operations of the Company.

There are no other contingent liabilities

## 28. RELATED PARTIES

The following were key management personnel of the group at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period.

**Non-Executive Directors**

Mr M Ramsden - Chairman

Mr M Elias

Mr D Marinelli

Mr N F Warburton

**Executive Directors**

Mr B Bell – Managing Director

The key management personnel compensation included in 'personnel expenses' (see Note 5) is as follows:

| | 2017<br>$ | 2016<br>$ |
|---|---|---|
| Short-term employee benefits | 424,704 | 367,854 |
| Post-employment benefits | 36,546 | 31,145 |
| Long term benefits | 37,873 | 26,591 |
| Share based payments | 22,433 | 61,759 |
| | 521,556 | 487,349 |

**Individual directors and executives compensation disclosures**

Information regarding individual directors and executives' compensation and some equity instruments disclosures are permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report section of the Directors' report.

## 28. RELATED PARTIES (cont.)

**Other key management personnel transactions**

The terms and conditions of the transactions with key management personnel were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel were as follows:

| | | 2017 $ | 2016 $ |
|---|---|---|---|
| **Director(s)** | **Transaction** | | |
| Mr M Elias | Geological services (i) | - | 26,130 |
| Mr M Ramsden | Reimbursements (ii) | 21,180 | 8,644 |
| Mr M Ramsden and Mr D Marinelli | Underwriting Agreement (iii) | 134,791 | - |
| Mr M Ramsden and Mr D Marinelli | Placement Fees (iv) | 62,406 | 181,500 |

(i) The Group used the geological services of CSA Global Pty Ltd, a company significantly influenced by Mr M Elias. Amounts were billed based on normal market rates for these types of services, and amounts are payable under normal monthly payment terms. There were no amounts owing to CSA Global Pty Ltd at 30 June 2017 (2016: $4,736).

(ii) The group reimbursed Terrain Capital Unit Trust for Mr M Ramsden's travel costs associated with his role as a director of Australian Mines. No amounts were owing to Terrain Capital Unit Trust at 30 June 2017.

(iii) The Group used Terrain Capital Markets Ltd as the underwriters for share issues. Mr M Ramsden is a director of Terrain Capital Markets Ltd and Mr D Marinelli received fees from Terrain Capital Markets Ltd. No amounts were owing to Terrain Capital Markets Ltd for underwriting services at 30 June 2017.

(iv) The Group used Terrain Capital Unit Trust to assist with the placement of shares. Mr M Ramsden and Mr D Marinelli are Directors of Terrain Capital Ltd. No amounts were owing to Terrain Capital Ltd for placement services at 30 June 2017.

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

1 In the opinion of the Directors of Australian Mines Limited ('the Company'):

(a) the consolidated financial statements and notes and the remuneration disclosures contained in the Remuneration report in the Directors' report, as set out in section 12, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Consolidated Group as at 30 June 2017 and its performance, for the financial year ended on that date; and

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

(b) the consolidated financial report also complies with International Reporting standards as disclosed in note 2(a).

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

2 The directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the Chief Operating Officer for the financial year ended 30 June 2017.

Dated at Perth the 25 day of September 2017.

Signed in accordance with a resolution of the directors:

**Benjamin Bell**

**Managing Director**

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Australia

To the members of Australian Mines Limited

## Report on the Audit of the Financial Report

### Opinion

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

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

(i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and

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

### Basis for opinion

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

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

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

### Material uncertainty related to going concern

We draw attention to Note 2(e) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

### Key audit matters

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

BDO

## Accounting for Exploration and Evaluation Assets

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| At 30 June 2017 the carrying value of the capitalised exploration and evaluation asset was $5,579,964 (30 June 2016: $2,901,715), as disclosed in Note 14.<br><br>As the carrying value of the Exploration and Evaluation Asset represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.<br><br>Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular:<br>• Whether the conditions for capitalisation are satisfied;<br>• Which elements of exploration and evaluation expenditures qualify for recognition; and<br>• Whether facts and circumstances indicate that the exploration and expenditure assets should be tested for impairment. | Our procedures included, but were not limited to:<br>• Obtaining a schedule of the areas of interest held by the Group and assessing whether the rights to explore of those areas of interest remained current at balance date;<br>• Considering the status of the ongoing exploration programmes in the respective areas of interest by holding discussions with management, and reviewing the Group's exploration budgets, ASX announcements and director's minutes;<br>• Considering whether any such areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed;<br>• Verifying, on a sample basis, evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6;<br>• Considering whether any facts or circumstances existed to suggest impairment testing was required; and<br><br>We also assessed the adequacy of the related disclosures in Note 14 to the Financial Statements. |

**Other information**

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

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

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

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

**Responsibilities of the directors for the Financial Report**

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

BDO

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

**Auditor's responsibilities for the audit of the Financial Report**

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 13 to 22 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Australian Mines Limited, for the year ended 30 June 2017, complies with section 300A of the Corporations Act 2001.

**Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

BDO

JPrue

**Jarrad Prue**
**Director**
**Perth, 25 September 2017**

Australian Mines Limited ("The Company") and its Board are committed to achieving and demonstrating high standards of corporate governance. This statement sets out the main corporate governance practices of the Company during the financial year, providing disclosure in accordance with the Corporate Governance Principles and Recommendations 2nd edition August 2007 as published by the ASX Corporate Governance Council. All these practices, unless otherwise stated, were in place for the entire year. Disclosure is made at the end of this statement of areas of non-compliance with the recommendations.

Further details of the various charters, policies, codes and procedures that document the Company's corporate governance practices are set out in The Company's website at www.australianmines.com.au.

### The Board of Directors and Management.

The Board has adopted a formal statement of its roles, functions and responsibilities.

The Board's primary role is the optimisation of Company performance and protection and enhancement of shareholder value. Its functions and responsibilities include:

- setting policy and strategic direction and adopting a corporate strategy;
- monitoring Company and management's performance against this strategy;
- overseeing control and accountability systems;
- identifying the principal risks and opportunities of the Company's business;
- ensuring appropriate risk management systems are established and reviewed;
- ensuring there are sufficient resources to meet objectives and strategies;
- approving and monitoring financial reporting, capital management and compliance;
- appointing senior management, monitoring senior management's conduct and performance and overseeing remuneration, development and succession;
- adopting procedures to ensure the business of the Company is conducted in an honest, open and ethical manner consistent with Company values;
- approving all significant business transactions;
- ensuring the Company meets its continuous disclosure obligations and that its shareholders have available all information reasonably required to make informed assessments of the Company's prospects;
- overseeing the Company's commitment to sustainable development, the environment, health and safety of employees, contractors, customers and the community;
- ensuring that the Board remains appropriately skilled to meet Company needs;
- reviewing and approving corporate governance systems; and
- delegating authority to management where appropriate.

## The Board of Directors and Management (cont.)

This statement is included on the Company's website, and is to be reviewed annually to ensure it remains appropriate to the needs of the Company given its size, complexity and ownership structure and the skills of directors and managers.

The Board is also governed by the Company's Constitution and its various policies, as described elsewhere in this Statement.

A strategic balance is maintained between the responsibilities of the Board and the Managing Director.

*Board Members*

The Company currently has five directors, Michael Ramsden, Michael Elias, Dominic Marinelli, Neil Warburton and Benjamin Bell. Details of these directors, including their skills, experience and terms of office are set out in the Company's annual report.

Mr Ramsden, and his personally-related entities, currently holds 2.79% of the Company. Thereby in accordance with guidelines adopted by the Board he is considered an independent non-executive director.

Mr Elias owns approximately 0.59% of the shares of the Company. Thereby in accordance with guidelines adopted by the Board he is considered an independent non-executive director.

Mr Marinelli, and his personally-related entities, currently holds 1.81% of the Company. Thereby in accordance with guidelines adopted by the Board he is considered an independent non-executive director.

Mr Warburton, and his personally-related entities, currently holds 0.85% of the Company. Thereby in accordance with guidelines adopted by the Board he is considered an independent non-executive director.

Mr Bell was appointed Managing Director on 23 January 2012, and is associated with a current holding of 1.12% of the Company. Thereby in accordance with guidelines adopted by the Board he is not considered independent.

The Board has adopted a materiality threshold relating to a director's current or former association with a supplier, professional adviser or consultant to the Company. From the Company's viewpoint, material is more than 5% of the Company's total consolidated expenses for the relevant financial year. From the director's viewpoint when assessing an association, material is more than 5% of the total revenue of the supplier, adviser or consultant as the case may be.

The Board considers the make-up of the Board is appropriate given the Company's size and operations. The effectiveness of the Board is achieved through knowledge and experience specific to the business and the industry in which it operates.

Details of the members of the Board, their skills, experience, qualifications, term of office and independence status are set out in the Directors' Report under the heading "information on directors".

## The Board of Directors and Management (cont.)

*Directors' Independence*
The Board has also adopted procedures intended to ensure that independent decision making occurs. All directors are entitled to seek independent professional advice, at the Company's cost, in carrying out their duties, subject to the chairperson's prior approval of the expenditure, which will not be unreasonably withheld. Further, in accordance with the Corporations Act 2001 (Cth) and policies adopted by the Company, each member of the Board is required to keep the Board advised on an ongoing basis of any potential conflict of interest which may exist with the Company. If a conflict does exist, the director concerned must absent themselves from any Board discussion in relation to the relevant item and not vote upon such an item. Nonexecutive directors are also encouraged to confer on a needs basis without management in attendance.

*Term of Office*
The Company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting following the last election. Where eligible, directors may stand for re-election.

*Responsibilities of Management*
The Managing Director is accountable to the Board for management of the Company and its subsidiaries within authority levels reviewed and approved by the Board each year, has authority to approve capital expenditure within predetermined limits set out by the Board, and is subject to the supervision of the Board. Material strategic and policy decisions are made by the Board.

The Managing Director is responsible for maintaining financial control across the Company and its subsidiaries. This includes management reporting to the Board, statutory accounting, auditing, taxation and insurance. Financial performance is monitored against financial control guidelines.

The Board adopted its formal statement and its various policies in June 2005.

*Independent Professional Advice*
Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

*Indemnification and insurance of Directors and Officers*
The Company, to the extent permitted by law, indemnifies each Director, alternate Director, or executive officer (and any person who has previously served in any such capacity) against any liability or cost incurred by the person as an officer of the Company, or a related body corporate of the Company, including but not limited to liability for costs incurred in defending proceedings in which judgment is given in favour of the person or in which the person is acquitted. The indemnity may be extended to other employees at the discretion of the Directors.

*Performance assessment*
The Board Charter sets out the process to undertake an annual assessment of the Board's collective performance, the performance of the Chairman and its committees.

The performance of senior executives is assessed by the Managing Director. The assessment involves an annual review of performance and development and the results of the review are formally documented.

## Remuneration Committee

A Remuneration Committee was established by the Board prior to the 2004 – 2005 year. A majority of the members of the Committee are required to be non-executive directors and the Committee is required to be chaired by the non-executive Chairman.

The names of the members of the Remuneration Committee are Neil Warburton, Michael Ramsden and Dominic Marinelli. Their attendance at Remuneration Committee meetings during the 2015 – 2016 year is set out in the Company's annual report.

During the 2016 – 2017 year the Committee was chaired by Neil Warburton, the non-executive Chairman due to his experience and expertise in the areas in which the Company operates and his non-executive status, the Board considers that he is suitably skilled to perform the role of chair of the Remuneration Committee. The Committee consisted of a majority of independent directors.

Each member of the senior executive team signs an employment contract at the time of their appointment covering a range of matters, including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the Remuneration Committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on directors' and executives' remuneration is set out in the Remuneration Report.

Executive remuneration and other terms of employment is reviewed annually by the Committee having regard to personal and corporate performance, contribution to long term growth, relevant comparative information and independent expert advice. As well as a base salary and compulsory superannuation, remuneration packages may include retirement and termination entitlements, performance-related bonuses and fringe benefits. Non-executive directors and executives are eligible to participate in the Employee Share Option Plan which provides for the issue of options in the Company. Any allotment of options to directors must be approved by shareholders at a general meeting.

Details of the qualifications of directors of the remuneration committee and their attendance at Committee meetings are set out in the Directors' Report.

## Audit Committee

The Company recognises the importance of an audit committee, and has established a Committee in September 2012.

Until the Audit Committee was formed, the Board considered and dealt with matters which would ordinarily be attended to by an audit committee, including:

- to recommend engagement and monitor performance of the external auditor;
- to review the effectiveness of management information and internal control;
- to review all areas of significant financial risk and risk management;
- to review significant transactions not a normal part of the Company's business;
- to review financial information and ASX reporting statements; and
- to monitor internal controls and accounting compliance.

### Audit Committee (cont.)

The Audit Committee is required to meet at least twice per year, review annual and half-year accounts, and report to the Board of Directors. The Audit Committee also oversees the Company's risk management systems and procedures.

### External Auditors Policy

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditors is reviewed annually and applications for tender of external services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. The Corporations Act 2001 requires the rotation of the audit engagement partner every five years.

Analysis of fees paid to external auditors, including a break-down of fees for non-audit services, is provided in the Annual Report at Note 7 to the financial statements. The external auditors are required to provide an annual declaration of their independence to the Board and to the Audit Committee. The external auditor is required to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

### Nomination Committee

The Company recognises the importance of a nomination committee however currently there is no nomination committee in place. See comments made in the non-compliance statement.

### Risk Assessment and Management

The Company has in place a risk assessment and management policy, which sets out the Company's systems for risk assessment and management. The key aspects of the policy are that:

- the Board oversees the establishment and implementation of risk management systems and control frameworks, and in the absence of a separate audit committee has the responsibility to establish, implement and maintain these systems and frameworks; and
- the Company's senior management is delegated the tasks of management of operational risk and the implementation of risk management strategies with the Managing Director having ultimate responsibility to the Board for the risk management and control framework.

The Board reviews the Company's risk management systems and control frameworks, and the effectiveness of their implementation, annually. The Board also considers the management of risk at its regular meetings. The Company's risk profile, which is assessed and determined on the basis of the Company's business in commercial mining and mineral exploration, is reviewed annually upon advice from management including, where appropriate, as a result of regular interaction with management and relevant staff from across the Company's business.

The Board or the Company's senior management may consult with the Company's external accountants on external risk matters as required.

## Risk Assessment and Management (cont.)

The Company's risk management systems and control frameworks for identifying, assessing, monitoring and managing its material risks, as established by the Board in conjunction with management, include:

- the Board's ongoing monitoring of management and operational performance;
- a comprehensive system of budgeting, forecasting and reporting to the Board;
- approval procedures for significant capital expenditure above threshold levels;
- regular Board review of all areas of significant financial risk and all significant transactions not part of the Company's normal business activities;
- regular presentations to the Board by management on the management of risk;
- comprehensive written policies in relation to specific business activities;
- comprehensive written policies in relation to corporate governance issues;
- regular communication between directors on compliance and risk matters; and
- consultation and review processes between the Board and external accountants.

The Board requires each major proposal submitted to the Board for decision be accompanied by a comprehensive risk assessment and, where required, management 's proposed mitigation strategies. The Company has in place an insurance program which is reviewed periodically by the Board. The Board receives regular reports on budgeting and financial performance. A system of delegated authority levels has been approved by the Board to ensure business transactions are properly authorised and executed.

## Environment, Health and Safety

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the board facilitates the systematic identification of environment and OH&S issues and ensures they are managed in a structured manner. This system allows the Company to:

- monitor its compliance with all relevant legislation;
- continually assess and improve the impact of its operations on the environment;
- encourage employees to actively participate in the management of environment and OH&S issues;
- work with trade associations representing the entity's business to raise standards;
- use energy and resources efficiently; and
- encourage the adoption of similar standards by the entity's principal suppliers, contractors and distributors.

To manage OH&S issues, the Board has approved a number of procedure documents including a Safety Management Plan and an Emergency Response Plan. It is a condition of employment for all employees to follow these procedures. Reporting on OH&S issues is a standard agenda item at Board Meetings.

## Code of Conduct

The Company adopted, in 2002, the Australian Institute of Company Director's Code of Conduct ("AICD Code") to set appropriate standards of ethical and professional behaviour for its directors. In June 2005, the Company adopted a "Code of Conduct for Directors and Key Executives", which affirmed the Company's adoption of the AICD Code as appropriately setting the standards of ethical behaviour for directors. The Board will review compliance with this Code of Conduct every 12 months.

The Company's Code of Conduct for Directors and Key Executives prescribes standards including acting honestly and in good faith, exercising powers for a proper purpose, using due care and diligence, exercising independent judgment and avoiding a conflict of interest.

The Company has also adopted a "General Corporate Code of Conduct" ("General Code") which details the Company's commitment to appropriate corporate practices to its legitimate stakeholders and sets the standards expected of officers and employees in carrying out their duties.

The Company has in place a trading policy concerning trading in Company securities, a copy of which is provided to all officers and employees of the Company.

The trading policy imposes certain restrictions on the Company's officers and employees trading in the Company's securities to prevent breaches of the insider trading provisions of the Corporations Act 2001 (Cth).

The key aspects of the policy are that:

- trading in Company securities and other tradeable financial products is only permitted upon notification, in the case of employees, to the Company's Managing Director or, in the case of officers, to the Company's Chairman. If the Chairman wishes to trade he must notify the Company's Managing Director. Trading is only permitted for 2 weeks following notification and confirmation of trading must be provided to the Managing Director or Chairman (as the case may be);
- no trading is permitted at any time where an officer or employee is in possession of information which, if it was generally available, a reasonable person would expect to have a material effect on the price or value of the security or product, or for a period of 2 days following a public announcement by the Company in relation to the matter the subject of that information; and
- active dealing, being trading in a manner which involves frequent and regular trading, in the Company's securities is not permitted.

The trading policy is provided to all the Company officers and employees and compliance with it is reviewed at least annually. The Company's current trading policy was adopted in June 2005 but reflects the position adopted under its previous trading policies.

The implementation of and compliance with the Company's trading policy is dealt with in the procedures and mechanisms set out in the Company's risk assessment and management policy

## Continuous Disclosure and Shareholder Communication

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

In addition, at each of its meetings, the Board discusses continuous disclosure issues as a standing item and a list of all recent Company announcements is presented.

The continuous disclosure policy aims to ensure compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and the ASX Listing Rules. The aim of the policy is to:

- assess information and co-ordinate the timely disclosure to the ASX or the seeking of advice on the information;
- provide an audit trail of decisions regarding disclosure; and
- ensure officers and employees of the Company understand the obligation to bring relevant information to the attention of the chairperson.

The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairman, who in consultation with the Board (where practicable) and any other appropriate personnel will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary. This continuous disclosure policy was adopted in June 2005 and reflects the position adopted under its previous continuous disclosure policies.

The Managing Director has been nominated as the person responsible for communication with Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing, in conjunction with the Directors, information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the Company's website on the same day it is released to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

## Diversity Policy

The Company believes that the promotion of diversity on boards, in senior management and within the organisation generally broadens the pool for recruitment of high quality directors and employees; is likely to support employee retention; through the inclusion of different perspectives, is likely to encourage greater innovation; and is socially and economically responsible governance practice.

The Company is in compliance with the ASX Corporate Governance Council's Principles & Recommendations on Diversity. The Board of Directors is responsible for adopting and monitoring the Company's diversity policy. The policy sets out the beliefs and goals and strategies of the Company with respect to diversity within the Company. Diversity within the Company means all the things that make individuals different to one another including gender, ethnicity, religion, culture, language, sexual orientation, disability and age. It involves a commitment to equality and to treating of one another with respect.

The Company is dedicated to promoting a corporate culture that embraces diversity. The Company believes that diversity begins with the recruitment and selection practices of its board and its staff. Hiring of new employees and promotion of current employees are made on the bases of performance, ability and attitude.

Currently there is one woman in the organization, and none on the board. Given the present size of the Company, there are no plans to establish measurable objectives for achieving gender diversity at this time. The need for establishing and assessing measurable objectives for achieving gender diversity will be re-assessed as the size of the Company increases.

## Non-Compliance Statement

The Company has not followed all of the recommendations set out in Australian Securities Exchange Limited Listing Rule 4.10.3. The Recommendations that have not been followed and the explanation of any departure are as follows:

*Nomination Committee*
The Board has not established a nomination committee as, due to the Company's size and its operations, the Board considers a separately established committee is not warranted and its functions and responsibilities can be adequately and efficiently discharged by the Board as a whole. The Board assesses the experience, knowledge and expertise of potential directors before any appointment is made and adheres to the principle of establishing a board comprising directors with a blend of skills, experience and attributes appropriate to the Company and its business. The main criterion for the appointment of directors is an ability to add value to the Company and its business. All directors appointed by the Board are subject to election by shareholders at the following annual general meeting of the Company.

*Board Performance Report*
A formal board performance was not undertaken during the year. This year was a period of uncertainty for the directors and the Board numbers were kept to a minimum.

*Non-Executive Directors should not receive options*.
Non-executive directors are eligible to participate in the Employee Share Option Plan however any allotment must be approved by shareholders at a general meeting of the Company. The board considers it important to offer non-executive directors an incentive for their ongoing commitment and dedication to the growth of the Company.

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. Information regarding share and option holdings is current as at 15 September 2017.

**a) Substantial Shareholders**

There are no shareholders holding more than 5% of the total number of shares.

**b) Ordinary Shareholders**

| Twenty largest holders of ordinary shares. | Number of shares | % held |
|---|---|---|
| National Nominees Limited | 85,405,048 | 3.60 |
| Citigorp Nominees Pty Limited | 82,981,842 | 3.50 |
| HSBC Custody Nominees (Australia) Limited | 76,690,114 | 3.23 |
| Pershing Australia Nominees Pty Ltd | 60,000,000 | 2.53 |
| Mr M Ramsden (A) | 59,767,958 | 2.52 |
| BNP Paribas Nominees Pty Ltd | 57,127,839 | 2.41 |
| Mr J Reed | 55,090,910 | 2.32 |
| Denman Income Limited | 45,000,000 | 1.90 |
| CS Third Nominees Pty Limited | 44,878,821 | 1.89 |
| Mr D Marinelli (B) | 38,734,690 | 1.63 |
| Amalgamated Dairies Limited | 29,072,728 | 1.23 |
| Topaz Pty Ltd | 25,000,000 | 1.05 |
| Mr BJ & Mrs RK Bell<Kestrel Inv Fund A/c> (C) | 24,027,228 | 1.01 |
| Mr J Zheng | 22,000,000 | 0.93 |
| Inverness Gold SPV Limited | 20,812,711 | 0.88 |
| Michlange Pty Ltd<N F Warburton A/c> (D) | 20,670,140 | 0.87 |
| Talex Investments Pty Ltd | 18,000,000 | 0.76 |
| Hijinx Investments Ltd | 17,045,454 | 0.72 |
| Mr Clifford J Thompson | 15,461,272 | 0.65 |
| Port Barrack Pty Ltd | 15,130,909 | 0.64 |

(A) Mr M Ramsden has a relevant interest in the following shares – 28,304,611 shares held by Pacrim Investment Consultants Pty Ltd <Pacrim Super Fund A/c>, 1,158,562 shares owned by Whitehaven Investments Pty Ltd <Ramsden Family Trust>, 3,167,605 shares held by Doverpoint Pty Ltd, 18,864,452 shares in the name of Ormley Pty Ltd <Andrew Ramsden Super Fund>, and 8,272,728 shares owned by Mr M Ramsden.

(B) Mr D Marinelli has a relevant interest in the following shares – 8,243,946 shares held by Dominic Marinelli and Vicki Marinelli <Monte Amaro Super Fund>, 22,218,016 shares held by Dominic Orlando Marinelli <The Monte Acquaviva Trust>, and 8,272,728 shares held by Mr D Marinelli.

(C) Mr B Bell has a relevant interest in 11,027,228 shares owned by B & R Bell <Kestrel Investment Fund>, and 13,000,000 shares owned by Mr B Bell.

(D) Mr N Warburton has a relevant interest in the following shares – 8,029,473 shares held by Michlange Pty Ltd <Warburton Family Trust>, 1,290,482 held by Michlange Pty Ltd <N F Warburton Super Fund>, 3,077,457 held by Michlange Pty Ltd <Warburton Self Admin Super Fund>, and 8,272,728 shares held by Mr N Warburton.

Each fully paid ordinary share entitles the holder to one vote at general meetings of shareholders, and is entitled to dividends when declared.

The total number of shares on issue is 2,372,959,554 and there is no current on-market buy back.

Distribution of ordinary shareholders at 15 September 2017:

| Category of shareholding | | Number of shareholders |
|---|---|---|
| 1 – 1,000 | | 98 |
| 1,001 – 5,000 | | 108 |
| 5,001 – 10,000 | | 49 |
| 10,001 – 100,000 | | 1,234 |
| 100,001 and over | | 1,888 |
| | Total | 3,377 |

**c) Quoted Securities**

The Company has the following quoted securities on issue:

2,372,959,554 ordinary shares

**d) Unquoted Securities**

The Company currently has no unquoted securities on issue. All unquoted securities expired during the year ended 30 June 2017.

| Location | Project | Tenement | Status | Interest |
|---|---|---|---|---|
| **AUSTRALIA** | | | | |
| Queensland | Sconi | ML 10366 | Granted | 0% |
| Queensland | Sconi | ML10342 | Granted | 0% |
| Queensland | Sconi | ML10324 | Granted | 0% |
| Queensland | Sconi | ML 10332 | Granted | 0% |
| Queensland | Sconi | ML 20549 | Granted | 0% |
| Queensland | Sconi | ML 10368 | Granted | 0% |
| Queensland | Sconi | MDL 515 | Granted | 0% |
| Queensland | Sconi | MDL 387 | Granted | 0% |
| Queensland | Sconi | EPM 25834 | Granted | 0% |
| Queensland | Sconi | EPM 25865 | Granted | 0% |
| Queensland | Sconi | EPM 25833 | Granted | 0% |
| Queensland | Sconi | EPM 26575 | Pending grant | 0% |
| Queensland | Sconi | EPM 26576 | Pending grant | 0% |
| Queensland | Sconi | EPM 26577 | Pending grant | 0% |
| Queensland | Sconi | EPM 26578 | Pending grant | 0% |
| Queensland | Sconi | EPM 26579 | Pending grant | 0% |
| New South Wales | Flemington | EL 7805 | Granted | 0% |
| New South Wales | Flemington | EL 8546 | Granted | 0% |
| New South Wales | Flemington | EL 8478 | Granted | 100% |
| New South Wales | Flemington | MLA 538 | Pending grant | 100% |
| New South Wales | Flemington | ELA 5495 | Pending grant | 100% |
| New South Wales | Thackaringa | EL 8477 | Granted | 100% |
| Western Australia | Doolgunna-Marymia | E 52/2394 | Granted | 51% |
| Western Australia | Doolgunna-Marymia | E 52/2395 | Granted | 51% |
| Western Australia | Arunta West | E 80/4820 | Granted | 0% |
| Western Australia | Arunta West | E 80/4986 | Pending grant | 0% |
| Western Australia | Arunta West | E 80/4897 | Pending grant | 0% |
| Western Australia | Arunta West | E 80/5031 | Granted | 100% |
| Western Australia | Arunta West | E 80/5032 | Granted | 100% |
| Western Australia | Marriotts | M 37/096 | Granted | 100% |

## Sconi Cobalt-Nickel-Scandium Project

Australian Mines announced on 6 September 2017 that the Company had entered into an agreement with Metallica Minerals Limited (ASX: MLM) to acquire 100% interest in the advanced Sconi Cobalt-Nickel-Scandium Project near the historic mining centre of Greenvale in northern Queensland.

The key terms of the agreement include:

- a one-off cash payment of $3.5 million to Metallica Minerals, payable upon satisfaction of transaction conditions precedent[1];
- the issue of $1.5 million of Australian Mines shares[2] upon the earlier of completion of the Bankable Feasibility Study and 30 June 2018 (the BFS remains on schedule for April 2018); and
- a final issue of $5 million of Australian Mines shares (or cash) to Metallica[3] upon commercial production from Sconi (being production from the full-scale processing operation outlined in the Bankable Feasibility Study4).

## Flemington Cobalt-Scandium-Nickel Project

Australian Mines announced on 10 October 2016 that the Company had entered into an Option Agreement with Jervois Mining Limited (ASX: JRV) to acquire 100% of the Flemington Cobalt-Scandium-Nickel Project near Fifield in New South Wales.

The Flemington Project comprises the granted tenements EL7805 and EL8546 (previously pending exploration tenement ELA5370), which was subsequently granted by the New South Wales Department of Trade and Investment, Resources and Energy Division on 30 March 2017).

Under the terms of this agreement, Australian Mines has been granted a series of options to enable the Company to purchase 100% of the Flemington Scandium-Cobalt Project:

- Option 1: a non-refundable fee which Australian Mines paid upon execution of the agreement for the option period to 5 January 2017;
- Option 2: a non-refundable fee which Australian Mines paid in December 2016 for the option period to 5 April 2017;
- Option 3: a non-refundable fee which Australian Mines paid in April 2017 for the option period to 2 October 2017;
- Option 4: a non-refundable which Australian Mines paid in August 2017 for the option period to 31 March 2018; and
- Option 5: a non-refundable $500,000 fee payable by Australian Mines upon expiry of Option 4 for a further 6 months to 27 September 2018.

[1] Completion of the acquisition is subject to conditions precedent including completion of a $3.5 million capital raise for the purposes of making the first payment, assignment of third party agreements, Ministerial approval and (if required) Australian Mines' shareholder approval. The conditions precedent period under the SPA is 60 business days from signing the Sale and Purchase Agreement.

[2] Calculated at a deemed issue price equal to the volume weighted average price of AUZ shares for the 30 trading days prior to the release of the Bankable Feasibility Study. Australian Mines intends to issue these shares to Metallica Minerals under Listing Rule 7.1

[3] at Metallica Minerals' discretion. If payable in shares the price will be calculated at a deemed issue price equal to the volume weighted average price of AUZ shares for the 30 trading days prior to the commercial production date. Australian Mines intends to issue these shares to Metallica Minerals under Listing Rule 7.1

[4] Extracting ore from Sconi for the purposes of bulk sampling, processing through the demonstration plant, producing products for potential off-take partner and the like, irrespective of tonnage, is not considered commercial production under this agreement and, as such, will not trigger this payment.

The total purchase price of the Flemington Cobalt-Scandium-Nickel Project will be $6 million, minus the total of all option fees paid. The agreement with Jervois Mining also includes a 1.5% gross sales royalty on all proceeds from the sale of products derived from the Flemington assets. Australian Mines has the right to withdraw from this acquisition at any time. Australian Mines is the operator and manager of the Flemington Project.

### Doolgunna-Marymia Project

Australian Mines signed a Heads of Agreement with Riedel Resources (ASX: RIE) in April 2014 covering the tenements E52/2394 and E52/2395.

As announced on 29 May 2015, Australian Mines currently holds a 51% interest in these tenements and the Company has elected to acquire an additional 29% interest in the project (taking the total to 80%) by spending a further $2 million on exploration by May 2018.

### Arunta West Project

On 23 May 2016, Australian Mines announced it has entered into a joint venture with Jervois Mining Limited (ASX: JRV) covering the Arunta West Project.

Under this joint venture agreement, Australian Mines has the right to farm into Jervois Mining's three exploration licenses of E80/4820 (granted), E80/4896 (under application) and E80/4897 (under application), which cover a total area of approximately 345 square kilometres.

The key terms of this agreement include:

- Australian Mines must spend a minumum of $350,000 on exploration within 24 months of the signing of this agreement to acquire a 51% interest in the Arunta West Project.
- Following the acquistion of the intial 51%, Australian Mines may elect to acquire an additional 29% (taking the total to 80%) in the Arunta West Project by spending a further $3.15 million on exploration within a further 24 month period.
- Once Australian Mines has satisified its earn-in obligations, with a resulting joint venture interest of either 51% or 80%, Jervois Mining may elect to contribute on a pro-rata basis or dilute their interest according to the standard industry formula.
- Australian Mines will be the operator and manager of the Project.

## Marriotts Nickel Project

Australian Mines reports its Mineral Resources for the Company's 100%-owned Marriotts Nickel Project on an annual basis in accordance with the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (the JORC Code).

Australian Mines ensures that its Mineral Resource estimates are subject to appropriate levels of governance and internal controls, and that it adheres to well established Mineral Resource estimation procedures.

The Company similarly ensures that its Marriotts nickel sulphide resource is systematically reviewed by external competent and qualified professionals. These external technical reviews have not identified any material issues with the Company's estimation procedures.

Set out below is a comparative table showing the 2016 and 2017 Mineral Resource estimates for Australian Mines' Marriotts Nickel Project, which is located 70 kilometres south of BHP-Billiton's Leinster Nickel Operations in Western Australia.

| Marriotts Mineral Resource (as at 30 June 2016)[5] | | | | |
|---|---|---|---|---|
| Location | Category | Resource Tonnes | Nickel (%) | Nickel Tonnes |
| Marriotts, Western Australia | | | | |
| | Measured | - | - | - |
| | Indicated | 460,000 | 1.12 | 5,100 |
| | Inferred | 370,000 | 1.15 | 4,300 |
| | **Total** | **830,000** | **1.13** | **9,400** |

| Marriotts Mineral Resource (as at 30 June 2017) | | | | |
|---|---|---|---|---|
| Location | Category | Resource Tonnes | Nickel (%) | Nickel Tonnes |
| Marriotts, Western Australia | | | | |
| | Measured | - | - | - |
| | Indicated | 460,000 | 1.12 | 5,100 |
| | Inferred | 370,000 | 1.15 | 4,300 |
| | **Total** | **830,000** | **1.13** | **9,400** |

The information in this report that relates to the Marriotts Nickel Project's Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Michael Elias, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Elias is a director of Australian Mines Limited. Mr Elias has sufficient experience relevant to this style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Elias consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

The information regarding Australian Mines' Marriotts Mineral Resource has been extracted from various Company announcements, which are available on the Australian Mines website (www.australianmines.com.au) or through the ASX website at www.asx.com.au (using ticker code "AUZ"). Australian Mines confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and that all material assumptions and technical parameters underpinning the estimates in that market announcement continue to apply and have not materially changed. Australian Mines confirms that the form and context in which the Competent Person's findings are presented have not materially modified from the original market announcement.

The Mineral Resources in this document are reported under JORC 2004 Guidelines, as there has been no Material Change or Re-estimation of the Mineral Resource since the introduction of the JORC 2012 Code. Future estimates of the Marriotts Nickel Project resource will be completed to JORC 2012 Guidelines.

[5] Australian Mines Limited, Annual Report, released 27 October 2016

**Sconi Cobalt-Nickel-Scandium Project**
The Mineral Resource for the Sconi Cobalt-Nickel-Scandium Project contained within this document is reported under JORC 2012 Guidelines. This Mineral Resource was first reported by Australian Mines Limited on 31 March 2017. There has been no Material Change or Re-estimation of the Mineral Resource since this 31 March 2017 announcement by Australian Mines Limited.

**Flemington Cobalt-Scandium-Nickel Project**
The Mineral Resource for the Flemington Cobalt-Scandium-Nickel Project contained within this document is reported under JORC 2012 Guidelines. This Mineral Resource was first reported by Australian Mines Limited on 31 March 2017. There has been no Material Change or Re-estimation of the Mineral Resource since this 31 March 2017 announcement by Australian Mines Limited.

## Doolgunna-Marymia Gold Project

Information in this report that relates to Doolgunna - Marymia Gold Project Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Benjamin Bell who is a member of the Australian Institute of Geoscientists. Mr. Bell is a full-time employee and Managing Director of Australian Mines Limited. Mr. Bell has sufficient experience that is relevant to the styles of mineralisation and types of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Bell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

**Arunta West Copper-Gold Project**
Information in this report that relates to Arunta West Copper-Gold Project Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Benjamin Bell who is a member of the Australian Institute of Geoscientists. Mr. Bell is a full-time employee and Managing Director of Australian Mines Limited. Mr. Bell has sufficient experience that is relevant to the styles of mineralisation and types of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr. Bell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

**Marriotts Nickel Project**
The information in this report that relates to the Marriotts Nickel Project Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr. Michael Elias, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr. Elias is a director of Australian Mines Limited. Mr. Elias has sufficient experience relevant to this style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr. Elias consents to the inclusion in this report of the matters based on his information in the form and context in which is appears. This document contains Mineral Resources of the Marriotts Nickel Project that are reported under JORC 2004 Guidelines, as there has been no Material Change or Re-estimation of the Mineral Resource since the introduction of the JORC 2012 Code. Future estimates of the Marriotts Nickel Project resource will be completed to JORC 2012 Guidelines.

# NOTES

AUSTRALIAN MINES LIMITED

ANNUAL REPORT 2017

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