



ABN 36 155 396 893

## ANNUAL REPORT

30 JUNE 2015

## **CORPORATE DIRECTORY**

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### **DIRECTORS**

Brandon Munro (Managing Director)  
Philip Werrett (Chairman)  
Peter Pawlowitsch

### **COMPANY SECRETARY**

Ian Hobson

### **REGISTERED AND PRINCIPAL OFFICE**

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6 Thelma Street  
West Perth WA 6005

Telephone: (08) 9486 8237  
Facsimile: (08) 9226 3764

Website: [www.kuneneresources.com](http://www.kuneneresources.com)

### **SHARE REGISTRY**

Automatic Registry Services  
Suite 1A, Level 1, 7 Ventnor Avenue  
West Perth WA 6005

Telephone: +61 8 9324 2099  
Facsimile: +61 8 9321 2337

### **AUDITORS**

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008

### **AUSTRALIAN SECURITIES EXCHANGE**

Kunene Resources Limited shares (KNE) are listed on the  
Australian Securities Exchange.

## LETTER FROM THE BOARD OF DIRECTORS TO SHAREHOLDERS

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Dear Shareholders

Kunene Resources Ltd (**Kunene** or the **Company**) has had a challenging year, in common with most junior exploration companies, as a result of falling commodities prices and deteriorating investor sentiment for resources companies. The market has remained very challenging for small exploration companies with restrictions on raising capital and volatile commodity prices making aggressive green field exploration increasingly difficult. During the year, Kunene optimised its resources by successfully utilising joint venture partners for both the Kaoko Project and the Alcoutim Project.

Despite these challenges, the Company had a busy year, completing the acquisition of the Alcoutim Project in Portugal whilst securing a funding partner for this project, as well as significantly increasing the Company's land holding at its flagship Kaoko Project in Namibia. Exploration activities conducted at the Dolomite Ore Formation produced significant results and indicated the discovery of the first copper-cobalt mineralisation of Central African Copperbelt type in Namibia. At the Kaoko Project, Kunene, in conjunction with its joint venture partner First Quantum Minerals, completed a very large scale soil sampling campaign which, combined with geophysical work, culminated in RC and diamond drill testing of several targets. Despite the majority of boreholes intersecting mineralisation, with the exception of the Dolomite Ore Formation, none of these targets produced economically interesting results.

In spite of the prospectivity of the Company's assets and the caliber of the Company's team, the difficult market conditions and scope of exploration activity required to define a significant resource led the Company to investigate alternative industries to pursue.

On 3 September 2015, Kunene was pleased to announce the signing of a conditional heads of agreement to acquire 100 per cent of Department 13 LLC (**D13**). D13 is a drone defense, cyber security and RF software communications and networking company based in Virginia, USA which has research and development contracts with multiple US Government agencies.

Kunene believes this is an exciting change in direction for the Company and both parties are working to satisfy the conditions to that transaction.

On behalf of the Board, I would like to thank all staff and contractors for their contribution to the development of the Company. We recognise the support we have received from the Namibian regulators and the host communities in which we operate. I would also like to thank our shareholders for their support. We have made progress this year in a difficult environment and the signing of the agreement with D13 marks the beginning of a new and exciting chapter for the Company.



Philip Werrett  
Chairman

## REVIEW OF OPERATIONS

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Kunene Resources Limited (**Kunene** or the **Company**) was listed on the ASX in 2012 as an emerging precious metals and base metals exploration company. Kunene's flagship project, the Kaoko Project in Namibia, is prospective for copper and other base metals.

Kunene acquired 95% of the Kaoko Project in late 2013 (Kunene's local partner, The Namibian Former Robben Island Political Prisoners Trust, owns the other 5%). Shortly after this acquisition, Kunene secured First Quantum Minerals (**First Quantum**) as a joint venture partner for this project. This joint venture enabled Kunene to continue with its aggressive exploration program at a time when the funding environment for junior resource companies has been challenging. First Quantum informed the Company on 15 September 2015 that they wished to withdraw from the Kaoko Project joint venture.

First Quantum have been an excellent joint venture party for Kunene. In addition to providing funding, they also provided significant geological expertise to the Kaoko Project which has enabled a better understanding of the geological environment and an accelerated work program.

Kunene's exploration activities at the Kaoko Project during the year culminated in First Quantum agreeing to drill four targets. One of those targets, the Dolomite Ore Formation, produced encouraging results from two diamond boreholes. However, none of the other targets generated economically interesting results. In addition to drilling, Kunene completed infill soil sampling, road building and community engagement activities.

During the year, Kunene entered into a Share Sale Agreement with ASX-listed Discovery Resources Limited (**Discovery**) to acquire five exclusive prospecting licences (**EPLs**) in Namibia, including three EPLs which adjoin Kunene's Kaoko Project. The five EPLs were held by Discovery's wholly owned Namibian subsidiary Solarwind Investments (Pty) Ltd (**Solarwind**) which Kunene acquired through its own wholly owned Namibian subsidiary African Mining Capital 3 (Pty) Ltd (**AMC3**). The three Solarwind EPLs increased Kunene Resources' contiguous land package from 362,645 hectares to approximately 465,000 hectares (not including new EPL applications). These licences formed part of the existing Kaoko Project joint venture with First Quantum Minerals.

On 7 October 2014 the Company announced its wholly owned subsidiary Bolt Resources (Pty) Ltd (**Bolt**) had been granted the Alcoutim concession in Portugal. The Alcoutim licence was granted in September 2014 for a period of 3 years, extendable by a further two periods of 1 year each. The licence is situated in southern Portugal and covers part of the Iberian Pyrite Belt. Kunene also announced that it had secured a Joint Venture Agreement with a private funding partner for the Alcoutim Project. In November 2014, Kunene completed all conditions precedent to this Joint Venture Agreement, including due diligence and formal documentation, resulting in the funding for the project becoming unconditional. In consequence of this Joint Venture Agreement, Bolt became 51% owned by the private funding partner.

On 3 September 2015, Kunene announced that it had entered into an agreement to acquire Department 13 LLC, a drone defense, cyber security and RF software communications and networking company based in Virginia, USA which has research and development contracts with multiple US Government agencies. This binding heads of agreement is conditional on due diligence and shareholder approvals, amongst other things. The agreement is also conditional on the Company selling or winding up all its resources assets.

### CORPORATE

During the year Kunene achieved the following:

1. On 27 April 2015, Kunene changed its share registry to Automatic Registry Services
2. Kunene was granted the Alcoutim project and commenced work in Portugal, concentrating on community meetings to obtain permission for access, drilling and water abstraction for drill targets.
3. Throughout the year, the Company continued to review a number of prospecting licences in Namibia and elsewhere to identify prospective opportunities in copper, base metals and precious metals. This included:
  - a. The completion of the Alcoutim Project acquisition and securing of funding partner
  - b. The acquisition of Solarwind, increasing the contiguous land-holding at the Kaoko Project from

## REVIEW OF OPERATIONS

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3,626km<sup>2</sup> to 4,650km<sup>2</sup>

- c. Application for a number of additional EPLs in Namibia
- 4. Kunene relinquished all licences at the Currans Well project.

In the period since year end, Kunene achieved the following:

1. On 3 September 2015 the Company announced it had signed a conditional heads of agreement to acquire 100% of Department 13 LLC (**D13**).
2. In consequence of the Company's proposed change in direction, on 7 September 2015 Mr Mike Leech resigned as a director of the Company.
3. On 15 September 2015 First Quantum advised the company that it withdrew from the Kaoko Project joint venture.
4. Kunene converted the \$1 million convertible note facility provided to First Quantum Minerals to 5 million fully paid, ordinary Kunene shares which were issued to nominees of First Quantum.
5. On 31 July 2015, completion took place for the acquisition of Solarwind, referred to above.

### EXPLORATION ACTIVITIES

#### 1. KAOKO PROJECT, NAMIBIA

The Kaoko Project is located in the Kunene Region of north-western Namibia, less than 10 kilometres from Opuwo, the regional capital. Opuwo is situated about 650 kilometres north-northwest of Windhoek via a well maintained paved highway. The Project consists of a large contiguous land package which extends approximately 100 kilometres east-west and 50 kilometres north-south. The Project has access to excellent infrastructure including major gravel roads, nearby rail with port access as well as power lines through the project area. The Ruacana Power station is also located nearby.

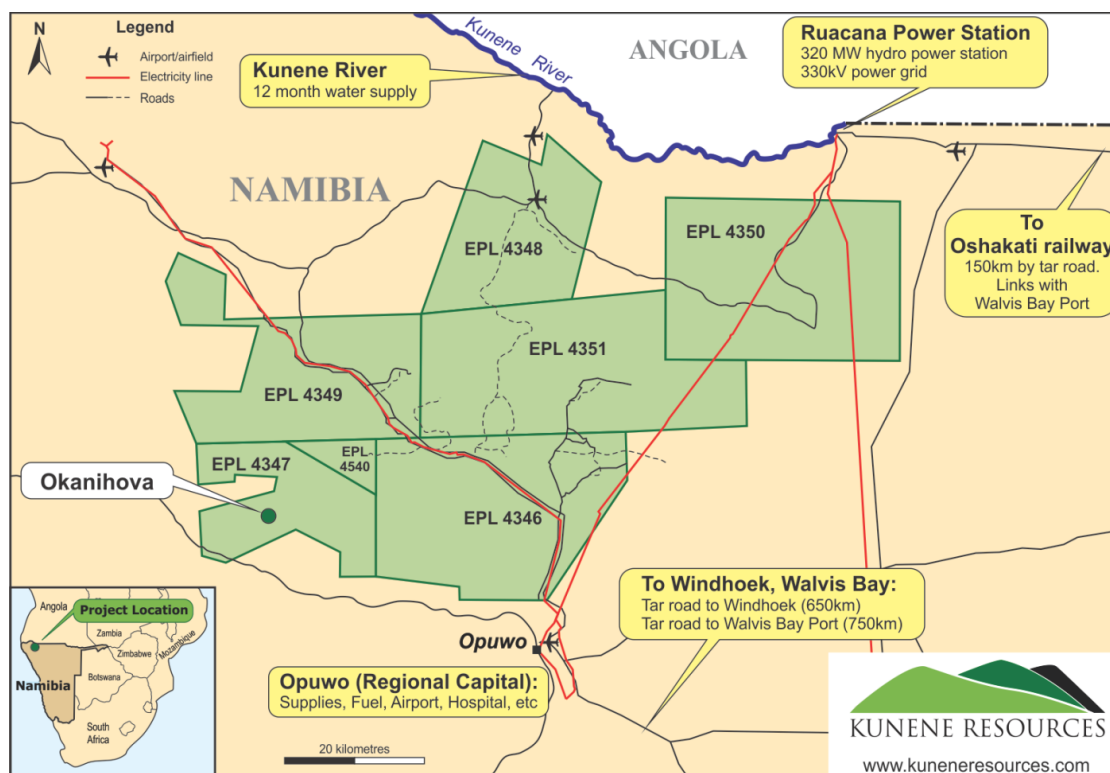


Figure 1: Location map of Kaoko Licence package showing infrastructure

Namibia is a socially and politically stable jurisdiction with a well-developed legislative framework. The Namibian constitution allows for a multi-party system of government, protection of human rights and is accepting of private ownership of property. Namibia encourages foreign direct investment and a mixed economy.

Kunene, with funding from First Quantum, invested heavily in systematic and thorough greenfields exploration on its Kaoko Project, including drilling four targets at the Kaoko Project. These targets were identified following extensive geochemical surveys, detailed structural analysis and a number of geophysical surveys – all of which received cutting-edge interpretation and modeling by experts from First Quantum. With the exception of the Dolomite Ore Formation (DOF) (discussed below), none of these targets generated economically interesting results.

During the year, mapping of the DOF copper-cobalt horizon was completed by a team of geologists from Kunene Resources, First Quantum and Colorado School of Mines. This mapping indicated a strike length of the DOF of at least 32km. However, large parts of the central DOF project are covered by alluvium and calcrete. The Company's high resolution aeromagnetic survey shows large NW trending faults in this area which might have focused the mineralising fluid.

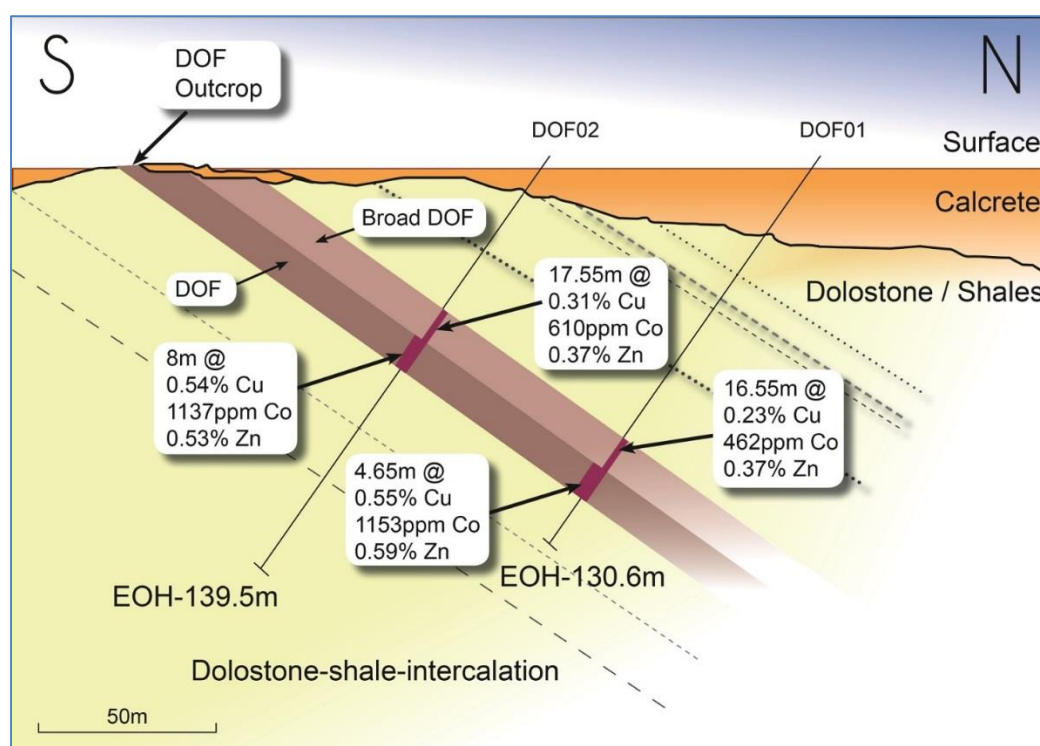
Two diamond holes were drilled to target the DOF horizon at about 100m depth, generating the first unweathered samples of the DOF copper-cobalt horizon (see Figure 2). The first drill hole, DOF01, was drilled close to a riverbed where some small single outcrops of DOF exist. Results are shown in Table 1 below (full results were announced to ASX on 13 July 2015):

## REVIEW OF OPERATIONS

Borehole	Depth (m)	Northing	Easting	RL	Dip	Az	From (m)	To (m)	Width (m)	Cu	Co	Zn	Cu(e)*
DOF01	139.5	8026727	365539	1257	55	200	94.6	111.3	16.55	0.23%	462ppm	0.37%	0.58%
Incl							106.65	111.3	4.65	0.55%	1153ppm	0.59%	1.32%
Incl							106.65	108.75	2.1	0.84%	1129ppm	0.65%	1.62%
DOF02	130.6	8026650	365540	1255	55	200	50.65	68.8	17.55	0.31%	610ppm	0.37%	0.74%
incl							60.8	68.8	8	0.54%	1137ppm	0.53%	1.29%
Incl							61.5	63.55	2.05	1.0%	1012ppm	0.38%	1.63%

\* Cobalt and zinc values have been converted to copper equivalent values using assumed metal prices as follows: copper price of US\$6000 per tonne; cobalt price of US\$30,000 per tonne; zinc price of US\$2,000 per tonne. The converted cobalt and zinc values are then added to the actual copper values to give a total copper equivalent grade described as % Cu(e). For example, a cobalt value of 1153ppm is equivalent to a copper value of 5,765ppm or 0.58% Cu(e).

**Table 1: Results of diamond boreholes (ICP analysis) – true width estimated to be same as drill width.**



**Figure 2: DOF drill results and interpreted structure**

The results obtained in DOF01 and DOF02 are broadly consistent with the copper and zinc values obtained in historical drilling by Rio Tinto in the 1990s (cobalt was not assayed in that program). In drill results located 2-5km from current drilling the unit was found to be up to 8.6m thick, grading 0.32% Cu & 0.64% Zn (Co not assayed). True width is not known and no records other than sketches are preserved.

During the year Kunene entered into a Share Sale Agreement with ASX-listed Discovery Resources Limited (**Discovery**) to acquire Discovery's Namibian subsidiary Solarwind Investments (Pty) Ltd (**Solarwind**). Solarwind is the holder of five exclusive prospecting licences (EPLs) in Namibia, including three EPLs which adjoin Kunene Resources' Kaoko Project. Figure 3 shows those EPLs in the context of the granted Kaoko Project EPLs and other applications that have been made by the company. The three Solarwind EPLs shown on Figure 3 increased Kunene Resources' contiguous land package from 362,645 hectares to ~465,000 hectares (not including new EPL applications).

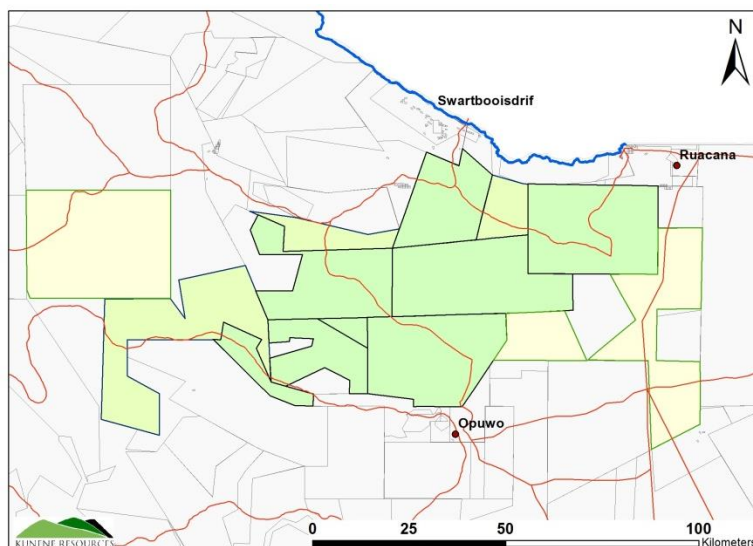


Figure 3 - Kaoko Project granted EPLs (green), EPL applications (yellow) and Solarwind EPLs (olive green)

## 2. ALCOUTIM PROJECT, PORTUGAL

During the year, Kunene's was granted the Alcoutim Project located in Portugal and secured a funding partner for this project. Kunene, through its wholly owned subsidiary Bolt Resources Pty Ltd (Bolt), applied for the Alcoutim exploration concession in Portugal in 2013. The licence was granted on 23 September 2014 for a period of 3 years, extendable by a further two periods of 1 year each. During the year, Kunene commenced community engagement activities at the Alcoutim Project.

The Alcoutim licence is a 576 km<sup>2</sup> exploration licence in southern Portugal covering part of the Iberian Pyrite Belt (see Figure 1 below). The Iberian Pyrite Belt is one of the largest Volcanogenic Massive Sulphide (VMS) provinces in the world with over 250 copper deposits. Its deposits comprise polymetallic Cu-Zn-Pb-sulphide ore of chalcopyrite, sphalerite and galena, with significant tin, silver and gold credits.

Kunene also secured a Joint Venture Agreement with a private funding partner for the Alcoutim Project. In November 2014, Kunene completed all conditions precedent to this Joint Venture Agreement, including due diligence and formal documentation, resulting in the funding for the project becoming unconditional. Following this, Kunene commenced a number of community engagement activities. In consequence of this Joint Venture Agreement, Bolt became 51% owned by the private funding partner.

Portugal is a European Union member state with a strong rule of law, excellent infrastructure and a long history of mining. In recent years Portugal has introduced progressive laws and policies designed to stimulate the economy through encouraging mining activity.

## 3. CURRAN RESOURCES PTY LTD, WESTERN AUSTRALIA

The Company relinquished all licences. No other work was undertaken during the year.

### Competent Person Statement

*The comments regarding the geology, prospectivity and exploration results, in this document, have been made by Simon Coxhell, (Member Australasian Institute of Mining and Metallurgy), who is a consultant of Kunene Resources Ltd. Mr Coxhell has sufficient experience, relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as Competent Persons as defined in the 2012 Edition of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr Coxhell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*



## REVIEW OF OPERATIONS

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### PROPOSED ACQUISITION OF DEPARTMENT 13 LLC

Despite excellent work by the Company and First Quantum, the work program at Kaoko was unable to generate sufficiently attractive targets for First Quantum to continue with the joint venture. The Company's board was aware of the acute financing and funding difficulties facing African focused junior explorers and formed the view that shareholders' best interests would be served by seeking opportunities outside the resources sector.

On 3 September 2015, Kunene announced that it had entered into an agreement to acquire Department 13 LLC (**D13**), a drone defense, cyber security and RF software communications and networking company based in Virginia, USA which has research and development contracts with multiple US Government agencies.

The Company executed a conditional, binding Heads of Agreement with D13, the majority shareholders of D13 (**Majority Shareholders**) and Viaticus Capital LLC (**Viaticus**) pursuant to which Kunene has agreed to make an offer to acquire 100% of the membership interests in D13 (**D13 Shares**) from the shareholders in D13 (**D13 Shareholders**) (**Heads of Agreement Transaction**).

Under the terms of the Heads of Agreement, the consideration to be paid to the D13 Shareholders for the transfer of the aggregate of all D13 Shares will be the issue of:

- (a) 200,000,000 fully paid ordinary shares in the capital of Kunene at a deemed issue price of A\$0.025 (the **Ordinary Consideration Shares**); and
- (b) 200,000,000 performance shares that convert into KNE Shares (on a one-for-one basis) (**Performance Shares**) in the event that the 20 trading day volume weighted average price of KNE Shares as traded on ASX equals or exceeds \$0.05 and one of the following other milestones is achieved within three years from the date of issue:
  - a. D13 commences first commercial sales of Drone Defense products;
  - b. D13 enters into a licencing agreement for any of its technologies with a National or State Government Agency or significant multi-national corporation;
  - c. D13 enters into a licence agreement for any of its technologies with a supplier to a National or State government agency;
  - d. D13 enters into a joint venture agreement with a large network or mobile company or a supplier to law enforcement, defense or military;
  - e. the cumulative value of grants provided to D13 equals or exceeds US\$3m; or
  - f. the Company (or a spin off entity of the Company) lists on the NASDAQ, OTC QX or NYSE Markets.

D13 appointed Viaticus under a Term Sheet & Mandate Agreement dated 5th August 2015 with a three-year term to exclusively raise capital for D13 and provide services to D13 in relation to arranging and managing a reverse merger of D13 with an ASX public listed company.

Simultaneously, with execution of this Heads of Agreement, D13, Viaticus and Kunene entered into a deed of covenant whereby, inter alia, Kunene will pay to Viaticus or its nominees, at Settlement, an option fee equal to \$500,000 that will be satisfied through the issue of KNE Shares at an issue price of \$0.025 each (a total of 20,000,000 KNE Shares).

In addition, as the introducer of the acquisition of D13 to Kunene, the parties have agreed that the Company will issue, at settlement of the Transaction (**Settlement**), to Viaticus or its nominees a total of 45,000,000 KNE Shares, 45,000,000 Performance Shares and 78,185,500 unlisted options each to acquire one KNE Share (exercise price \$0.025 and expiry date 5 years from Settlement).

Kunene also agreed to issue approximately 40,000,000 fully paid ordinary shares at 2.5c each to lenders of \$1million of investor loans to be made to D13 under a Loan Agreement dated 1 September 2015 with Viaticus as agent and arranger.

The Heads of Agreement provides for the appointment of 4 (four) new directors of Kunene nominated by D13 (New Directors). At Settlement of the Transaction Kunene will be required to procure the resignation of the existing directors of the Company. The Heads of Agreement also require shareholders to approve a Performance Rights Plan for the issue of 35,000,000 Director Performance Shares to the New Directors and 50,000,000 Employee Performance Shares to the

## REVIEW OF OPERATIONS

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employees of D13, the terms of which, in each case, match the terms of the Performance Shares save that there will be an additional term requiring a 12 month holding lock post vesting.

The Company's current directors have agreed to convert (subject to shareholder approval) up to \$115,000 of outstanding directors fees and termination payments into 4,600,000 (at a deemed issue price of \$0.025) ordinary shares in the Company.

### Settlement Conditions

The Heads of Agreement is subject to a number of conditions precedent, including (without limitation) the following:

- (a) Completion of due diligence by Kunene by no later than 30 September 2015;
- (b) Completion of due diligence by D13 on Kunene by no later than 30 September 2015;
- (c) The Company undertaking a capital raising of a minimum of \$4,000,000 under the Prospectus through the issue of KNE Shares at a price of not less than \$0.04 each (**Capital Raising**);
- (d) KNE obtaining all necessary shareholder approvals required by the Corporations Act 2001 (Cth) (Corporations Act) and the ASX Listing Rules in relation to the Acquisition;
- (e) The Parties obtaining all necessary regulatory approvals pursuant to the ASX Listing Rules, Corporations Act or any other law on terms acceptable to the Parties as are required to allow the Parties to lawfully complete the matters set out in the Heads of Agreement;
- (f) Kunene either selling or winding up all of its subsidiaries;
- (g) If required, each of the Shareholders waiving all pre-emptive and other rights over any of the D13 Shares conferred by the constituent documents of D13, the Operating Agreement or in any other way (if any); and
- (h) To the extent required by the ASX, Kunene or the ASX Listing Rules, each Shareholder and any party to whom Option Fee Shares, Introducer Securities or Loan Shares are issued, entering into a restriction agreement as required by ASX imposing such restrictions on trading of those securities as mandated by the ASX Listing Rules in respect of the KNE securities that are issued to those parties by KNE.

If the conditions are not satisfied by the date that is five months from the date of the Heads of Agreement (or such later date as D13 and Kunene may agree), then either party may terminate the Heads of Agreement.

### *Re-Compliance with Chapters 1 and 2 of the ASX Listing Rules*

As the Transaction will constitute a significant change in the nature and scale of Kunene's activities, the Company will be required to re-comply with the listing requirements set out in Chapters 1 and 2 of the ASX Listing Rules (including preparing a full form prospectus). This re-compliance will be accompanied by a minimum capital raising of \$4,000,000 to provide additional working capital for the new business.

If the Transaction proceeds, Kunene intends to divest all of its existing mineral projects and will change its name to reflect its new business.

### *Shareholder approval*

The Company is required to obtain shareholder approval for the Transaction, with the resolutions expected to be put to shareholders at the Company's Annual General Meeting in November. A notice of meeting will be distributed to shareholders in this regard.

Further details on the proposed transaction can be found in the Company's announcement dated 3 September 2015.

## DIRECTORS REPORT

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Your directors present their report on the Company and its controlled entities for the year ended 30 June 2015.

### DIRECTORS

The names of the Directors of the Company in office during the financial year and up to the date of this report are as follows:

Brandon Munro  
Philip Werrett  
Peter Pawlowitsch  
Michael Leech (resigned 7 September 2015)

Directors have been in office since the start of the financial year until the date of this report unless otherwise stated.

The following persons held the position of Company Secretary during the financial year:

Ian Hobson

The particulars of the qualifications, experience and special responsibilities of each Director are as follows:

#### **Brandon Munro – Managing Director**

Director since 4 April 2014.

Brandon Munro holds a Bachelor of Economics and Bachelor of Laws from University of Western Australia, and Graduate Diploma in Applied Finance and Investment from Securities Institute of Australia. He is a Fellow of the Financial Services Institute of Australia (Finsia) and is a Graduate Member of the Australian Institute of Company Directors.

Brandon brings regulatory, governance, mergers and acquisitions and capital markets knowledge to the team.

At the date of this report, Mr Munro has interests in the following shares and options of the Company:

- 1,933,000 ordinary shares
- 500,000 unlisted options exercisable at 40c each and expiring 15 September 2016

During the past three years Mr Munro has held the following other listed company directorships:

- Rewardle Holdings Limited – 25 March 2013 – present

#### **Philip Werrett – Non-Executive Chairman**

Director since 30 January 2012.

Philip Werrett holds a Bachelor of Business (Accounting) and is a member of the Certified Practicing Accountants of Australia. He has over 30 years commercial experience in both operational and corporate roles, and has held positions as a director of a number of ASX listed entities.

Mr Werrett has extensive experience in senior financial management, and at board level in the management of engineering, mining services and mining exploration companies.

## DIRECTORS REPORT

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At the date of this report, Mr Werrett has interests in the following shares and options of the Company:

- 200,000 ordinary shares
- 200,000 unlisted options exercisable at 40c each and expiring 15 September 2016

Mr Werrett was previously an alternate director of Autodom Limited (resigned 15 August 2013). He has not held directorships with any other ASX listed companies in the last three years.

### **Peter Pawlowitsch – Non-Executive Director**

Director since 30 January 2012.

Peter Pawlowitsch holds a Bachelor of Commerce from the University of Western Australia, is a current member of the Certified Practising Accountants of Australia and also holds a Masters of Business Administration from Curtin University.

These qualifications have underpinned more than ten years' experience in the accounting profession, business management and the evaluation of businesses and mining projects.

At the date of this report, Mr Pawlowitsch has interests in the following shares and options of the Company:

- 1,750,000 ordinary shares
- 500,000 unlisted options exercisable at 40c each and expiring 15 September 2016

During the past three years Mr Pawlowitsch has held the following other listed company directorships:

- Ventnor Resources Limited – 12 February 2010 – present
- Dubber Corporation Limited (formerly Crucible Gold Limited) – 26 September 2011 – present
- Knosys Limited – 16 March 2015 - present

### **Michael Leech – Non-Executive Director**

Director since 5 November 2013, resigned 7 September 2015.

Michael Leech is a Fellow of the Chartered Institute of Secretaries and Administrators of Southern Africa.

Mr Leech is a respected statesman in the Namibian mining industry. He retired in 2011 as the Managing Director of Rio Tinto's Rossing Uranium Mine, the largest mine in Namibia. Mr Leech is a past President of the Namibian Chamber of Mines and is the former Chairman and inaugural life member of the Uranium Stewardship Committee of Namibia. Mr Leech has been involved in various other operations within the Rio Tinto group.

At the date of this report, Mr Leech has interests in the following shares and options of the Company:

- 154,000 ordinary shares
- 200,000 unlisted options exercisable at 40c each and expiring 15 September 2016

During the past three years Mr Leech has held no other listed company directorships.

### **Ian Hobson - Company Secretary**

Company Secretary since 24 October 2012

Ian Hobson holds a Bachelor of Business degree and is a Chartered Accountant and Chartered Secretary. Mr Hobson provides company secretary services and corporate, management and accounting advice to a number of listed public companies involved in the resource, mining services and oil and gas industries.

# DIRECTORS REPORT

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## CORPORATE INFORMATION

### Corporate Structure

Kunene Resources Limited is a limited liability company that is incorporated and domiciled in Australia. Kunene Resources Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year as follows:

Kunene Resources Ltd	- parent entity
Curran Resources Pty Ltd	- 100% owned controlled entity
Kunene North Pty Ltd	- 100% owned controlled entity
African Mining Capital 3 Pty Ltd	- 100% owned controlled entity
Kunene Metals Mauritius (Mauritius)	- 100% owned controlled entity
Gazania Investments 196 (Namibia)	- 95% owned controlled entity
Kunene Resources Namibia (Namibia) (formerly <i>Gazania Investments 195</i> )	- 95% owned controlled entity

### Nature of Operations and Principal Activities

The principal continuing activities during the year of entities within the consolidated entity was mineral exploration.

## OPERATING AND FINANCIAL REVIEW

### Review of Operations

A review of operations for the financial year and the results of those operations is contained within the company review.

### Operating Results

Consolidated loss after income tax for the financial year was \$4,873,142 (2014: \$1,697,356 loss).

### Financial Position

At 30 June 2015, the Group had net assets of \$384,588 (2014: \$5,050,704) with cash reserves of \$554,223 (2014: \$1,272,212).

### Financing and Investing Activities

The company issued the following securities during the year:

- 403,500 ordinary fully paid shares as consideration for consulting fees relating to the granting of the Alcoutim Project exploration licence in southern Portugal.

### Dividends

No dividends were paid during the year (2014: nil) and no recommendation is made as to the payment of dividends.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the company during the financial year are detailed in the company review.

In the opinion of the directors, there were no other significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or in the financial report.

## DIRECTORS REPORT

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### EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen, since the end of the financial year, which significantly affected, or may significantly affect, the operations of the group, the results of those operations, or the state of affairs of the Group in subsequent financial years, other than as follows.

On 31 July 2015, completion took place for the acquisition by Gazania Investments 196 (Pty) Ltd (the Company's 95% owned Namibian subsidiary) of the shares in Solarwind Investments (Pty) Ltd.

On 3 September 2015, the Company announced that it had entered into an agreement to acquire Department 13 LLC, a drone defense, cyber security and RF software communications and networking company based in Virginia, USA which has research and development contracts with multiple US Government agencies. This binding heads of agreement is conditional on due diligence and shareholder approvals, amongst other things. The agreement is also conditional on the Company selling or winding up all its resources assets.

In consequence of the Company's proposed change in direction, on 7 September 2015 Mr Michael Leech resigned as a director of the Company.

On 15 September 2015, First Quantum advised the Company that it withdrew from the Kaoko Project joint venture. The Company converted the \$1,000,000 convertible notes held by First Quantum Minerals Limited into 5,000,000 fully paid ordinary shares in the Company which were issued to nominees of First Quantum Minerals Limited.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group will focus on completing the acquisition of Department 13 LLC. The Group will also continue to pursue other potential investment opportunities to enhance shareholder value.

### MEETINGS OF DIRECTORS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows:

Board of Directors	Number eligible to attend	Number attended
B Munro	3	3
P Werrett	3	3
P Pawlowitsch	3	3
M Leech	3	3

## DIRECTORS REPORT

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### REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each director and key management personnel of Kunene Resources Limited. The information provided in the remuneration report includes remuneration disclosures that are audited as required by section 308(3C) of the Corporations Act 2001.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

#### Remuneration Committee

The full Board carries out the roles and responsibilities of the Remuneration Committee and is responsible for determining and reviewing the compensation arrangements for the Directors themselves, the Managing Director and any Executives.

Executive remuneration is reviewed annually having regard to individual and business performance, relevant comparative remuneration and internal and independent external advice.

#### A. Remuneration policy

The board policy is to remunerate directors' at market rates for time, commitment and responsibilities. The board determines payments to the directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of directors' fees that can be paid is subject to approval by shareholders in a general meeting, from time to time. However, to align directors' interests with shareholders interests, the directors are encouraged to hold shares and options in the company.

The Group's aim is to remunerate at a level that reflects the size and nature of the Group. Group officers and directors are remunerated to a level consistent with the size of the Group.

The directors receive a superannuation guarantee contribution required by the government, which is currently 9.50%, and do not receive any other retirement benefits. Some individuals, however, may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed.

The Board believes that it has implemented suitable practices and procedures that are appropriate for an organisation of this size and maturity.

The Group did not pay any performance-based component of remuneration during the year.

#### B. Remuneration structure

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

#### Use of Remuneration Consultants

The Board does not seek the advice of Remuneration Consultants in fulfilling its roles and responsibilities associated with the Remuneration Committee and determining compensation for Directors, the Managing Director and any Key Management Personnel.

#### Non-executive Director Compensation

## DIRECTORS REPORT

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### *Objective*

The Board seeks to set aggregate compensation at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

### *Structure*

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination approved by shareholders was an aggregate compensation of \$250,000 per year.

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board may consider advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. Non-Executive Directors' remuneration may include an incentive portion consisting of options, as considered appropriate by the Board, which may be subject to Shareholder approval in accordance with ASX listing rules.

## **Executive Compensation**

### *Objective*

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for company and individual performance against targets set by appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of the company; and
- ensure total compensation is competitive by market standards.

### *Structure*

In determining the level and make-up of executive remuneration, the Board negotiates a remuneration to reflect the market salary for a position and individual of comparable responsibility and experience. Due to the limited size of the Company and of its operations and financial affairs, the use of a separate remuneration committee is not considered appropriate. Remuneration is regularly compared with the external market by participation in industry salary surveys and during recruitment activities generally. If required, the Board may engage an external consultant to provide independent advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

Compensation may consist of the following key elements:

- Fixed Compensation;
- Variable Compensation;
- Short Term Incentive (STI); and
- Long Term Incentive (LTI).

Remuneration consists of a fixed remuneration and a long term incentive portion as considered appropriate.

### *Fixed Remuneration*

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board having regard to the Company and individual performance, relevant comparable remuneration in the mining exploration sector and external advice.

The fixed remuneration is a base salary or monthly consulting fee.

### *Variable Pay — Long Term Incentives*

The objective of long term incentives is to reward directors/executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. The incentive portion is payable based upon attainment of objectives related to the director's/executive's job responsibilities. The objectives vary, but all are targeted to relate directly to the Company's business and financial performance and thus to shareholder value.



## DIRECTORS REPORT

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Long term incentives (LTIs) granted to directors/ executives are delivered in the form of options.

LTI grants to Executives are delivered in the form of employee share options. These options are issued at an exercise price determined by the Board at the time of issue. The employee share options generally vest over a selected period not based on service conditions.

The objective of the granting of options is to reward Executives in a manner which aligns the element of remuneration with the creation of shareholder wealth. As such LTIs are made to Executives who are able to influence the generation of shareholder wealth and thus have an impact on the Company's performance.

The level of LTI granted is, in turn, dependent on the Company's recent share price performance, the seniority of the Executive, and the responsibilities the Executive assumes in the Company.

Typically, the grant of LTIs occurs at the commencement of employment or in the event that the individual receives a promotion and, as such, is not subsequently affected by the individual's performance over time.

### C. Employment contracts of directors and senior executives

The employment arrangements of the directors and senior executives are not formalised in a contract of employment except as follows:

- Mr Peter Pawlowitsch commenced a twelve month service agreement on 10 December 2012 under which he is paid \$10,000 consultancy fees per calendar month. Prior to 12 December 2013, this service agreement was extended for a further 12 months and automatically extends on completion of the initial term. Mr Pawlowitsch or the Company can terminate the agreement upon provision of 6 months written notice.
- Mr Brandon Munro as Managing Director, with the key terms being:
  - Salary of \$220,000 per annum (inclusive of superannuation)
  - 6 months' notice of termination by either party with right of payment in lieu of service (subject to restrictions in Corporations Act and Listing Rules)
  - Relocation costs back to Australia

### D. Details of remuneration for year

#### **Directors**

The following persons were directors of Kunene Resources Limited during the financial year and previous period:

Philip Werrett	Chairman (non-executive)
Peter Pawlowitsch	Director (non-executive)
Daniel Schwann	Director (non-executive) – resigned 5 November 2013
Bruce Lane	Director (non-executive) – resigned 4 April 2014
Michael Leech	Director (non-executive) – appointed 5 November 2013, resigned 7 September 2015
Brandon Munro	Managing Director (executive) – appointed 4 April 2014

There were no other persons that fulfilled the role of a key management person, other than those disclosed as Directors.

## DIRECTORS REPORT

### Remuneration

Details of the remuneration of each Director and named executive officer of the company, including their personally-related entities, during the year was as follows:

		Short Term Benefits	Long Term Benefits	Post-Employment	Share Based Payments	Total	Remuneration consisting of options during the year %
		Salary and fees \$	Annual Leave \$	Superannuation \$	Options \$		
Directors	Year						
P Werrett	2015	27,460	-	2,540	-	30,000	-
	2014	24,423	-	2,259	17,702	44,384	39.9%
B Munro	2015	226,372	15,231	18,628	-	260,231	-
	2014	143,117	-	19,700	44,255	207,072	21.4%
P Pawlowitsch	2015	120,000	-	-	-	120,000	-
	2014	120,000	-	-	44,255	164,255	26.9%
D Schwann	2015	-	-	-	-	-	-
	2014	6,833	-	-	-	6,833	-
M Leech	2015	30,000	-	-	-	30,000	-
	2014	20,000	-	-	17,702	37,702	46.9%
B Lane	2015	-	-	-	-	-	-
	2014	20,642	-	1,909	17,702	40,253	44.0%
Total	2015	403,832	15,231	21,168	-	440,231	-
	2014	335,015	-	23,868	141,616	500,499	28.3%

There were no performance related payments made during the year. Performance hurdles are not attached to remuneration options.

#### E. Compensation options to key management personnel

There were no options granted as equity compensation benefits to Directors during the year. All options issued to Directors in 2014 vested immediately upon issue.

#### F. Shares issued to key management personnel on exercise of compensation options

No shares were issued to Directors on exercise of compensation options during the year.

#### G. Voting and comments made at the Company's 2014 Annual General Meeting

The Company received 100% of votes "for" the adoption of the remuneration report for the 2014 financial period. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

#### H. Loans with Key Management Personnel

There were no loans to key management personnel or their related entities during the financial year.

## DIRECTORS REPORT

### I. Other transactions with Key Management Personnel

Mr Peter Pawlowitsch, a director of the Company is also a director of Avitus Capital Pty Ltd ("Avitus"). During the previous year, Avitus was paid consultancy fees (not provided by Mr Pawlowitsch) of \$1,260. There were no payments to Avitus during the current year.

During the year, the Company leased office space for \$28,531 (2014: \$31,404) and paid shared expenses of nil (2014: \$21,000) charged by Ventnor Resources Limited, a company in which Mr Peter Pawlowitsch is a director.

During the previous year, the Company acquired African Mining Capital 3 Pty Ltd from African Mining Capital Pty Ltd by the issue of 14,000,000 ordinary fully paid shares and 10,500,000 options exercisable at 25 cents each, expiring 7 August 2015. Of the consideration, 450,000 shares and 525,000 options were issued directly to a third party as a consulting fee for introducing the Company to African Mining Capital Pty Ltd. African Mining Capital Pty Ltd received 13,550,000 shares and 9,975,000 options of the consideration. Mr Brandon Munro, a director of the Company is also a director of African Mining Capital Pty Ltd.

### J. Additional disclosures relating to key management personnel

#### Shareholdings

The number of shares in the Company held during the financial year by each Director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

Director	Balance at Beginning of Year	Received as Remuneration	Options Exercised	Acquired/ (Disposed)	Net Change Other #	Balance at End of Year
P Werrett	200,000	-	-	-	-	200,000
P Pawlowitsch	1,750,000	-	-	-	-	1,750,000
B Munro	13,550,000	-	-	-	-	13,550,000
M Leech	-	-	-	-	-	-
	15,500,000	-	-	-	-	15,500,000

# - Shares held at date of appointment or resignation, as applicable

#### Option Holdings

The number of options over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Consolidated Entity, including their personally related parties, is set out below:

Director	Balance at Beginning of Year	Received as Remuneration	Options Expired/ Cancelled	Net Change Other #	Balance at End of Year	Number vested and exercisable
P Werrett	1,250,000	-	-	-	1,250,000	1,250,000
P Pawlowitsch	2,875,000	-	-	-	2,875,000	2,875,000
B Munro	10,475,000	-	-	-	10,475,000	10,475,000
M Leech	200,000	-	-	-	200,000	200,000
	14,800,000	-	-	-	14,800,000	14,800,000

# - Options held at date of appointment or resignation, as applicable

**This is the end of the Audited Remuneration Report.**

## **DIRECTORS REPORT**

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### **INSURANCE OF OFFICERS**

The Company has in place an insurance policy insuring Directors and Officers of the Company against any liability arising from a claim brought by a third party against the Company or its Directors and Officers, and against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity as a Director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

In accordance with a confidentiality clause under the insurance policy, the amount of the premium paid to the insurers has not been disclosed. This is permitted under Section 300(9) of the Corporations Act 2001.

### **SHARE OPTIONS**

At the date of this report there were the following unissued ordinary shares for which options were outstanding:

- 2,100,000 unlisted options expiring 15 September 2016 exercisable at 40 cents each

No options were issued, exercised or expired during the year.

Subsequent to year end and up to the date of this report, no other options have been issued or exercised. 34,900,000 listed options exercisable at 25 cents each, expired on 7 August 2015.

No person entitled to exercise these options had or has any right, by virtue of the option, to participate in any share issue of any other body corporate.

### **LEGAL PROCEEDINGS**

The company was not a party to any legal proceedings during the year.

### **PROCEEDINGS ON BEHALF OF THE COMPANY**

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

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

### **ENVIRONMENTAL REGULATIONS**

The Group is subject to environmental regulation in Namibia in respect of its Kaoko Project held by the Company's 95% owned controlled subsidiary Kunene Resources Namibia (Pty) Ltd. There have not been any known significant breaches of any environmental regulations during the year under review and up until the date of this report.

### **CORPORATE GOVERNANCE**

Under ASX Listing Rule 4.10.3 the Company's Corporate Governance Statement can be located at the URL on the Company's website being: <http://www.kuneneresources.com/irm/content/corporate-policies.aspx?RID=290>

## **DIRECTORS REPORT**

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### **AUDITOR**

BDO Audit (WA) Pty Ltd continues in office in accordance with Section 327 of the Corporations Act 2001.

### **NON-AUDIT SERVICES**

There were no amounts paid or payable to the auditor for non-audit services provided during the year by the auditor other than those outlined in Note 4 to the financial statements.

### **AUDITOR'S DECLARATION OF INDEPENDENCE**

The auditor's independence declaration for the year ended 30 June 2015, as required under section 307C of the Corporations Act 2001, has been received and is included within the financial report.

Signed in accordance with a resolution of directors.



Philip Werrett  
Chairman  
Perth, 30 September 2015

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	Note	Consolidated	
		2015 \$	2014 \$
<b>Revenue from continuing operations</b>	2(a)	<b>42,791</b>	108,106
Exploration and evaluation write-off	10	(4,128,436)	(404,233)
Depreciation		(18,069)	(11,592)
Directors fees and benefits expense		(274,000)	(358,883)
Impairment of investment		-	(160,000)
Impairment of plant and equipment	9	(58,212)	-
Loss on investment		(30,000)	-
Share based payments		-	(185,871)
Other expenses	2(b)	(306,097)	(684,883)
<b>Loss before income tax expense from continuing operations</b>		<b>(4,772,023)</b>	(1,697,356)
Income tax expense	3	-	-
Loss after income tax expense from continuing operations		(4,772,023)	(1,697,356)
Loss after income tax expense from discontinued operations	19	(101,119)	-
<b>Loss after income tax for the year</b>		<b>(4,873,142)</b>	(1,697,356)
Attributable to:			
Members of Kunene Resources Limited		(4,679,933)	(1,682,096)
Non-controlling interests		(193,209)	(15,260)
		<b>(4,873,142)</b>	(1,697,356)
<b>Other comprehensive income/loss</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations		192,500	(278,763)
<b>Total comprehensive loss for the year</b>		<b>(4,680,642)</b>	(1,976,119)
Attributable to:			
Members of Kunene Resources Limited		(4,485,206)	(1,962,181)
Non-controlling interests		(195,436)	(13,938)
		<b>(4,680,642)</b>	(1,976,119)
Total comprehensive loss for the year attributable to members of Kunene Resources Limited arises from:			
Continuing operations		(4,384,087)	(1,962,181)
Discontinued operations		(101,119)	-
		<b>(4,485,206)</b>	(1,962,181)

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

				<b>Consolidated</b>	
				<b>2015</b>	<b>2014</b>
				<b>Cents</b>	<b>Cents</b>
	<b>Note</b>				
<b>Earnings per share attributable to members of Kunene Resources Limited</b>					
Loss from continuing operations:					
Basic loss per share	5			<b>(12.06)</b>	(5.00)
Diluted loss per share	5			<b>(12.06)</b>	(5.00)
Loss from discontinued operations:					
Basic loss per share	5			<b>(0.26)</b>	(5.00)
Diluted loss per share	5			<b>(0.26)</b>	(5.00)
Loss for the year:					
Basic loss per share	5			<b>(12.06)</b>	(5.00)
Diluted loss per share	5			<b>(12.06)</b>	(5.00)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2015**

		Consolidated	
	Note	2015 \$	2014 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	6	554,223	1,272,212
Trade and other receivables	7	177,871	97,372
<b>Total Current Assets</b>		<b>732,094</b>	1,369,584
<b>Non-Current Assets</b>			
Trade and other receivables	7	20,000	20,000
Available for sale financial assets	8	-	40,000
Plant and equipment	9	-	75,053
Mining tenements and exploration	10	-	4,007,865
<b>Total Non-Current Assets</b>		<b>20,000</b>	4,142,918
<b>Total Assets</b>		<b>752,094</b>	5,512,502
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	11	218,255	115,778
Provisions	12	15,231	-
Other liabilities	13	134,020	346,020
<b>Total Current Liabilities</b>		<b>367,506</b>	461,798
<b>Total Liabilities</b>		<b>367,506</b>	461,798
<b>Net Assets</b>		<b>384,588</b>	5,050,704
<b>EQUITY</b>			
Contributed equity	14	6,268,964	6,254,438
Reserves	15	1,361,457	1,168,957
Accumulated losses		(7,179,051)	(2,499,118)
<b>Total Equity attributable to members of Kunene Resources Limited</b>		<b>451,370</b>	4,924,277
Non-controlling interests	27	(66,782)	126,427
<b>Total Equity</b>		<b>384,588</b>	5,050,704

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2015**

Consolidated	Contributed Equity \$	Accumulated Losses \$	Reserves \$	Non- controlling Interests \$	Total \$
<b>2015</b>					
<b>Balance at 1 July 2014</b>	<b>6,254,438</b>	<b>(2,499,118)</b>	<b>1,168,957</b>	<b>126,428</b>	<b>5,050,705</b>
Loss attributable to members of Kunene Resources Limited	-	(4,679,933)	-	-	(4,679,933)
Loss attributable to non-controlling interests	-	-	-	(193,209)	(193,209)
Exchange differences on translation of foreign operations	-	-	192,500	-	192,500
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(4,679,933)</b>	<b>192,500</b>	<b>(193,209)</b>	<b>(4,680,642)</b>
<b>Transactions with owners in their capacity as owners:</b>					
Securities issued during the year	14,526	-	-	-	14,526
<b>Balance at 30 June 2015</b>	<b>6,268,964</b>	<b>(7,179,051)</b>	<b>1,361,457</b>	<b>(66,782)</b>	<b>384,588</b>
<b>2014</b>					
<b>Balance at 1 July 2013</b>	<b>2,874,438</b>	<b>(817,022)</b>	<b>988,850</b>	<b>-</b>	<b>3,046,266</b>
Loss attributable to members of Kunene Resources Limited	-	(1,682,096)	-	-	(1,682,096)
Loss attributable to non-controlling interests	-	-	-	(15,260)	(15,260)
Exchange differences on translation of foreign operations	-	-	(278,763)	-	(278,763)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(1,682,096)</b>	<b>(278,763)</b>	<b>(15,260)</b>	<b>(1,976,119)</b>
<b>Transactions with owners in their capacity as owners:</b>					
Non-controlling interests on acquisition of subsidiary	-	-	-	141,688	141,688
Securities issued during the year	2,380,000	-	-	-	2,380,000
Convertible notes issued	1,000,000	-	-	-	1,000,000
Cost of share based payments	-	-	458,870	-	458,870
<b>Balance at 30 June 2014</b>	<b>6,254,438</b>	<b>(2,499,118)</b>	<b>1,168,957</b>	<b>126,428</b>	<b>5,050,705</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	Consolidated	
		2015 \$	2014 \$
		Inflows/ (Outflows)	Inflows/ (Outflows)
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees		(472,843)	(970,386)
Interest received		14,009	23,460
Net cash (used in) operating activities	6(a)	(458,834)	(946,926)
<b>Cash flows from investing activities</b>			
Expenditure on mining interests		(28,919)	(799,956)
Proceeds from sale of investments		10,000	-
Payment for plant and equipment		-	(61,961)
Receipts from farm in funding		2,020,764	713,451
Payments for farm in exploration		(2,232,764)	(367,431)
Net cash (used in) investing activities		(230,919)	(515,897)
<b>Cash flows from financing activities</b>			
Proceeds from issue of convertible notes		-	1,000,000
Net cash provided by financing activities		-	1,000,000
Net (decrease) in cash held		(689,753)	(462,823)
Cash at beginning of the year		1,272,212	1,788,585
Effect of exchange rate changes on cash		(28,236)	(53,550)
Cash at end of the year	6	554,223	1,272,212

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies*

#### (a) **Basis of Preparation**

These consolidated financial statements and notes represent those of Kunene Resources Limited and controlled entities. ("Group" or "Consolidated Entity").

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Kunene Resources Limited ("Company" or "Parent Entity") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). The nature of the operations and principal activities of the Group are described in the Directors' Report.

The separate financial statements of the parent entity, Kunene Resources Limited, have not been presented within this financial report as permitted by the Corporations Act 2001.

#### **Going Concern**

For the year ended 30 June 2015 the Group had a net loss of \$4,679,933 (2014: 1,682,096), net cash outflows from operating activities of \$458,834 (2014: \$946,926) and net cash outflow from investing activities of \$230,919 (2014: \$515,897). During the year the group announced its intention to withdraw from the resources sector and has no active exploration and evaluation expenditure budgeted nor planned.

The ability of the Company to continue as a going concern is dependent on raising the capital and completing the acquisition of Department 13LLC as announced on the ASX on 3 September 2015. The Directors believe the Company will continue as a going concern. As a result the financial information has been prepared on a going concern basis.

However, if the Company is unable to achieve the above, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore whether it will be able to pay its debts as and when they fall due, and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

#### (b) **Adoption of new and revised standards**

In the year ended 30 June 2015, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual financial reporting year.

In note 28 - New accounting standards for application in future periods, the Company has outlined certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods and have not been early adopted by the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (b) **Adoption of new and revised standards (Cont.)**

The Group has adopted all of the new, revised or amending accounting standards and interpretations that are mandatory for the current reporting period, the following being most relevant to the Group:

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

The consolidated entity has applied AASB 2012-3 from 1 July 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement.

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

The consolidated entity has applied AASB 2013-3 from 1 July 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed.

##### *AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)*

The consolidated entity has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination

#### (c) **Statement of Compliance**

The financial report was authorised for issue on 30 September 2015.

The financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (d) **Basis of consolidation**

The consolidated financial statements comprise the financial statements of Kunene Resources Limited ("Company" or "Parent Entity") and its subsidiaries as at 30 June each year ("Consolidated Entity" or "Group"). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (e) Revenue recognition

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

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

#### (f) Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as described above, net of outstanding bank overdrafts.

#### (g) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are due for settlement within 30 days from the date of recognition. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

An allowance account for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the statement of comprehensive income. When a trade receivable for which an impairment allowance has been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

#### (h) Income Tax

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (h) **Income Tax (Cont.)**

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### (i) **Other taxes**

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (j) **Financial assets**

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

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

##### (i) *Loans and receivables*

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

##### (ii) *Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

#### (k) **Mineral exploration and evaluation expenditure**

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (k) **Mineral exploration and evaluation expenditure (Cont.)**

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

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

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

#### (l) **Impairment of assets**

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

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

#### (m) **Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (n) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

#### (o) Employee benefits

##### *Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expenses to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

##### *Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

#### (p) Share-based payment transactions

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (p) **Share-based payment transactions (Cont)**

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

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

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

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

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

#### (q) **Issued capital**

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

#### (r) **Segment Reporting**

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

#### (s) **Earnings per share**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (t) **Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment – over 3 to 5 years.

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

##### (i) *Impairment*

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

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

For plant and equipment, impairment losses are recognised in the statement of comprehensive income.

##### (ii) *Derecognition and disposal*

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

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

#### (u) **Foreign currency translation**

The functional and presentation currency of Kunene Resources Limited and its Australian subsidiaries is Australian dollars (A\$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Foreign exchange gains and losses are presented in profit or loss on a net basis within other income or other expenses, unless they relate to borrowings, in which case they are presented as part of finance costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (u) **Foreign currency translation (Cont.)**

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was measured.

The functional currency of the overseas subsidiaries is nambian dollars. At the end of the reporting period, the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Kunene Resources Limited at the closing rate at the end of the reporting period and income and expenses are translated at the weighted average exchange rates for the year. All resulting exchange difference are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

#### (v) **Convertible notes**

Convertible notes that can be converted to share capital at the option of the holder and where the number of shares is fixed is treated as contributed equity.

#### (w) **Asset acquisition**

On 1 November 2013 Kunene Resources Limited acquired 100% of the issued shares of African Mining Capital 3 Pty Ltd. African Mining Capital 3 Pty Ltd owns 95% of Kunene Resource Namibia Pty Ltd, a Namibian incorporated company that holds licenses to the Kaoko Project, Namibia.

Kunene Resources Limited acquired African Mining Capital 3 Pty Ltd with the only key asset being its retained interest in the Kaoko project. As the acquisition of African Mining Capital Pty Ltd was not deemed a business acquisition, the transaction was therefore accounted for as a share based payment for the net assets acquired.

When an asset acquisition does not constitute a business combination, the assets and liabilities are assigned a carrying amount based on their relative fair values in an asset purchase transaction and no deferred tax will arise in relation to the acquired assets and assumed liabilities as the initial recognition exemption for deferred tax under AASB 112 applies. No goodwill will arise on the acquisition and transaction costs of the acquisition will be included in the capitalised cost of the asset.

#### (x) **Fair value**

Fair values may be used for financial asset and liability measurement and well as for sundry disclosures.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is based on the presumption that the transaction takes place either in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market. The principal or most advantageous market must be accessible to, or by, the group.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset at its highest and best use or by selling it to another market participant that would use the asset at its highest and best use.

In measuring fair value, the group uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### 1. *Summary of Significant Accounting Policies (Cont.)*

#### (y) **Significant Accounting Estimates and Judgments**

##### ***Significant accounting judgments***

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

##### *Exploration and evaluation assets*

The Group's accounting policy for exploration and evaluation expenditure is set out at note 1(k). The application of this policy necessarily requires management to make certain estimates and assumptions as to future events and circumstances. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under the policy, it is concluded that the expenditures are unlikely to be recovered by future exploitation or sale, then the relevant capitalised amount will be written off to the statement of profit or loss and other comprehensive income.

##### ***Significant accounting estimates and assumptions***

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

##### *(i) Impairment of assets*

In determining the recoverable amount of assets, in the absence of quoted market prices, estimations are made regarding the present value of future cash flows using asset-specific discount rates and the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. No assets were subject to impairment testing at 30 June 2014 and 30 June 2015.

##### *(ii) Share-based payment transactions*

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

##### *(iii) Deferred tax balances*

Deferred Tax Balances have not been recognised as it is not probable that they will be recovered.

In October 2014 the Company signed a joint venture agreement with Gecko Mineral Processing (Proprietary) Limited ("Gecko"), by which Gecko would fund the Alcoutim Project held by Bolt Resources Pty Ltd ("Bolt"), a subsidiary of the Company.

In November, when the agreement became unconditional, the Company was required to transfer 51% of its shareholding in Bolt to Gecko and Gecko to appoint directors to the Board of Bolt.

The transfer of 51% of the shares in Bolt to Gecko was executed on 30 January 2015 and Gecko appointed their directors to the Board of Bolt. As at 30 January 2015, the Company lost control of Bolt Resources Pty Ltd.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Consolidated	
	2015	2014
	\$	\$

**2. Revenue and Expenses from Continuing Operations**

**(a) Revenue**

Interest received – other corporations	12,521	21,264
Other income	30,270	86,842
	<b>42,791</b>	<b>108,106</b>

**(b) Expenses**

Accounting	50,594	50,016
Audit fees	35,757	27,420
Consulting fees	47,768	79,296
Employee benefits expense	-	183,639
Insurance	6,752	48,170
Legal fees	25,856	73,536
Occupancy costs	28,531	42,789
Securities exchange and registry fees	49,684	31,762
Travel expenses	14,219	63,874
Other	46,936	84,381
	<b>306,097</b>	<b>684,883</b>

**3. Income Tax**

**(a) Income Tax Expense**

The income tax expense for the year differs from the prima facie tax as follows:

Loss for year	(4,873,142)	(1,697,356)
Prima facie income tax (benefit) @ 30%	(1,461,943)	(509,207)
Tax effect of non-deductible items	1,202,086	173,092
Deferred tax assets not brought to account	259,857	336,115
Total income tax expense	-	-

**(b) Deferred Tax Assets**

Deferred tax assets not brought to account arising from tax losses, the benefits of which will only be realised if the conditions for deductibility set out in note 1(h) occur:

	618,843	567,429
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There are no franking credits available to the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	<b>Consolidated</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>

**4. Auditors' Remuneration**

The auditor of Kunene Resources Limited is BDO Audit (WA) Pty Ltd.

Amounts, received or due and receivable by BDO Audit (WA) Pty Ltd for:

- audit or review services	<b>35,757</b>	27,420
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Payments to other auditors

- component audit – BDO Chartered Accountants (Namibia)	<b>5,037</b>	-
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Total remuneration to auditors

<b>40,794</b>	27,420
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**5. Loss per Share (EPS)**

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

**Earnings attributable to the members of Kunene Resources Limited used to calculate EPS**

Loss from continuing operations	<b>(4,578,814)</b>	(1,682,096)
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Loss from discontinued operations	<b>(101,119)</b>	-
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Loss for the year	<b>(4,679,933)</b>	(1,682,096)
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**Weighted average number of ordinary shares used in the calculation of EPS**

Weighted average number of ordinary shares used as the denominator in calculating basic EPS

<b>No.</b>	<b>No.</b>
<b>38,795,163</b>	33,667,123

As the Company is in a loss position, diluted EPS calculated is equal to basic EPS

**6. Cash and Cash Equivalents**

Cash at bank	<b>554,223</b>	1,272,212
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Cash at bank earns interest at floating rates based on daily bank deposit rates.

This should be read in conjunction with note 23 on Financial Risk Management



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Consolidated	
	2015 \$	2014 \$
<b>6. Cash and Cash Equivalents (Cont.)</b>		
<b>(a) Reconciliation of loss for the year to net cash flows from operating activities:</b>		
Loss for the year	<b>(4,873,142)</b>	(1,697,356)
<i>Non-cash flows in loss:</i>		
Depreciation	<b>18,069</b>	11,592
Equity settled share based payment	-	185,871
Write off of exploration expenditure	<b>4,128,436</b>	404,233
Write off of investment	-	160,000
Impairment of plant and equipment	<b>58,212</b>	-
Loss on sale of investment	<b>30,000</b>	-
Loss on disposal of controlling interest in subsidiary	<b>100,876</b>	-
<i>Changes in assets and liabilities:</i>		
Decrease/(increase) in trade and other receivables	<b>14,592</b>	(21,618)
Increase in trade and other payables	<b>48,892</b>	10,352
Increase in provisions	<b>15,231</b>	-
Net cash outflows from operating activities	<b>(458,834)</b>	(946,926)

**(b) Non-cash financing and investing activities**

During the year, the Company issued 403,500 fully paid ordinary shares as consideration for consulting fees relating to the granting of the Alcoutim Project exploration licence in southern Portugal. The shares issued were valued at \$14,526, the fair market value of the services provided.

During the previous financial period, the Company acquired all the shares of African Mining Capital 3 Pty Ltd. As part consideration, the Company issued 14,000,000 ordinary fully paid shares and 10,500,000 options exercisable at 25 cents each, expiring 7 August 2015. The fair value of the securities issued at the date of acquisition was \$2,653,000. Refer note 18.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Consolidated	
	2015	2014
	\$	\$
<b>7. Trade and Other Receivables</b>		
<b>Current</b>		
Interest receivable	-	1,489
GST recoverable	10,012	19,584
VAT recoverable	128,583	-
Other receivables	39,276	76,299
	<b>177,871</b>	<b>97,372</b>

Terms and conditions relating to the above financial instruments:

- Other receivables are non-interest bearing and generally repayable within 30 days.
- No receivables are past due or impaired.
- Refer to risk management note 23

**Non-Current**

Security bonds	20,000	20,000
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The security bond is held as security for a corporate credit card facility utilised by the Company.

<b>8. Available for Sale Financial Assets</b>		
Investment in African Mining Capital Pty Ltd (unlisted entity)	-	40,000

In October 2012 Kunene Resources Limited signed a binding Heads of Agreement with African Mining Capital Pty Ltd ("AMC") to enter into a joint venture to earn and acquire 76% of the Kaoko Project, Namibia. As part of the agreement, the Group subscribed to \$200,000 in shares of AMC (3,636,364 shares, being approximately 3% of the share capital of AMC). The carrying value of the investment was written down to approximate its fair value of \$40,000 at 30 June 2014.

On 31 March 2015, the Company sold all its shareholding in AMC to unrelated parties for \$10,000, realising a loss on disposal of \$30,000.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Consolidated	
	2015 \$	2014 \$
<b>9. Plant and Equipment</b>		
Plant and equipment - at cost	-	88,810
Less: Accumulated depreciation	-	(13,757)
Net carrying amount	-	75,053
<b>Reconciliation</b>		
Net carrying amount at the beginning of the year	75,053	-
Additions	-	88,162
Depreciation expense	(18,069)	(11,592)
Foreign exchange movement	1,228	(1,517)
Impairment	(58,212)	-
Net carrying amount at the end of the year	-	75,053

<b>10. Mining Tenements and Exploration</b>		
Expenditure brought forward	4,007,865	371,000
Exploration assets acquired	-	4,027,975
Expenditure incurred during year	30,779	199,733
Expenditure written off during year	(4,128,436)	(404,233)
Discontinued operations (note 19)	(100,876)	-
Foreign exchange movement	190,668	(186,610)
Expenditure carried forward	-	4,007,865

The expenditure above relates principally to the exploration and evaluation phase. The ultimate recoupment of this expenditure is dependent upon the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest, at amounts at least equal to book value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	Consolidated	
	2015	2014
	\$	\$

### 11. Trade and Other Payables

#### Current

Trade and other payables	<u>218,255</u>	<u>115,778</u>
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Terms and conditions relating to the above financial instruments:

- Trade payables are non-interest bearing and are normally settled on 30 day terms.
- Due to the short term nature of trade payable and accruals, their carrying value is assumed to approximate their fair value.
- Amounts are expected to be settled within twelve months, refer to risk management note 23.

### 12. Provisions

#### Current

Employee benefits	<u>15,231</u>	<u>-</u>
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Employee benefits represent annual leave entitlements of employees within the Group and is non-interest bearing. The entire obligation is presented as current, since the Group does not have a right to defer settlement.

### 13. Other Liabilities

#### Current

Joint venture partner funds	<u>134,020</u>	<u>346,020</u>
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During the previous year, the Company entered into an earn-in agreement with First Quantum Minerals Limited and its subsidiary FQM Exploration Holdings Ltd ("joint venture partner") over the Company's Kaoko Project, Namibia. Under the agreement the joint venture partner can earn an 80% interest in the project by meeting expenditure obligations on the project.

The amount above, held on behalf of the joint venture partner, is the balance of funds provided towards meeting their expenditure obligations. Refer to risk management note 23.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Consolidated	
	2015 \$	2014 \$
<b>14. Contributed Equity</b>		
(a) <b>Share capital</b>		
Ordinary shares - fully paid	5,268,964	5,254,438
(b) <b>Other equity securities</b>		
Convertible notes – conversion rights	1,000,000	1,000,000
<b>Total contributed equity</b>	<b>6,268,964</b>	<b>6,254,438</b>

(c) <b>Movement in ordinary shares capital</b>	2015 Number	2015 \$	2014 Number	2014 \$
(i) <i>Ordinary shares – fully paid</i>				
Balance at beginning of year	38,500,000	5,254,438	24,500,000	2,874,438
Issued as consideration for acquisition of assets - 4 November 2013	-	-	14,000,000	2,380,000
Issued as consideration for fees on exploration licence – 7 October 2014	403,500	14,526	-	-
Balance at end of year	<b>38,903,500</b>	<b>5,268,964</b>	38,500,000	5,254,438

**(d) Share Options**

At the end of the year, the following options over unissued ordinary shares were outstanding:

- 34,900,000 listed options expiring 7 August 2015, exercisable at 25 cents each
- 2,100,000 unlisted options expiring 15 September 2016, exercisable at 40 cents each

**(e) Terms and conditions of issued capital**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

## 14. Contributed Equity (Cont.)

### (f) Convertible notes

Under the earn-in agreement with First Quantum Minerals Limited and its subsidiary FQM Exploration Holdings Ltd ("FQME") the Company issued 1,000,000 convertible notes for \$1,000,000 to FQME, repayable by 31 August 2015. The Company has the option to repay the convertible notes by the issue of 5 shares for each convertible note (5,000,000 shares to be issued at 20 cents each).

In consideration for the advance of the funds pursuant to the convertible notes, the Company issued 5,000,000 options exercisable at 25 cents each to FQME, which expired on 7 August 2015. The convertible notes and the attached options have been valued together as conversion rights to shares and included as other equity securities.

Refer to capital risk management note 23.

	Consolidated	
	2015 \$	2014 \$
<b>15. Reserves</b>		
Option issue reserve	<b>1,447,720</b>	1,447,720
Foreign currency translation reserve	<b>(86,263)</b>	(278,763)
	<b>1,361,457</b>	1,168,957

### Option issue reserve

#### (i) Nature and purpose of reserve

The option issue reserve is used to accumulate amounts received on the issue of options and records items recognised as expenses on valuation of incentive based share options.

#### (ii) Movements in reserve

Balance at beginning of year	<b>1,447,721</b>	988,850
Issue of incentive based share options	-	185,871
Options issued as consideration for acquisition of assets (note 18)	-	273,000
Balance at end of year	<b>1,447,721</b>	1,447,721

### Foreign currency translation reserve

#### (iii) Nature and purpose of reserve

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

#### (iv) Movements in reserve

Balance at beginning of year	<b>278,763</b>	-
Currency translation differences	<b>(192,500)</b>	278,763
Balance at end of year	<b>86,263</b>	278,763

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Consolidated	
	2015	2014
	\$	\$

**16. Exploration Commitments**

The company has certain obligations to perform minimum exploration work and to expend minimum amounts of money on such work on mining tenements. These obligations may be varied from time to time subject to approval and are expected to be fulfilled in the normal course of the operations of the Group. These commitments have not been provided for in the accounts. Due to the nature of the Group's operations in exploring and evaluating areas of interest, it is difficult to accurately forecast the nature and amount of future expenditure beyond the next year. Expenditure may be reduced by seeking exemption from individual commitments, by relinquishment of tenure or any new joint venture arrangements. Expenditure may be increased when new tenements are granted or joint venture agreements amended. The minimum expenditure commitment on the tenements is:

Not later than one year	-	47,220
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**17. Contingent Liabilities**

The Consolidated entity has no material contingent liabilities as at reporting date (2014: nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 18. Asset Acquisition of African Mining Capital 3 Pty Ltd

During the previous financial period, effective 1 November 2013, the Company acquired 100% of the issued shares of African Mining Capital 3 Pty Ltd. African Mining Capital 3 Pty Ltd owns 95% of Kunene Resources Namibia (Pty) Ltd (formerly Gazania Investments One Hundred and Ninety Five (Pty) Ltd), a Namibian incorporated company that holds the licenses to the Kaoko Project, Namibia.

The total cost of the acquisition was \$2,692,070 and comprised an issue of equity instruments and payment of cash. The company issued 14,000,000 ordinary fully paid shares and 10,500,000 options exercisable at 25 cents each, expiring 7 August 2015, as consideration for the acquisition. An additional cash payment of \$39,070 was made on 29 April 2014.

The fair value of the identifiable assets and liabilities of African Mining Capital 3 Pty Ltd as at the date of acquisition was:

	Fair Value \$
Cash and cash equivalents	25,370
Trade and other receivables	10,694
Plant and equipment	26,201
Licenses interests and exploration expenditure	4,027,975
Trade and other payables	(24,688)
Loan payable to Kunene Resources Limited	(1,268,881)
Foreign currency translation	37,087
Fair value of net identifiable assets acquired	2,833,758
Less: non-controlling interests	(141,688)
Net assets acquired	2,692,070

Cost of the acquisition:

Securities issued, at fair value	2,653,000
Cash paid	39,070
Direct costs relating to the acquisition	-
Total cost of the combination	2,692,070



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 19. Discontinued Operations

On 30 January 2015, in accordance with the joint venture agreement with Gecko Mineral Processing (Proprietary) Limited ("Gecko") to fund the Alcoutim Project in southern Portugal, the Company transferred 51% of the issued share capital in its wholly owned subsidiary Bolt Resources Pty Ltd to Gecko. Bolt Resources Pty Ltd holds the Alcoutim Project exploration licence that was granted during the year.

Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

#### Financial performance and cash flow information

The financial performance and cash flow information presented are for the seven months ended 30 January 2015 and the year ended 30 June 2014.

	2015 \$	2014 \$
<i>Financial performance:</i>		
<b>Revenue</b>		
Interest	-	-
<b>Expenses</b>		
Other expenses	(243)	-
Loss before income tax expense	(243)	-
Income tax expense	-	-
Loss after income tax	(243)	-
Loss on disposal before income tax	(100,876)	-
Income tax expense	-	-
Loss on disposal after income tax	(100,876)	-
Loss after income tax expense from discontinued operations	(101,119)	-
<i>Cash flow:</i>		
Net cash used in investing activities	-	-
Net cash from financing activities	-	-
Effect of exchange rate changes on cash	-	-
Net Increase/decrease in cash and cash equivalents from discontinued operations	-	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

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**19. Discontinued Operations (Cont.)**

<b>Details of the disposal of controlling interest in the subsidiary</b>	<b>\$</b>
<i>Carrying amounts of assets and liabilities disposed:</i>	
Mining tenements and exploration	100,876
Net assets	<u>100,876</u>
 <i>Details of disposal:</i>	
Total sale consideration	-
Retained non-controlling investment	-
Carrying amount of net assets disposed	(100,876)
Disposal costs	-
Loss on interest disposed and retained non-controlling investment before income tax	(100,876)
Income tax expense	-
Loss on interest disposed and retained non-controlling investment after income tax	<u>(100,876)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 20. Financial Reporting by Segments

The Group has identified its operating segments based on the internal reports that are used by the Board (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The Board as a whole will regularly review the identified segments in order to allocate resources to the segment and to assess its performance.

During the previous year, the Group acquired a 95% interest in the Kaoko Project, Namibia through acquisition of African Mining Capital 3 Pty Ltd. The Board considers that it has operated in two segments, being mineral exploration within Australia and in Namibia.

Where applicable, corporate costs, finance costs, interest revenue and foreign currency gains and losses are not allocated to segments as they are not considered part of the core operations of the segments and are managed on a Group basis.

The consolidated entity is domiciled in Australia. Segment revenues are allocated based on the country in which the project is located.

<b>Year Ended 30 June 2015</b>	<b>Exploration Australia \$</b>	<b>Exploration Namibia \$</b>	<b>Non-Segment \$</b>	<b>Consolidated \$</b>
Revenue	30,270	-	12,521	<b>42,791</b>
Segment result (Loss)	24,531	(4,147,571)	(750,102)	<b>(4,873,142)</b>
Total segment assets	831	311,904	439,359	<b>752,094</b>
Total segment liabilities	(86)	(260,961)	(106,459)	<b>(367,506)</b>
Non-segment assets include:				
Cash and cash equivalents			397,077	

<b>Period Ended 30 June 2014</b>	<b>Exploration Australia</b>	<b>Exploration Namibia</b>	<b>Non- Segment</b>	<b>Consolidated \$</b>
Revenue	15,000	48,682	44,424	<b>108,106</b>
Segment result (Loss)	(387,858)	(325,304)	(984,194)	<b>(1,697,356)</b>
Total segment assets	17,135	4,528,383	966,984	<b>5,512,502</b>
Total segment liabilities	(1,632)	(417,193)	(42,973)	<b>(461,798)</b>
Non-segment assets include:				
Cash and cash equivalents			866,680	
Available for sale financial assets			40,000	
	15,000	48,682	44,424	<b>108,106</b>
	(387,858)	(325,304)	(984,194)	<b>(1,697,356)</b>
	17,135	4,528,383	966,984	<b>5,512,502</b>
	(1,632)	(417,193)	(42,973)	<b>(461,798)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 21. Related Party Transactions

#### (a) Subsidiaries

The consolidated financial statements include the financial statements of Kunene Resources Limited and the subsidiaries listed in the following table:

	County of Incorporation	Class of Shares	% Equity Interest	
			2015 %	2014 %
Curran Resources Pty Ltd	Australia	Ordinary	100	100
Bolt Resources Pty Ltd	Australia	Ordinary	49	100
African Mining Capital 3 Pty Ltd	Australia	Ordinary	100	100
Kunene Metals Mauritius	Mauritius	Ordinary	100	100
Gazania Investments One Hundred and Ninety Six (Pty) Ltd	Namibia	Ordinary	95	95
Kunene Resources Namibia (Pty) Ltd	Namibia	Ordinary	95	95
Kunene North Pty Ltd	Australia	Ordinary	100	-

#### (b) Parent entity

Kunene Resources Limited is the ultimate Australian parent entity and ultimate parent of the Group.

#### (c) Key management personnel

Refer to the remuneration report contained in the Directors Report for details of the remuneration paid or payable to each member of the Consolidated Entity's key management personnel for the year ended 30 June 2015.

The totals of remuneration paid to key management personnel of the Company during the period are as follows:

	Consolidated	
	2015 \$	2014 \$
Short-term benefits	403,832	335,015
Long-term benefits	15,231	-
Post-employment benefits	21,168	23,868
Share based payments	-	141,616
	<b>440,231</b>	<b>500,499</b>

#### (d) Other transactions with Key Management Personnel

Mr Peter Pawlowitsch, a director of the Company is also a director of Avitus Capital Pty Ltd ("Avitus"). During the previous year, Avitus was paid consultancy fees (not provided by Mr Pawlowitsch) of \$1,260. There were no payments to Avitus during the current year.

During the year, the Company leased office space for \$28,531 (2014: \$31,404) and paid shared expenses of nil (2014: \$21,000) charged by Ventnor Resources Limited, a company in which Mr Peter Pawlowitsch is a director.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 21. Related Party Transactions (Cont.)

During the previous year, the Company acquired African Mining Capital 3 Pty Ltd from African Mining Capital Pty Ltd by the issue of 14,000,000 ordinary fully paid shares and 10,500,000 options exercisable at 25 cents each, expiring 7 August 2015. Of the consideration, 450,000 shares and 525,000 options were issued directly to a third party as a consulting fee for introducing the Company to African Mining Capital Pty Ltd. African Mining Capital Pty Ltd received 13,550,000 shares and 9,975,000 options of the consideration. Mr Brandon Munro, a director of the Company is also a director of African Mining Capital Pty Ltd.

### 22. Parent Entity Disclosures

#### (a) Summary financial information

	Parent	
	2015	2014
	\$	\$
<b>Financial Position</b>		
<b>Assets</b>		
Current assets	419,359	885,468
Non-current asset	71,688	3,928,833
Total assets	491,047	4,814,301
<b>Liabilities</b>		
Current liabilities	106,459	46,973
Total liabilities	106,459	46,973
<b>Equity</b>		
Contributed equity	6,268,964	6,254,438
Reserves	1,447,721	1,447,721
Accumulated losses	(7,332,097)	(2,934,831)
Total equity	384,588	4,767,328
<b>Financial Performance</b>		
Loss for the year	(4,397,266)	(2,117,810)
Other comprehensive income	-	-
Total comprehensive income	(4,397,266)	(2,117,810)

#### b) Guarantees

Kunene Resources Limited has not entered into any guarantees in relation to the debts of its subsidiary.

#### c) Other Commitments and Contingencies

Kunene Resources Limited has no commitments to acquire property, plant and equipment, and has no contingent liabilities apart from the amounts disclosed in note 17.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 23. Financial Risk Management

The Consolidated entity's principal financial instruments comprise receivables, payables, cash and short-term deposits. The Consolidated entity manages its exposure to key financial risks in accordance with the Consolidated entity's financial risk management policy. The objective of the policy is to support the delivery of the Consolidated entity's financial targets while protecting future financial security.

The main risks arising from the Consolidated entity's financial instruments are interest rate risk, credit risk and liquidity risk. The Consolidated entity does not speculate in the trading of derivative instruments. The Consolidated entity uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts for interest rates. Ageing analysis of and monitoring of receivables are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below, including for interest rate risk, credit allowances and cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

#### Risk Exposures and Responses

##### Interest rate risk

The Consolidated entity's exposure to risks of changes in market interest rates relates primarily to the Consolidated entity's cash balances. The Consolidated entity constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing positions and the mix of fixed and variable interest rates. As the company has no interest bearing borrowings its exposure to interest rate movements is limited to the amount of interest income it can potentially earn on surplus cash deposits.

As at reporting date, the Consolidated entity had the following financial assets exposed to variable interest rates that are not designated in cash flow hedges:

	Consolidated	
	2015 \$	2014 \$
<i>Financial Assets</i>		
Cash and cash equivalents (interest-bearing accounts)	554,223	1,272,212
Net exposure	554,223	1,272,212

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 23. Financial Risk Management (Cont.)

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity relating to financial assets of the Consolidated entity would have been affected as follows:

#### Judgements of reasonably possible movements:

*Post tax profit – higher / (lower)*

+ 0.5%	<b>2,771</b>	6,361
- 0.5%	<b>(2,771)</b>	(6,361)

*Equity – higher / (lower)*

+ 0.5%	<b>2,771</b>	6,361
- 0.5%	<b>(2,771)</b>	(6,361)

#### Liquidity Risk

The Consolidated entity has no significant exposure to liquidity risk as there is effectively no debt. The Consolidated entity manages liquidity risk by monitoring immediate and forecast cash requirements and ensuring adequate cash reserves are maintained.

#### Credit risk

Credit risk arises from the financial assets of the Consolidated entity, which comprise deposits with banks and trade and other receivables. The Consolidated entity's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments. The carrying amount of financial assets included in the statement of financial position represents the Consolidated entity's maximum exposure to credit risk in relation to those assets.

The Consolidated entity does not hold any credit derivatives to offset its credit exposure.

The Consolidated entity trades only with recognised, credit worthy third parties and as such collateral is not requested nor is it the Consolidated entity's policy to secure its trade and other receivables.

Receivable balances are monitored on an ongoing basis with the result that the Consolidated entity does not have a significant exposure to bad debts.

The Consolidated entity's cash deposits are held with a major Australian banking institution with a credit rating of AA- otherwise, there are no significant concentrations of credit risk within the Consolidated entity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 23. Financial Risk Management (Cont.)

The following table details the expected maturity of the Group's financial assets and liabilities based on the earliest date of maturity or payment respectively. The amounts are stated on an undiscounted basis and include interest.

Consolidated	Weighted average effective interest rate %	Less than 1 month \$	1 – 3 Months \$	3 months – 1 year \$	1 – 5 years \$
<b>2015</b>					
<i>Financial Assets:</i>					
Non-interest bearing	-	164,770	-	-	-
Variable interest rate	1.90	554,223	-	-	20,000
Fixed interest rate	-	-	-	-	-
		<b>718,993</b>	-	-	<b>20,000</b>
<i>Financial Liabilities:</i>					
Non-interest bearing	-	352,275	-	-	-
		<b>352,275</b>	-	-	-
<b>2014</b>					
<i>Financial Assets:</i>					
Non-interest bearing	-	97,372	-	-	-
Variable interest rate	2.25	1,272,212	-	-	20,000
Fixed interest rate	-	-	-	-	-
		<b>1,369,584</b>	-	-	<b>20,000</b>
<i>Financial Liabilities:</i>					
Non-interest bearing	-	461,798	-	-	-
		<b>461,798</b>	-	-	-

#### Capital Management Risk

Management controls the capital of the Consolidated entity in order to maximise the return to shareholders and ensure that the Group can fund its operations and continue as a going concern.

Management effectively manages the Group's capital by assessing the Consolidated entity's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels and share and option issues.

The Group has no external loan debt facilities other than trade payables.

#### Commodity Price and Foreign Currency Risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the statement of financial position either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. The price risk for the unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity, and has therefore not been included in the sensitivity analysis. The Group's exposure to currency risk is minimal given the Consolidated entity is still in the exploration phase.

#### Fair Value

The methods of estimating fair value are outlined in the relevant notes to the financial statements. All financial assets and liabilities recognised in the statement of financial position, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair values.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Consolidated	
	2015	2014
	\$	\$

**24. Share Based Payments**

**(a) Value of share based payments in the financial statements**

Share based payments expensed-directors	-	185,871
Share based payments for acquisition of assets	-	273,000
Share based payments for exploration licence fees	<b>14,526</b>	-
	<b>14,526</b>	<b>458,871</b>

**(b) Summary of share-based payments**

**Shares:**

During the year, the Company issued 403,500 fully paid ordinary shares as consideration for consulting fees relating to the granting of the Alcoutim Project exploration licence in southern Portugal. The shares issued were valued at \$14,526, the market price of the shares on the day of granting.

No shares were issued as share based payments during the previous year.

**Options:**

Set out below are the summaries of options granted as share based payments:

**2015**

Grant Date	Expiry Date	Exercise Price	Balance 01/07/14	Granted	Exercised	Expired or Forfeited	Balance 30/06/15	Number vested and exercisable
8/02/12	7/08/15	\$0.25	3,100,000	-	-	-	3,100,000	3,100,000
28/02/12	7/08/15	\$0.25	50,000	-	-	-	50,000	50,000
26/06/12	7/08/15	\$0.25	4,000,000	-	-	-	4,000,000	4,000,000
23/10/13	7/08/15	\$0.25	10,500,000	-	-	-	10,500,000	10,500,000
23/10/13	15/09/16	\$0.40	2,100,000	-	-	-	2,100,000	2,100,000
			<b>19,750,000</b>	-	-	-	<b>19,750,000</b>	<b>19,750,000</b>
Weighted average exercise price			\$0.27	-	-	-	\$0.27	\$0.27

**2014**

Grant Date	Expiry Date	Exercise Price	Balance 01/07/13	Granted	Exercised	Expired or Forfeited	Balance 30/06/14	Number vested and exercisable
8/02/12	7/08/15	\$0.25	3,100,000	-	-	-	3,100,000	3,100,000
28/02/12	7/08/15	\$0.25	50,000	-	-	-	50,000	50,000
26/06/12	7/08/15	\$0.25	4,000,000	-	-	-	4,000,000	4,000,000
23/10/13	7/08/15	\$0.25	-	10,500,000	##	-	10,500,000	10,500,000
23/10/13	15/09/16	\$0.40	-	2,100,000	-	-	2,100,000	2,100,000
			<b>7,150,000</b>	<b>12,600,000</b>	-	-	<b>19,750,000</b>	<b>19,750,000</b>
Weighted average exercise price			\$0.25	\$0.275	-	-	\$0.27	\$0.27

## - Listed options were valued at market price on grant date

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 24. Share Based Payments (Cont.)

The assessed fair values of the unlisted options was determined using a binomial option pricing model or black-scholes model, taking into account the exercise price, term of option, the share price at grant date and expected price volatility of the underlying share, expected yield and the risk-free interest rate for the term of the option. The inputs to the model used were:

Grant date	8/02/2012	28/02/2012	26/06/2012	23/10/2013
Dividend yield (%)	-	-	-	-
Expected volatility (%)	140%	140%	140%	110%
Risk-free interest rate (%)	3.53%	3.71%	3.71%	3.06%
Expected life of options (years)	3.50	3.45	3.12	3.00
Underlying share price (\$)	\$0.10	\$0.10	\$0.20	\$0.17
Option exercise price (\$)	\$0.25	\$0.25	\$0.25	\$0.40
Value of option (\$)	\$0.0725	\$0.0720	\$0.1595	\$0.08851

#### (c) Weighted average remaining contractual life

The weighted average remaining contractual life of share-based payment options that were outstanding as at 30 June 2015 was 0.222 years (2014: 1.222 years).

#### (d) Weighted average fair value

The weighted average fair value of share-based payment options granted during 2015 was N/A (2014: \$0.03642) each.

### 25. Events Subsequent to Year End

There are no other matters or circumstances that have arisen since 30 June 2015 that have or may significantly affect the operations, results, or state of affairs of the company in future financial years, other than:

On 31 July 2015, completion took place for the acquisition by Gazania Investments 196 (Pty) Ltd (the Company's 95% owned Namibian subsidiary) of the shares in Solarwind Investments (Pty) Ltd.

On 3 September 2015, the Company announced that it had entered into an agreement to acquire Department 13 LLC, a drone defense, cyber security and RF software communications and networking company based in Virginia, USA which has research and development contracts with multiple US Government agencies. This binding heads of agreement is conditional on due diligence and shareholder approvals, amongst other things. The agreement is also conditional on the Company selling or winding up all its resources assets.

In consequence of the Company's proposed change in direction, on 7 September 2015 Mr Michael Leech resigned as a director of the Company.

On 15 September 2015, First Quantum advised the Company that it withdrew from the Kaoko Project joint venture. The Company converted the \$1,000,000 convertible notes held by First Quantum Minerals Limited into 5,000,000 fully paid ordinary shares in the Company which were issued to nominees of First Quantum Minerals Limited.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	Consolidated	
	2015	2014
	\$	\$

### 26. Fair Value of Financial Instruments

#### Recurring fair value measurements

The following financial instruments are subject to recurring fair value measurements:

Available for Sale Financial Assets - Level 3  
Investment in African Mining Capital Pty Ltd (unlisted entity)

Value at beginning of year	40,000	200,000
Additions	-	-
Investments written off	-	(160,000)
Investments sold	(40,000)	-
Value at end of year	-	40,000

As at 30 June 2014 Available for Sale Financial Assets included a level 3 investment, being an unlisted equity investment in Africa Mining Capital Pty Ltd with a fair value of \$40,000. During the year, the investment was sold for \$10,000. At 30 June 2015, the consolidated entity did not hold any significant financial assets or liabilities classified as level 3

At 30 June 2015, the consolidated entity held no significant financial assets or liabilities classified as level 1 or level 2 fair value measurements. There were no transfers between level 1, level 2 or level 3 in the period.

AASB 13 requires that, subsequent to initial recognition, all fair value financial instruments are disclosed by reference to their measurement hierarchy levels:

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

The fair values of the Level 3 investments are individually determined based on the present value of net cash inflows from future profits and subsequent disposal of the securities. These net cash inflows are discounted to their present value using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset. This methodology is unchanged from the comparative period.

Unobservable data inputs are earnings growth factors and the risk adjusted discount rate. Earnings growth factors are estimated based on market information for similar types of companies while the risk adjusted discount rate is modelled such as to reflect the time value of money and the risks specific to the individual assets.

#### Fair values of financial instruments not measured at fair value

Due to their short-term nature, the carrying amount of current receivables and current trade and other payables is assumed to approximate their fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 27. Non-controlling Interests

The consolidated financial statements include the assets, liabilities and results of the principal subsidiaries listed in note 21(a), in accordance with the accounting policy described in note 1(d).

The table below sets out the summarised financial information for each subsidiary that has a non-controlling interest that is material to the Group. The amounts disclosed are before any intercompany eliminations.

	<b>Kunene Resources Namibia Pty Ltd</b>	
	<b>2015</b>	<b>2014</b>
<b>Summarised statement of financial position</b>		
Current assets	311,555	429,674
Non-current assets	-	3,955,675
<b>Total assets</b>	<b>311,555</b>	<b>4,385,349</b>
Current liabilities	244,132	366,077
Non-current liabilities	1,713,048	1,615,844
<b>Total liabilities</b>	<b>1,957,180</b>	<b>1,981,921</b>
Net assets	(1,645,625)	2,043,428
Accumulated NCI	(66,782)	126,427
<b>Summarised statement of profit or loss and other comprehensive income</b>		
Loss for the period	4,147,571	305,203
Other comprehensive loss	(98,510)	186,610
<b>Total comprehensive loss</b>	<b>4,049,061</b>	<b>491,813</b>
Losses allocated to NCI	193,209	15,260
<b>Summarised cash flows</b>		
Cash flows from operating activities	-	(474,598)
Cash flows from investing activities	(188,422)	808,771
Cash flows from financing activities	97,205	-
Effect of exchange rate changes on cash	(122,220)	-
<b>Net increase in cash and cash equivalents</b>	<b>(213,437)</b>	<b>334,173</b>
<b>Transactions with non-controlling interests</b>		
Carrying amount of non-controlling interest acquired	-	141,688

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### 28. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

Reference	Title	Summary	Impact on Group's financial report	Application date for Group
AASB 9	Financial Instruments	AASB 9 AAB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting.	<p>There will be no impact on the company's accounting for financial assets and financial liabilities as the new requirements only affect the accounting for available-for-sale financial assets and the accounting for financial liabilities that are designated at fair value through profit or loss and the company does not have any such financial assets or financial liabilities.</p> <p>The new hedging rules align hedge accounting more closely with the company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.</p>	<p>Must be applied for financial years commencing on or after 1 January 2018.</p> <p>Application date for the company will be 30 June 2019.</p> <p>The company does not currently have any hedging arrangements in place.</p>
AASB 15 (issued June 2014)	Revenue from contracts with customers	An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue.	The company has not yet made an assessment of the impact of this standard.	<p>Must be applied for annual reporting periods beginning on or after 1 January 2018.</p> <p>Application date for the company will be 30 June 2019.</p>

The Directors' of the Company declare that:

1. The financial statements and notes are in accordance with the *Corporations Act 2001*, and:
  - (i) comply with Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) give a true and fair view of the financial position of the Company as at 30 June 2015 and of its performance for the financial year ended on that date.
2. The Chief Executive Officer and Chief Financial Officer equivalents of the Company declare that:
  - (i) the financial records of the Company for the period have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - (ii) the financial statements and notes for the period comply with the accounting standards; and
  - (iii) the financial statements and notes for the period give a true and fair view.
3. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board.
4. In the opinion of the directors' there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Philip Werrett  
Chairman

Perth, 30 September 2015

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF KUNENE RESOURCES LIMITED

As lead auditor of Kunene Resources Limited for the year ended 30 June 2015, 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 Kunene Resources Limited and the entities it controlled during the period.



Jarrad Prue  
Director

BDO Audit (WA) Pty Ltd  
Perth, 30 September 2015

## INDEPENDENT AUDITOR'S REPORT

To the members of Kunene Resources Limited

### Report on the Financial Report

We have audited the accompanying financial report of Kunene Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### Auditor's Responsibility

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

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

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

#### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which





has been given to the directors of Kunene Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

#### Opinion

In our opinion:

- (a) the financial report of Kunene Resources Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

#### Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon raising capital and completing the acquisition of Department 13 LLC. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

#### Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### Opinion

In our opinion, the Remuneration Report of Kunene Resources Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'J Prue', with the BDO logo above it.

Jarrad Prue

Director

Perth, 30 September 2015

## SECURITIES EXCHANGE INFORMATION

### Additional Shareholder Information

The following additional information is current as at 25 September 2015.

#### SUBSTANTIAL SHAREHOLDERS

NAME	UNITS	% OF UNITS
AYMON PACIFIC PTY LTD <JEREZOS A/C>	3,500,000	7.97

#### RANGE OF HOLDING – ORDINARY SHARES

	HOLDERS	SHARES
1 - 1000	5	355
1001 - 5000	33	143,006
5001 - 10,000	110	1,019,405
10,001 - 100,000	196	8,257,389
100,001 and above	68	34,483,345
	412	43,903,500

There are 38 shareholders with less than a marketable parcel.

#### VOTING RIGHTS

Each fully paid ordinary share carries voting rights of one vote per share.

#### THE TOP 20 HOLDERS OF ORDINARY SHARES ARE:

RANK	NAME	UNITS	% OF UNITS
1.	AYMON PACIFIC PTY LTD <JEREZOS A/C>	3,500,000	7.97
2.	SEQUOI NOMINEES PTY LTD <THE SEQUOI A/C>	1,933,000	4.40
3.	JINDABYNE CAPITAL PTY LTD <PROVIDENCE EQUITY A/C>	1,500,000	3.42
4.	DR STUART LLOYD PHILLIPS @ MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/FUND A/C>	1,500,000	3.42
5.	MR PETER CHARLES PRITCHARD FARRIS & MRS SUSAN MARY PATRICIA FARRIS <THE PETER FARRIS S/F A/C>	1,500,000	3.42
6.	TRIPLE E GEOCONSULT LIMITED	1,385,000	3.15
7.	MR MARK JOHATHAN SANDFORD <STRATTON A/C>	1,000,000	2.28
8.	HAVEN SUPER PTY LTD <HAVEN SUPER FUND A/C>	1,000,000	2.28
9.	GOLDBONDSUPER PTY LTD	1,000,000	2.28
10.	METIS PTY LTD	650,000	2.16
11.	NATIONAL NOMINEES LIMITED	914,705	2.08
12.	DR STUART LLOYD PHILLIPS @ MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/FUND A/C>	800,000	1.82
13.	VFT INVESTMENTS PTY LTD	800,000	1.82
14.	JP MORGAN NOMINEES AUSTRALIA LIMITED	790,295	1.80
15.	BORN INTERNATIONAL LTD	750,000	1.71
16.	MR SIMON WILLIAM TRITTON <INVESTMENT A/C>	685,000	1.56
17.	MRS DANIA TSOUTSOULIS <TSOUTSOULIS FAMILY A/C>	650,000	1.48
18.	MR SHIZHEN LI	563,651	1.28
19.	INVESCO NOMINEE PTY LTD	540,405	1.23
20.	GOLDBOND SUPER PTY LTD <GOLDBOND SUPER A/C>	510,000	1.16
	<b>Totals: Top 20 holders of ORDINARY SHARES (TOTAL)</b>	<b>22,272,056</b>	<b>50.73</b>

## SECURITIES EXCHANGE INFORMATION

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### UNQUOTED EQUITY SECURITIES

The following unlisted options have been issued:

There are 6 holders for a total of 2,100,000 unlisted options expiring 15/09/2016 @ \$0.40. Holders with greater than 20% are:

VAULT (WA) PTY LTD	500,000	23.81
SEQUOI NOMINEES PTY LTD <THE SEQUOI A/C>	500,000	23.81
TRIPLE E GEOCONSULT LIMITED	500,000	23.81

### SECURITIES UNDER ESCROW

Nil

### ON-MARKET BUY-BACK

Currently there is no on-market buy-back of the Company's securities.

### CONSISTENCY WITH BUSINESS OBJECTIVES

The company has used its cash and assets in a form readily convertible to cash that it had at the time of listing in a way consistent with its stated business objectives.

## INTERESTS IN MINING TENEMENTS

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### NAMIBIA

Tenement	Status	Holder / Applicant	Interest (%)
4346	Granted	Kunene Resources Namibia	95
4347	Granted	Kunene Resources Namibia	95
4348	Granted	Kunene Resources Namibia	95
4349	Granted	Kunene Resources Namibia	95
4350	Granted	Kunene Resources Namibia	95
4351	Granted	Kunene Resources Namibia	95
4540	Granted	Kunene Resources Namibia	95
3764	Granted	Solarwind Investments	95
3824	Granted	Solarwind Investments	95
3825	Granted	Solarwind Investments	95
4135	Granted	Solarwind Investments	95
4136	Granted	Solarwind Investments	95