Avanco Resources Limited

**ABN 85 126 379 646**

# Annual Report

## For the twelve months ended 31 December 2015

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## CORPORATE DIRECTORY

**Directors**

Mr Colin Jones (Non-Executive Chairman)
Mr Anthony Polglase (Managing Director)
Mr Scott Funston (Executive Director)
Mr Simon Mottram (Executive Director)
Mr Wayne Phillips (Executive Director)
Mr Luis Azevedo (Executive Director)
Mr Vern Tidy (Non-Executive Director)

**Company Secretary**

Mr Scott Funston

**Registered Office**

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**Share Registry**

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West Perth WA 6005 Australia

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Facsimile: + 61 8 9321 2337

**Auditors**

Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia

**Securities Exchange**

The Company's securities are quoted
on the official list of the Australian Securities
Exchange Limited, the home branch being Perth.
ASX Code : AVB

# Directors' Report

The Directors present their report for Avanco Resources Limited ("Avanco" or "the Company") and its controlled entities (together referred to as "the Group") for the twelve months ended 31 December 2015.

**1. DIRECTORS AND COMPANY SECRETARY**

The names, qualifications and experience of the Company's Directors in office during the period and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

**Mr Colin Jones**
**Non-Executive Chairman**
Following Coal Mine certification with British Coal in South Wales Mr Jones completed a mining degree at Cardiff University in the UK.

After several years of mining contract management with Thyssens, Mr Jones joined Rio Tinto, becoming the General Manager of the South Crofty Tin Mine in Cornwall. In 1986 he became the Project Manager for the development of Rio Tinto's world class Copper Mine in Portugal where, following project completion, he became the Director of Production.

Mr Jones consulting expertise includes 10 years with Rio Tinto Technical Services where, as Principal Consultant, he consulted globally. Mr Jones was responsible for the underground development of the Fortaleza Nickel Mine in Brazil and was a core consultant for the underground development at the Palabora mine in South Africa.

An authority on underground mine development and the application of the block caving mining method, Mr Jones has consulted internationally as an independent. Clients have included the multi-billion dollar Resolution (Arizona), Oyu Tolgoi (Mongolia) and Freeport (Indonesia) copper mine projects, Argyle Diamonds in Western Australia and a number of Brazilian mining companies, including Vale and Yamana Gold. Mr Jones is an independent consultant, has an MBA, speaks Portuguese and maintains a residence in Brazil. Mr Jones has not held any other listed directorships over the past three years.

Special Responsibilities: Member of the Audit Committee and Remuneration Committee.

**Mr Anthony Polglase**
**Managing Director**
With over 30 years multi-disciplined mining experience across ten different countries, Mr Polglase is qualified in mechanical and electrical engineering with an honours degree in Metallurgy from the Camborne School of Mines, UK and is fluent in Portuguese. Mr Polglase has acquired detailed knowledge relating the development and operation of gold, copper, lead, zinc and tin projects and has either been responsible for or closely involved with the commissioning of more than seven mining projects. Project management including critical evaluation, implementation and commissioning are Mr Polglase's strengths. Mr Polglase has a demonstrated ability of successfully bringing projects on line in the most challenging of environments.

Mr Polglase was a Director of Harvest Minerals Limited (appointed 1 February 2012, resigned 26 June 2014) and Black Star Petroleum Limited (appointed 28 February 2013, resigned 4 July 2014). He has not held any other listed directorships over the past three years.

**Mr Scott Funston**
**Executive Director**
Mr Funston is a qualified Chartered Accountant and Company Secretary with 15 years' experience in the mining industry and the accounting profession. His expertise is financial management, regulatory compliance and corporate advice. Mr Funston possesses a strong knowledge of the Australian Securities Exchange requirements and currently assists or has previously assisted a number of resources companies operating throughout Australia, South America, Asia, USA and Canada with financial accounting, stock exchange compliance and regulatory activities.

Mr Funston was a Director of Highfield Resources Limited (appointed 2 November 2012, resigned 28 February 2014), The Waterberg Coal Company Limited (appointed 5 April 2013, resigned 17 March 2014), Castillo Copper Limited (appointed 19 November 2012, resigned 1 April 2014) and Lindian Resources Limited (appointed 5 May 2011, resigned 3 July 2014). He has not held any other listed directorships over the past three years.

Special Responsibilities: Company Secretary, Member of the Audit Committee and Remuneration Committee.

**Mr Simon Mottram**
**Executive Director**
Mr Mottram is a geologist with over 20 years' experience predominantly in iron oxide copper gold, nickel sulphide and precious metals. Having held senior management positions with a number of successful mining companies both in Australia and overseas Mr Mottram has extensive knowledge in base and precious metal evaluations, and has seen a number of discoveries advanced through to commercial mine development and has been central to several significant exploration successes.

His exploration experience aligns extremely well with Avanco's projects and Mr Mottram is an expert in the application of modern exploration techniques, large-scale drill programmes and feasibility studies. Mr Mottram is a graduate of Melbourne RMIT University, a Fellow of the AusIMM, is fluent in Portuguese, and assumes responsibility for all of the company's exploration activities.

Mr Mottram was a Director of Harvest Minerals Limited (appointed 1 February 2012, resigned 4 July 2014). Mr Mottram has not held any other listed directorships over the past three years.

**Mr Wayne Phillips**
**Executive Director**
Mr Phillips is a Brazilian national and outstanding industry professional with a solid track record of project management and access to an extensive Brazilian network. In 1977, as a chemical engineering graduate from the University of Rhodesia, Mr Phillips migrated to Brazil and established a very successful metallurgical consulting business. Mr Phillips has been credited with participating in the engineering and commissioning of the Cariaba Copper Smelter and the design and construction of a number of small copper mines in northern Brazil.

Mr Phillips has acquired significant international experience working with engineering groups including SNC Lavalin, Kvaerner and Minproc. As an expert in sulphide flotation Mr Phillips has participated in more than a dozen feasibility studies and adjudicated the award of and supervision of numerous construction contracts.

Mr Phillips has been Technical Director for Kinross Gold South America and has played a pivotal role in the expansion of Kinross's giant Paracatu Gold Mine in Brazil.

Mr Phillips has not held any listed directorships over the past three years.

**Mr Luis Azevedo**
**Executive Director**
Mr Azevedo is an outstanding resource industry professional with over 35 years of international experience. Mr Azevedo qualified as a geologist at the University of Rio de Janeiro in 1985 and subsequent to working as a geologist he completed a law degree at the University of Candido Mendes in 1992 and obtained his Masters of Law from Pontifical Catholic University Rio de Janeiro in 1994.

Mr Azevedo has held senior positions with major resource companies including Western Mining Corporation, Barrick Gold and Harsco. In 2004 he founded the very successful legal firm FFA Legal based in Rio de Janeiro, which provides specialist legal and technical support to resource companies operating in Brazil. He is based in Rio de Janeiro, Brazil and is a Brazilian citizen.

Mr Azevedo is currently a Director of TSX listed company Talon Metals (appointed 5 April 2005), as well as ASX listed Harvest Minerals Limited (appointed 15 March 2012) and Over The Counter ( OTC) exchange traded Brazil Minerals Inc. (appointed 1 January 2014). Mr Azevedo was a Director of TSX listed company Rio Verde Minerals (appointed 1 December 2010, resigned 1 March 2013) and Brazilian Gold Corporation (appointed 22 June 2011, resigned 1 January 2014).

**Mr Vern Tidy**
**Non-Executive Director (appointed 20 July 2015)**
Mr Tidy was an audit partner with Ernst & Young where he was the leader of the Perth office's mining and metals industry group, responsible for all service lines to that industry.

In his role at Ernst & Young he serviced mining clients varying from the largest multinationals with large scale operations through to junior explorers. It included experience with projects in Australia, South America, SE Asia and various African countries. It also included experience with ASX, LSE, AIM and TSX listed companies. Since leaving Ernst & Young Mr Tidy has consulted to the mining industry and has been involved in industry transactions plus project identification and financing.

Mr Tidy brings compelling skills encompassing corporate governance and critical review of financial compliance. Mr Tidy is a Fellow of the Institute of Chartered Accountants in Australia, Associate of the Australian Institute of Company Directors and holds a Bachelor of Business – West Australian Institute of Technology (now Curtin University).

Mr Tidy was a Director of Oakland Resources Limited (appointed 13 July 2010, resigned 21 May 2013). He has not held any other listed directorships over the past three years.

Special Responsibilities: Chairman of the Audit Committee and Chairman of the Remuneration Committee.

**Mr Matthew Wood (resigned 22 September 2014)**

**COMPANY SECRETARY**
Mr Funston is the Company Secretary.

**2. INTERESTS IN THE SECURITIES OF THE COMPANY^**
As at the date of this report the interests of the Directors in the securities of Avanco Resources Limited are:

| Director | Ordinary Shares | Options over Ordinary Shares exercisable at 10 cents each |
|---|---|---|
| C. Jones | 1,215,155 | 5,000,000 |
| A. Polglase | 7,195,615 | 45,000,000 |
| S. Funston | 1,845,651 | 15,000,000 |
| S. Mottram | 1,744,681 | 35,000,000 |
| W. Phillips | 192,857 | 20,000,000 |
| L. Azevedo | 988,392 | 20,000,000 |
| V. Tidy | 325,000 | - |

^ Includes shares and options held directly, indirectly and beneficially by key Management Personnel.

**3. RESULTS OF OPERATIONS**

The Group's net profit after taxation attributable to the members of Avanco Resources for the twelve months to 31 December 2015 was $1.71 million (six months to 31 December 2014: net loss of $2.94 million).

**4. DIVIDENDS**

No dividend was paid or declared by the Group in the period and up to the date of this report.

**5. CORPORATE STRUCTURE**

Avanco Resources Limited is a company limited by shares, which is incorporated and domiciled in Australia.

**6. NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES**

During the twelve month period, the principal activity was the development and construction of the Antas Copper Mine located in the world class Carajás Mineral Province of Para State in northern Brazil and the exploration of Pedra Branca the Company's second copper project located 50km southwest of Antas.

**7. EMPLOYEES**

The Group has 58 employees at 31 December 2015 (31 December 2014: 15 employees).

**8. REVIEW OF OPERATIONS**

During March 2016 the flotation plant has produced the first copper concentrates from Antas. This is a significant milestone deliverable and bodes well for timely completion of commissioning and transition to steady-state production. The Directors and management regard the speed with which steady crushing, grinding and flotation operations have been established as an exceptional result.

### Highlights

- Construction at Antas is progressing on schedule and within budget;
- Commissioning to commence in first quarter 2016;
- First shipment of copper concentrate is being targeted for April.
- The "running-in" of the Ball Mill under the supervision of Metso continues. Ramp-up to ~65tph (i.e. the hourly annualized rate equal to ~500,000tpa and the planned production throughput rate for 2016) is targeted before end of month;
- The 10 metre diameter slurry tank (receiving mill cyclone overflow) situated alongside the mill is functioning well. This tank eliminates surges from the grinding circuit facilitating steady feed conditions to flotation
- In the Flotation area, the Outokumpo Rougher cells and Scavenger cells and tailings pumps are now operational and performing well;
- The Denver flotation Cleaner Circuit, including: the Cleaner cells, the Cleaner Scavenger cells and associated pumps have been commissioned and are operating well;
- The flotation reagent dosing system is fully functional
- Final copper concentrate generated by the "Re-Cleaner" flotation cells have returned assays ~28% Copper, confirming that Antas ore responds well to flotation and the quality of concentrate production meets commercial specifications ¬ Routine metallurgical sampling, reporting and controls have commenced;
- The 15 meter diameter concentrate thickener is being commissioned. It is receiving dilute copper concentrate slurry from flotation. The dilute slurry is being "thickened" within the thickener to ~30% moisture;
- Concentrate will be recovered from the thickener and directed to the filter feedtank. Thereafter it will pumped to the Metso filter to reduce the moisture to ~8% for loading into containers;
- Finishing works will continue over the coming weeks including installation of electrical terminations and lighting;
- Activities are on schedule to start commissioning of the fully integrated plant before the end of March.

## Directors' Report

### 8.1 ANTAS MINE DEVELOPMENT

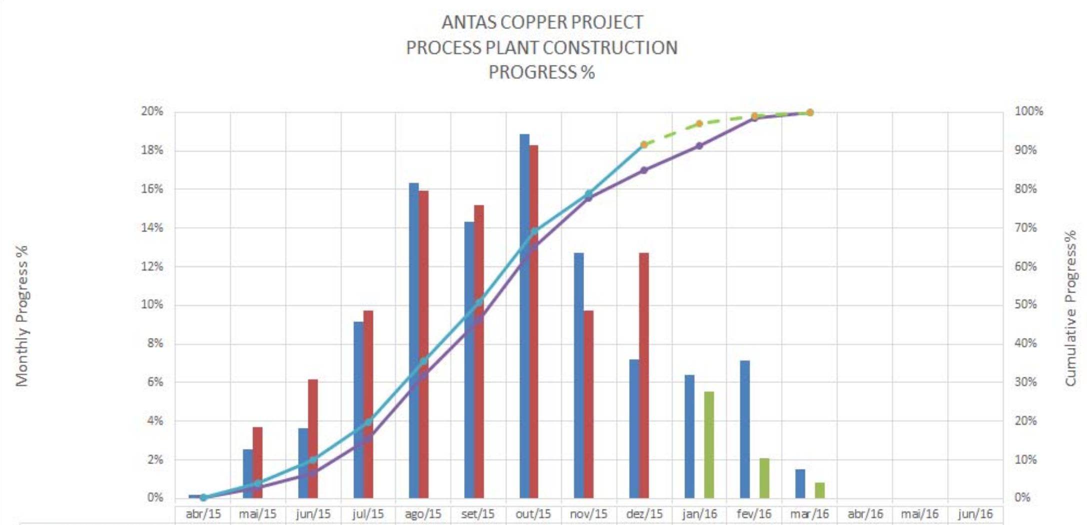
Pre-production mining and plant construction works progressed on schedule with completion anticipated during the March 2016 quarter.

Eighty-five percent of capital expenditure has now been committed and expenditure remains within the projected budget.

Construction site personnel numbers peaked at around 700 during the quarter prior to demobilization of the earthworks and civil contractors. Mechanical and electrical works represent the majority of outstanding construction activities. Piping and electricals around the flotation cells currently represent the "critical path". Avanco's owner's team has been expanded to reinforce supervision during the lead up to completion of site works.

Whilst commissioning of the crushing section is complete, the start of commissioning of the processing facility as a whole will commence before the conclusion of the March 2016 quarter.

The Company remains of the view that it is adequately funded to advance Antas into production. Cash on hand increased following receipt of the second US$4 million tranche from the US$12 million BlackRock Royalty Transaction. The final US$4 million tranche were received during March 2016.




| | abr/15 | mai/15 | jun/15 | jul/15 | ago/15 | set/15 | out/15 | nov/15 | dez/15 | jan/16 | fev/16 | mar/16 | abr/16 | mai/16 | jun/16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| % Monthly Budget | 0% | 3% | 4% | 9% | 16% | 14% | 19% | 13% | 7% | 6% | 7% | 2% | | | |
| % Monthly Actual | 0% | 4% | 6% | 10% | 16% | 15% | 18% | 10% | 13% | | | | | | |
| % Monthly Forecast | | | | | | | | | | 6% | 2% | 1% | | | |
| %Baseline | 0% | 3% | 6% | 16% | 32% | 46% | 65% | 78% | 85% | 91% | 98% | 100% | | | |
| % Actual | 0% | 4% | 10% | 20% | 36% | 51% | 69% | 79% | 92% | | | | | | |
| % Forecast | | | | | | | | | 92% | 97% | 99% | 100% | | | |

Whilst construction activities are exposed to the pending wet season, it can be seen from the above "S" curve that plant construction progress is currently 92% complete and still on schedule for completion prior to the end of March 2016.

**Mining**

Mining contract negotiations were completed and a contract with Mining and Civil Australia (MACA) finalised. Major earthworks commenced in October 2015.

Continuous twenty four hour mining operations commenced in November 2015 with a full personnel compliment.

MACA's performance continues to exceed management's expectations with mining comfortably ahead of schedule.

The majority of free dig saprolitic material has been stripped from the Phase 1 and 2 open pits. Over 11,000t of copper ore grading 2.55% was extracted and delivered to the ROM pad during the 2015 fourth quarter.

| December Quarter Ore and Waste Movements | | | | |
|---|---|---|---|---|
| **Area** | **bcm** | **tonnes** | **Cu (%)** | **Au(g/t)** |
| Saprolite Gold Ore | 39,456 | 77,460 | 1.01 | 3.02 |
| ROM Copper Ore | **3,701** | **11,343** | **2.55** | **0.83** |
| Waste | 236,254 | 590,065 | | |
| **Total Material Moved** | **279,411** | **678,868** | | |

**Blasting**

An explosives contract was awarded to Britanite (IBQ) for a full "Down the Hole" service to the Antas operation. Britanite supplies explosives to several other major mining operations in the Carajás region and is the largest supplier of explosives in South America with around 47% of the Brazilian market.

The first fresh rock ore blast occurred in December 2015 following confirmation of design protocols by a recognised international specialist blasting group.

Blasting is showing continuous improvement through optimising of blast drill hole patterns and ongoing training.

**Grade Control**

An interpretation of results from the Antas Phase 1 pit grade control drilling geological model confirms a high probability of upside when reconciled against the current Mineral Resource / Ore Reserve estimates and confirms the robustness of the ore body.

**Tailings Management Facility (TMF)**

Construction of the tailings dam was completed in November as scheduled. The installation of electrical and water reclaim reticulation systems commenced during the quarter ended 31 December 2015.

**Operational Readiness**

A swift and smooth transition into production is key to start-up success and accordingly Avanco's Brazilian management team was carefully selected. Management staffing levels are already adequate for commissioning during the March 2016 quarter. The Carajás region has an abundance of well-trained mining people should any need for additional personnel arise.

Avanco's Managing Director will reside on site throughout the commissioning period and will deploy contingency funds as required to mitigate any start-up issues.

Installation of a bespoke Brazilian business management and accounting system is well advanced. This will facilitate the management of budgeting and reporting requirements.

The processing facility has been successfully energised via the 10km grid power line. The lump sum turnkey Metso filter construction is complete and awaiting wet commissioning. A 2 year agreement was successfully negotiated with the local workers union wherein labour shift patterns, salaries and certain corporate protections against arbitrary claims have been agreed to.

**Concentrate Marketing and Logistics**

Avanco is in the decisive stages of awarding concentrate offtake contracts. Following a final round in the competitive bidding process, the Company short-listed three groups in late December for closing negotiations.

Avanco is currently working through draft contracts and final detailed terms with the short-listed groups. Avanco's offtake strategy is to award two contracts through to the end of 2018.

Avanco has committed the first 500 tonnes of concentrate production to a "spot" sale on competitive terms and which will be exported as soon as first production is available for shipment.

Copper concentrate will be shipped in containers that will be loaded at the mine site and exported in approximately 5,000 tonne lots, with regular shipments planned following the initial start-up period.

Avanco is working with a well-respected international logistics and freight company with a strong presence in Brazil who are well advanced with the trucking, logistics and freight arrangements.

**Health, Safety and Environment**

Approximately 600,000 man hours have been worked since construction commenced in May 2015 with No Lost Time Injuries or Environmental events reported.

Employees and contractors are provided with mandatory and comprehensive safety induction training for the specific needs of construction activities and this training will continue into operational readiness and production activities.

**Antas Mine Economics**

A high copper grade along with gold by-product credits provides for a financially robust project. Antas is therefore forecast to be a low cost copper producer.

C1 and cash costs in US Dollars are anticipated to fall within the 1$^{st}$ Quartile with expectations from current economic modelling* as follows:

- Mine gate cost $0.48/lb Cu
- C1 $0.99/lb Cu
- C2** $1.36/lb Cu
- C3 $1.57/lb Cu
- Cash Cost $1.20/lb Cu
- EBITDA $217m

* Results are based on copper prices of US$2/lb for 2016, US$2.5/lb for 2017, US$3.20 for 2018 onwards, gold US$1,100oz, FX USD:BRL 4.0, LOM, NIL discount rate.

** Includes capital allocated for development cutbacks in the open pit.

### 8.2 PEDRA BRANCA

Pedra Branca is the Company's second and much larger copper project located 50km southwest of Antas.

Development work continues at Pedra Branca with a focus on infill drilling, and geotechnical and hydrological studies. Highlights of the work completed during the quarter include:

- Completion of two (APBD-15-50, APBD-15-51) out of three infill diamond drill holes at Pedra Branca East targeting an area where further structural information is required. Both holes intersected wide, strongly mineralised zones as anticipated, and showed no structural offset. The third hole is in progress.
- Significant down-hole intersections returned from holes APBD-15-50 and APBD-15-51 were:
  - 24.6m at 1.15% copper, 0.35g/t gold from 138.40m **APBD-15-50**
    including **7.00m at 2.07% copper, 0.66g/t gold** from 152.00m
  - 24.7m at 1.93% copper, 0.41g/t gold from 275.30m **APBD-15-51**
    including **9.7m at 3.10% copper, 0.66g/t gold** from 275.30m

Drilling at Pedra Branca East will continue with a programme of near surface drilling planned to increase confidence in the near surface resource to the Indicated Resource category. This will enable planning for the proposed box-cut to be advanced.

Management believes that Pedra Branca (East+West) has the potential to be developed into a ~35,000tpa copper mining operation. However, cognisant of current market conditions, an option of a smaller, lower-capex, East-only "Starter Mine" is not being discounted. Pedra Branca East is higher grade, wider and better understood and could be expanded into a larger scale operation in the future.

### 8.3 REGIONAL EXPLORATION

Regional exploration activities focused on the power auger geochemistry programme at Macacos prospect, located approximately 25km west of Pedra Branca.

Soil sampling has revealed strongly coincident Ni-Cu-PGE anomalism over two distinct magnetic highs. Mapping and rock chip sampling confirmed that both magnetic highs are related to layered mafic-ultramafic intrusions (peridotite-pyroxenite-gabbro).

A programme of power auger drilling is in progress. The composition of saprolite rocks intersected to date indicate primitive parental magmas in both bodies, something which is not unusual in the Carajás Mineral Province. There is an abundance of primitive crustal contaminated layered intrusions in the Carajás, and several known Ni-Cu-PGE and PGE-Ni deposits.

Results from the auger drilling programme continue to show sub-economic to economic levels of coincident nickel and copper, with sporadic palladium anomalism.

Generative work continues to examine new opportunities.

### 8.4 CORPORATE

Progress at Antas is encouraging and the project remains on target for commissioning during the March 2016 Quarter.

Construction is within budget and the Company has sufficient funds on hand to see Antas into production (assisted significantly by a softening local currency).

The Company's cash position as of the end of December was A$43.45 million. A further US$4 million is available from the BlackRock Royalty Transaction.

### 8.5 RESOURCES AND RESERVES

| CARAJAS – TOTAL JORC Reported Mineral Resources[1,2,3,4] | | | | | | |
|---|---|---|---|---|---|---|
| **DEPOSIT** | **Category** | **Million Tonnes** | **Cu (%)** | **Au (ppm)** | **Copper Metal (T)** | **Gold Metal (Oz)** |
| **PB East[5]** | Indicated | 7.96 | 2.81 | 0.63 | 224,000 | 160,000 |
| | Inferred | 3.43 | 2.70 | 0.61 | 92,000 | 67,000 |
| | **Total** | **11.39** | **2.78** | **0.62** | **316,000** | **227,000** |
| **PB West[5]** | Indicated | 4.46 | 2.04 | 0.61 | 91,000 | 87,000 |
| | Inferred | 2.74 | 1.72 | 0.56 | 47,000 | 49,000 |
| | **Total** | **7.19** | **1.92** | **0.59** | **138,000** | **136,000** |
| **PEDRA BRANCA** | **Total** | **18.58** | **2.45** | **0.61** | **454,000** | **363,000** |
| **ANTAS NORTH[5]** | Measured | 2.83 | 3.01 | 0.72 | 85,000 | 66,000 |
| | Indicated | 1.65 | 2.20 | 0.42 | 36,000 | 22,000 |
| | Inferred | 1.9 | 1.59 | 0.23 | 30,000 | 14,000 |
| | **Total** | **6.38** | **2.38** | **0.50** | **152,000** | **102,000** |
| **ANTAS SOUTH[6]** | Measured | 0.59 | 1.34 | 0.18 | 8,000 | 3,000 |
| | Indicated | 7.5 | 0.7 | 0.2 | 53,000 | 49,000 |
| | Inferred | 1.99 | 1.18 | 0.2 | 24,000 | 13,000 |
| | **Total** | **10.08** | **0.83** | **0.2** | **85,000** | **65,000** |
| **TOTAL** | | **35.04** | **1.97** | **0.47** | **691,000** | **530,000** |

| ANTAS NORTH – JORC Reported Ore Reserves[7,8] | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Classification** | **Type** | **Economic Cut-Off Cu%** | **Tonnes (Mt)** | **Copper (%)** | **Gold (g/t)** | **Copper Metal (T)** | **Gold (Oz)** |
| **Proved** | **ROM Ore** | **0.90** | 1.385 | 3.62 | 0.74 | 50,137 | 33,046 |
| **Probable** | **ROM Ore** | **0.90** | 1.264 | 2.72 | 0.57 | 34,381 | 23,231 |
| **PROVEN + PROBABLE ROM ORE** | | | **2.649** | **3.19** | **0.66** | **84,518** | **56,277** |
| **Proved** | **Low Grade** | **0.65** | 0.342 | 0.74 | 0.30 | 2,531 | 3,308 |
| **Probable** | **Low Grade** | **0.65** | 0.635 | 0.72 | 0.23 | 4,572 | 4,709 |
| **TOTAL PROVEN + PROBABLE** | | | **3.63** | **2.53** | **0.55** | **91,621** | **64,294** |

### 9. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company during the twelve months to 31 December 2015 and up to the date of this report.

### 10. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 23 March 2016 the Company received the final US$4 million tranche in satisfaction of the completion of construction condition associated with the US$12 million BlackRock Royalty Agreement.

### 11. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Likely developments in the operations of the Company are set out in the above review of operations in this annual report. Any future prospects are dependent upon the results the Antas mine development and future successful exploration and evaluation.

### 12. ENVIRONMENTAL REGULATIONS AND PERFORMANCE

The Group carries out operations that are subject to environmental regulations under legislation in Brazil. The Group has formal procedures in place to ensure regulations are adhered to. The Group is not aware of any breaches in relation to environmental matters.

### 13. SHARE OPTIONS

As at the date of this report, there were 152,550,000 unissued ordinary shares under options (152,550,000 at the balance date). The details of the options at the date of this report are as follows:

| Number | Exercise Price A$ | Expiry Date |
|---|---|---|
| 12,550,000 | 0.15 | 31 December 2016 |
| 140,000,000 | 0.10 | 30 June 2018 |
| **152,550,000** | | |

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

75,000,000 unlisted options with an exercise price of 12 cents were not exercised on 31 December 2015 and as a result have lapsed.

### 14. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has made an agreement indemnifying all the Directors and officers of the Company against all losses or liabilities incurred by each Director or officer in their capacity as Directors or officers of the Company to the extent permitted by the Corporations Act 2001. The indemnification specifically excludes wilful acts of negligence. The Company paid insurance premiums in respect of Directors' and Officers' Liability Insurance contracts for current officers of the Company, including officers of the Company's controlled entities. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group. The total amount of insurance premiums paid has not been disclosed due to confidentiality reasons.

### 15. DIRECTORS' MEETINGS

During the twelve months ended 31 December 2015, in addition to regular informed Board discussions, the number of meetings of directors held and the number of meetings attended by each director were as follows:

| Director | Board meetings | | Audit Committee meetings | | Remuneration Committee meetings | |
|---|---|---|---|---|---|---|
| | Eligible | Attended | Eligible | Attended | Eligible | Attended |
| Mr Colin Jones | 6 | 6 | 1 | 1 | 3 | 3 |
| Mr Anthony Polglase | 6 | 6 | - | - | - | - |
| Mr Scott Funston | 6 | 6 | 2 | 1 | 3 | 3 |
| Mr Simon Mottram | 6 | 6 | 1 | 1 | - | - |
| Mr Wayne Phillips | 6 | 6 | - | - | - | - |
| Mr Luis Azevedo | 6 | 6 | - | - | - | - |
| Mr Vern Tidy[a] | 3 | 3 | 1 | 1 | 3 | 3 |

[a]Mr Tidy was appointed Non-Executive Director on 20 July 2015.

### 16. PROCEEDINGS ON BEHALF OF 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 twelve months ended 31 December 2015.

### 17. CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Avanco Resources Limited support and have adhered to the principles of sound corporate governance. The Board recognises the recommendations of the Australian Securities Exchange Corporate Governance Council, and considers that Avanco Resources is in compliance with those guidelines to the extent possible, which are of importance to the commercial operation of a junior listed resources company. During the period, shareholders continued to receive the benefit of an efficient and cost-effective corporate governance policy for the Company. The Company's Corporate Governance Statement and disclosures are contained elsewhere in the annual report.

**18. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES**

Section 307C of the Corporations Act 2001 requires the Company's auditors to provide the Directors of Avanco Resources with an Independence Declaration in relation to the audit of the financial report for the twelve months ended 31 December 2015. A copy of that declaration is included on page 62. Details of non-audit services provided are included in Note 19 to the Consolidated Financial Statements. To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

**19. REMUNERATION REPORT (AUDITED)**

This remuneration report for the twelve months ended 31 December 2015 outlines the remuneration arrangements in place for Directors and Executives of Avanco Resources Limited in accordance with the requirements of the Corporations Act 2001 and its Regulations.

For the purpose of this report, Key Management Personnel (KMP) of the Company 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 Company.

The report contains the following sections:

19.1 Key Management Personnel covered by this Remuneration Report
19.2 Remuneration Governance
19.3 Principles of Remuneration
19.4 Executive Remuneration Framework
19.5 Key Management Personnel Service Contracts
19.6 Summary of Remuneration
19.7 Additional disclosures relating to options and shares

**19.1 Key Management Personnel covered by this Remuneration Report**

The following were KMPs of the Group at any time during the twelve months ended 31 December 2015 and the six month ended 31 December 2014 and unless otherwise indicated KMPs for the entire period:

| Non-Executive Directors | Executive Directors |
|---|---|
| Mr Colin Jones | Mr Anthony Polglase |
| Mr Vern Tidy[(a)] | Mr Scott Funston |
| Mr Matthew Wood[(b)] | Mr Simon Mottram |
| | Mr Wayne Phillips |
| | Mr Luis Azevedo |

(a) Mr Tidy was appointed Non-Executive Director on 20 July 2015.
(b) Mr Wood resigned on 22 September 2014 and ceased to be a Director of the Group

There were no other changes to KMPs after the reporting date and before the date of the financial report.

**19.2 Remuneration Governance**

The Remuneration Committee (the Committee) of the Board of Directors (the Board) is responsible for determining the remuneration arrangements for KMPs and other senior management and making recommendations to the Board. The Committee comprises two independent Non-Executive Directors and one Executive Director of the Group.

The Committee reviews remuneration levels and other terms of employment on a periodic basis having regard to relevant employment market conditions, strategy of the Group, qualifications and experience of the KMPs and performance against targets set for each year.

The Committee also advices on the appropriateness of remuneration packages of the Group given trends in comparative peer companies both locally and internationally, with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

### 19.3 Principles of Remuneration

The performance of the Group depends on the quality of the KMPs it employs. To be successful in a global market, the Group must attract, motivate and retain KMPs of the highest calibre.

The Group embraces the following remuneration principles to secure a successful business:

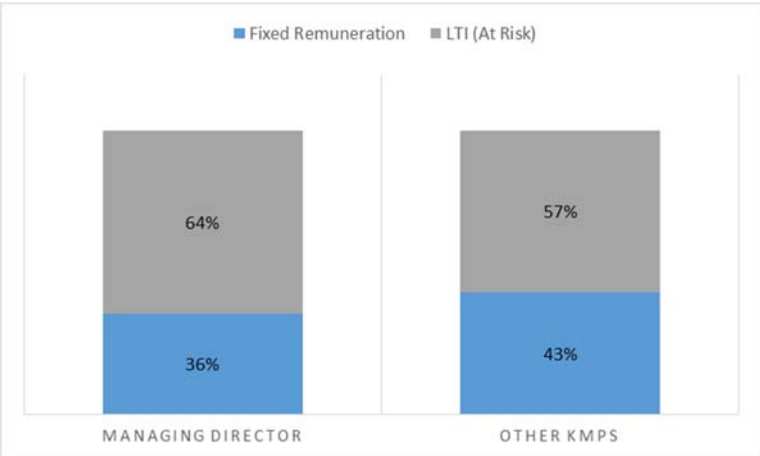
- Remuneration must be competitive, equitable and fair to attract and retain high calibre KMPs;
- Remuneration must recognise the competitive global market in which the Group operates;
- Remuneration must reward Group and individual performance across a range of disciplines and be measured against benchmarked targets; and
- Remuneration must link rewards with protecting and creating shareholder value.

### 19.4 Executive Remuneration Framework

The Group's executive KMP total remuneration structure provides for:

- Fixed remuneration;
- Short-term, performance linked cash remuneration (STI); and
- Long-term, performance linked equity remuneration (LTI).

The table below shows the proportion of each element of total remuneration, at target maximum opportunities, for the KMPs. Over 64% of total remuneration for the Managing Director is at risk and over 57% of total remuneration for the other KMPs is at risk.




#### *19.4.1 Fixed remuneration*

Fixed remuneration comprises Director's fees; consulting fees and employer superannuation contributions.

During the year 2015 the Remuneration Committee performed a benchmark research of peer companies comparing their fixed remuneration, STI and LTI components with the ones currently in place for the Group's KMPs.

The selected comparator group of companies is a broad base of ASX listed mid-tier mining companies with projects in Latin America or developing countries either transitioning from exploration to development or currently producing and also presenting similar market capitalisation, management size and infrastructure.

Based on the results presented in the remuneration benchmark research data of comparator companies the Remuneration Committee recommended that fixed remuneration be amended effective 1 July 2015 (See section 19.5 for further details). The Board adopted the recommendations.

There was no change to Non-Executive Directors fixed remuneration.

#### 19.4.2 Short-term, performance-linked remuneration (STI)

The Remuneration Committee is currently reviewing a short term, performance linked, incentive program (STI) which will provide annual cash awards for the achievement of specific objectives. STI payments awarded to each KMP will depend on the extent to which specific objectives of the financial year are met.

On an annual basis, after consideration of performance against the objectives, the Board determines the amount, if any, of the STI to be paid to each KMP, seeking recommendations from the Remuneration Committee as appropriate.

As the Group's main focus has been the construction and development of the phase 1 and phase 2 of the Project; the Board anticipates that the most appropriate objectives for the STI will be non-revenue, non-market based measures that are critical to the success of the Group such as the effective completion of commissioning of the Project.

No STI was considered for the twelve months ended 31 December 2015.

#### 19.4.3 Long-term, performance linked equity remuneration (LTI)

LTI comprises the Employee Share Option Plan (ESOP) and the Performance Rights Plan (the Plan).

*Employee Share Option Plan (ESOP):*

The objective of the ESOP is to assist in the recruitment, reward, retention and motivation of employees of Avanco Resources Limited. Under the ESOP, the Directors may invite individuals acting in a manner similar to employees to participate in the ESOP and receive options. An individual may receive the options or nominate a relative or associate to receive the options. On resignation of a participant, any unvested options will be forfeited. Share options do not carry any dividend rights and can be exercised once the vesting conditions have been met until their expiry date.

The ESOP is open to executive officers, nominated consultants and employees of Avanco Resources Limited.

*Performance Rights Plan (the Plan):*

On 26 June 2015, shareholders approved the adoption of the Group's Performance Rights Plan.

The objective of the Plan is to provide the Group with a remuneration mechanism, through the issue of securities in the capital of the Company, to motivate and reward the performance of Directors and employees in achieving specified performance milestones within a specified performance period. The Board aligns that the performance milestones pursuant to the Plan with the successful growth of the Company's business activities.

As at 31 December 2015 (31 December 2014: Nil) no performance rights have been granted to participants under the Plan.

### 19.5 Key Management Personnel Service Contracts

Remuneration arrangements for KMPs are formalised in employment or consulting contracts. Details of these contracts are provided below:

#### 19.5.1 Executive Directors

*Mr. Anthony Polglase*

The Managing Director, is paid an annual consulting fee in equal monthly instalments. The consulting agreement commenced on 1 January 2013 and was subsequently updated on 1 December 2015 to reflect a fixed remuneration of A$500,000 per annum effective 1 July 2015 as recommended by the Remuneration Committee and adopted by the Board of Directors in consideration to his continuous commitment with the Group and in acknowledgment of his relocation to Brazil.

As part of the revised agreement, Mr Polglase is entitled to flights, medical benefits and accommodation arrangements customary to normal industry standards for an executive relocating to the benefit of the Group.

As part of the contract, Mr Polglase is entitled to participate in any Group short and long term incentive schemes. The term of the agreement is for three years commencing 1 December 2015 unless extended by both parties.

As part of the agreement in the event of termination due to a redundancy or serious change in employment conditions Mr Polglase is entitled to twelve months' monthly consulting fees. The Company may terminate the agreement by giving twelve months written notice or may terminate the agreement immediately for serious misconduct. Mr Polglase may terminate the agreement by giving twelve months written notice.

*Mr Scott Funston*

The Executive Director and Company Secretary has been paid an annual consulting fee on a monthly basis for corporate services and an hourly rate for accounting and financial reporting services. On 1 December 2015 Mr Funston's' consulting agreement was restructured to reflect a fixed-remuneration only base of A$280,000 per annum effective 1 July 2015 to compensate his duties of Director and Company Secretary of the Group as recommended by the Remuneration Committee and adopted by the Board of Directors. Mr Funston is entitled to participate in any Group incentive schemes.

The agreement is for a two-year period commencing 1 December 2015 unless extended by both parties. In the event of termination due to a redundancy or serious change in employment conditions Mr Funston is entitled to six months' monthly consulting fees. The Company may terminate the agreement by giving six months written notice or should the agreement be terminated by the Board prior to the full term of two years then a termination payment of six months fee will apply unless the Company requires the Director to serve out the notice period. Mr Funston may terminate the agreement by giving three months written notice.

*Mr Simon Mottram*

Mr Mottram is paid an annual consulting fee on a monthly basis. The consulting agreement commenced on 1 February 2013 and it was initially for a term of two years. By recommendation of the Remuneration Committee and adopted by the Board of Directors, the consulting agreement of Mr Mottram was updated on 1 December 2015 to reflect a fixed remuneration base of A$350,000 per annum effective 1 July 2015 for an additional period of two years commencing 1 December 2015. Mr Mottram is entitled to participate in any Group incentive schemes

Mr Mottram may terminate the agreement by giving three months written notice. The Group may terminate the agreement by giving six months written notice or may terminate the agreement immediately for serious misconduct. In the event of termination due to a redundancy or serious change in employment conditions Mr Mottram is entitled to six months' monthly consulting fees. The Company may terminate the agreement by giving six months written notice or should the agreement be terminated by the Board prior to the full term of two years then a termination payment of six months fee will apply unless the Company requires the Director to serve out the notice period.

*Mr Wayne Phillips*

Mr Phillips is paid an annual consulting fee and director's fee on a monthly basis. The consulting agreement commenced on 10 January 2013 and was for a term of two years unless extended by both parties. On 1 December 2015 Mr Phillips' consulting agreement was updated to reflect consulting fees of A$250,000 per annum and unaffected director's fees of A$100,000 and per annum effective 1 July 2015 to compensate his duties of Director the Group as recommended by the Remuneration Committee and adopted by the Board of Directors. Mr Phillips is entitled to participate in any Group incentive schemes.

The agreement is for a two-year period commencing 1 December 2015 unless extended by both parties. In the event of termination due to a redundancy or serious change in employment conditions Mr Phillips is entitled to six months' monthly consulting and director's fees. The Company may terminate the agreement by giving six months written notice or should the agreement be terminated by the Board prior to the full term of two years then a termination payment of six months fee will apply unless the Company requires the Director to serve out the notice period. Mr Phillips may terminate the agreement by giving three months written notice.

*Mr Luis Azevedo*

Mr Azevedo has been paid an annual consulting fee on a monthly basis for corporate services in Brazil. On 1 December 2015 Mr Azevedo's consulting agreement was restructured to reflect a fixed-remuneration-only base of A$250,000 per annum effective 1 July 2015 to compensate his duties of Director of the Group as recommended by the Remuneration Committee and adopted by the Board of Directors. Mr Azevedo is entitled to participate in any Group incentive schemes.

The agreement is for a two-year period commencing 1 December 2015 unless extended by both parties. In the event of termination due to a redundancy or serious change in employment conditions Mr Azevedo is entitled to six months' monthly consulting fees. The Company may terminate the agreement by giving six months written notice or should the agreement be terminated by the Board prior to the full term of two years then a termination payment of six months fee will apply unless the Company requires the Director to serve out the notice period. Mr Azevedo may terminate the agreement by giving three months written notice.

### *19.5.2 Non-Executive Directors*

*Mr Colin Jones*

The Non-Executive Chairman Mr Colin Jones is paid an annual fee on equal monthly instalments. On 1 April 2015 Mr Jones's entered into an agreement with the Group for a twelve-month period commencing 1 April 2015 for an annual consideration of A$160,000 payable in monthly instalments. The agreement may be terminated by either party giving three month's written notice.

*Mr Vern Tidy*

Mr Tidy was appointed Non-Executive Director effective 20 July 2015 until the date of the 2016 annual general meeting of the Group for an annual remuneration of A$60,000 payable in monthly instalments. Mr Tidy's services may be terminated by either party at any time.

The aggregate fee remuneration for Non-Executive Directors has been set at an amount not to exceed $500,000 per annum. This amount may only be increased with the approval of Shareholders at a general meeting.

### *19.5.3 Committee Members Remuneration*

The Board has resolved that committee members receive remuneration participating in other committees established by the Board (currently comprising audit and remuneration committees), the remuneration to be as follows:

i. Chairman to receive $10,000 per annum;
ii. Member to receive $5,000 per annum; and
iii. Committee remuneration to be paid biannually

#### *19.5.4 Other transactions with Key Management Personnel and their related parties*

Kernow Mining Consultants Pty Ltd, a company of which Mr. Polglase is a Director, charged the Group consulting fees for the twelve months ended 31 December 2015 A$425,000 (six months ended 31 December 2014: A$204,167). As at 31 December 2015 there was an amount outstanding of A$Nil (30 June 2014: A$29,167).

During the twelve months ended 31 December 2015 Resourceful International Consulting Pty Ltd, a company of which Mr. Funston is a Director, invoiced the Group A$268,750 (six months ended 31 December 2014: A$119,063) for director's fees, corporate, consulting, accounting and associated services. As at 31 December 2015 there was an amount outstanding of A$28,334 (31 December 2014: A$18,187).

JENS Dominion Pty Ltd, a company of which Mr. Mottram is a Director, charged the Group director's and consulting fees for the twelve months ended 31 December 2015 A$325,000 (six months ended 31 December 2014: A$175,000). As at 31 December 2015 there was an amount outstanding of A$29,166 (31 December 2014: A$25,000).

CI Jones C Eng., a company of which Mr. Jones is a Director, charged the Group Director's and consulting fees for the twelve months ended 31 December 2015 A$160,000 (six months ended 31 December 2014: A$87,209). As at 31 December 2015 there was an amount outstanding of A$24,186 (31 December 2014: A$14,803).

FFA Legal Ltda, a company in which Mr. Azevedo is a Director and shareholder, provided the Group with a serviced office, legal, administrative and accounting services in Brazil for the twelve months ended 31 December 2015 A$477,064 (six months ended 31 December 2014: A$109,779). As at 31 December 2015 there was an amount outstanding of A$162,135 (31 December 2014: Nil).

The Warra Dream Trust of which Mr. Vern Tidy is a trustee, charged the Group Director's fees for the twelve months ended 31 December 2015 A$40,000 (six months ended 31 December 2014: Nil). As at 31 December 2015 there was an amount outstanding of A$15,000 (31 December 2014: Nil).

These transactions have been entered into on normal commercial terms.

### 19.6 Summary of Remuneration

The following section itemises the remuneration components for the KMPs.

The table below shows the financial performance of the Group over the past five financial years:

| | | | | | | |
|---|---|---|---|---|---|---|
| 12 months as at 31 December | **2015** | | | | | |
| 6 months as at 31 December | | **2014** | | | | |
| 12 months as at 30 June | | | **2014** | **2013** | **2012** | **2011** |
| Profit/(loss) per share (cents) | 0.08 | (0.18) | (0.08) | (0.20) | (0.17) | (0.35) |
| Net Profit/(loss) A$000 | 1,706 | (2,939) | (1,119) | (2,243) | (1,465) | (2,365) |
| Average share price A$ | 0.067 | 0.090 | 0.074 | 0.075 | 0.088 | 0.111 |

Details of the nature and amount of each element of the emolument of each Director and Executive of the Group are as follows:

**For the 12 months ended 31 December 2015**

| | Short-term benefits | | | Share-based payments | | Long-term benefits | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Directors' Fees | Consulting Fees | Cash Bonus | Options lapsed[b] | Outstanding options[c] | Super Contributions | Total Remuneration | Option related | Performance related |
| **Directors** | **A$** | **A$** | **A$** | **A$** | **A$** | **A$** | **A$** | **%** | **%** |
| Mr. C Jones | 160,000 | - | - | (52,658) | 100,000[d] | - | 207,342 | 22.83 | - |
| Mr. A Polglase | - | 425,000 | - | (315,949) | 153,818 | - | 262,869 | (61.68) | - |
| Mr. S Funston | - | 268,750 | - | (52,658) | 51,273 | - | 267,365 | (0.52) | - |
| Mr. S Mottram | - | 325,000 | - | (210,633) | 119,636 | - | 234,003 | (38.89) | - |
| Mr. W Phillips | 100,000 | 225,000 | - | (52,658) | 68,364 | - | 340,706 | 4.61 | - |
| Mr. L Azevedo | - | 224,600 | - | (105,316) | 68,364 | - | 187,648 | (19.69) | - |
| Mr. V Tidy[a] | 40,000 | - | - | - | - | - | 40,000 | - | - |
| **Total** | **300,000** | **1,468,350** | **-** | **(789,872)** | **561,455** | **-** | **1,539,933** | **(14.83)** | **-** |

(a) Mr Tidy was appointed Non-Executive Director on 20 July 2015.
(b) The conditions attached to the 75,000,000 options exercisable at A$0.12 and expiry date of 31 December 2015 were not met at the expiry date and have lapsed without vesting. As a result, the expense recognised in the current and prior years was reversed.
(c) Relates to the 2015 proportional expense of 140,000,000 options granted to Directors on 26 June 2015 exercisable at A$0.10 and expiry date of 30 June 2018.
(d) These options vested upon receiving shareholder approval on 26 June 2015.

**For the 6 months ended 31 December 2014**

| | Short-term benefits | | | Share-based payments | Long-term benefits | | | |
|---|---|---|---|---|---|---|---|---|
| | Directors' Fees | Consulting Fees | Cash Bonus[b] | Outstanding Options | Super Contributions | Total Remuneration | Option related | Performance related |
| **Directors** | **A$** | **A$** | **A$** | **A$** | **A$** | **A$** | **%** | **%** |
| Mr. C Jones | 56,667 | 20,542 | 10,000 | - | - | **87,209** | - | - |
| Mr. A Polglase | - | 175,000 | 29,167 | - | - | **204,167** | - | - |
| Mr. S Funston | - | 109,063 | 10,000 | - | - | **119,063** | - | - |
| Mr. S Mottram | - | 150,000 | 25,000 | - | - | **175,000** | - | - |
| Mr. W Phillips | 50,000 | 100,000 | 8,333 | - | - | **158,333** | - | - |
| Mr. L Azevedo | 16,667 | 82,933 | 16,600 | - | - | **116,200** | - | - |
| Mr. M Wood[a] | - | 80,000 | - | - | - | **80,000** | - | - |
| **Total** | **123,334** | **717,538** | **99,100** | **-** | **-** | **939,972** | **-** | **-** |

(a) Mr Wood resigned on 22 September 2014 and ceased to be a Director of the Group.
(b) The cash bonuses to Directors were paid upon the review of the remuneration levels for each director under the remuneration policy. The amounts paid were in lieu of any increase in fixed remuneration for each Director.

There were no other executive officers of the Group during the twelve months ended 31 December 2015 and during the six months ended 31 December 2014.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

| Director | Grant date | Grant number | Expiry date | Value per option | Value of options A$ | Exercise price | No. Vested | No. Expired/ Forfeited |
|---|---|---|---|---|---|---|---|---|
| Mr. C Jones | 29 Nov 2013(c) | 5,000,000 | 31 Dec 2015 | A$0.0098 | $49,000 | $0.12 | - | 5,000,000 |
| | 26 Jun 2015(d) | 5,000,000 | 30 Jun 2018 | A$0.0200 | $100,000 | $0.10 | - | |
| Mr. A Polglase | 29 Nov 2013(c) | 30,000,000 | 31 Dec 2015 | A$0.0098 | $294,000 | $0.12 | - | 30,000,000 |
| | 26 Jun 2015(e) | 45,000,000 | 30 Jun 2018 | A$0.0200 | $900,000 | $0.10 | - | |
| Mr. S Funston | 29 Nov 2013(c) | 5,000,000 | 31 Dec 2015 | A$0.0098 | $49,000 | $0.12 | - | 5,000,000 |
| | 26 Jun 2015(e) | 15,000,000 | 30 Jun 2018 | A$0.0200 | $300,000 | $0.10 | - | |
| Mr. S Mottram | 29 Nov 2013(c) | 20,000,000 | 31 Dec 2015 | A$0.0098 | $196,000 | $0.12 | - | 20,000,000 |
| | 26 Jun 2015(e) | 35,000,000 | 30 Jun 2018 | A$0.0200 | $700,000 | $0.10 | - | |
| Mr. W Phillips | 29 Nov 2013(c) | 5,000,000 | 31 Dec 2015 | A$0.0098 | $49,000 | $0.12 | - | 5,000,000 |
| | 26 Jun 2015(e) | 20,000,000 | 30 Jun 2018 | A$0.0200 | $400,000 | $0.10 | - | |
| Mr. L Azevedo | 29 Nov 2013(c) | 10,000,000 | 31 Dec 2015 | A$0.0098 | $98,000 | $0.12 | - | 10,000,000 |
| | 26 Jun 2015(e) | 20,000,000 | 30 Jun 2018 | A$0.0200 | $400,000 | $0.10 | - | |
| Mr. V Tidy(a) | - | - | - | - | - | - | - | - |
| Mr. M Wood(b) | 29 Nov 2013(c) | 7,500,000 | 22 Sep 2014(b) | A$0.0098 | $73,500 | $0.12 | - | 7,500,000 |
| **Total Granted** | **29 Nov 2013(c)** | **82,500,000** | | **A$0.0098** | **$808,500** | | **-** | **82,500,000** |
| **Total Granted** | **26 Jun 2015** | **140,000,000** | | **A$0.0200** | **$2,800,000** | | **-** | **-** |

(a) Mr Tidy was appointed Non-Executive Director on 20 July 2015.
(b) Mr Wood resigned on 22 September 2014 and ceased to be a Director of the Group, as a result his options forfeited on resignation.
(c) These options vest upon the Company achieving its first despatch of Copper concentrate from the Stage 1 Project. The conditions were not met at the expiry date and as a result have lapsed without vesting.
(d) These options are exercisable on or before 30 June 2018 and vested upon Shareholders approval on 26 June 2015.
(e) These options have the following vesting conditions: one quarter upon the Company achieving completion of construction and commissioning of stage 1; one quarter upon the Company achieving six months of consecutive production equivalent to a rate equal to planned copper and gold concentrate production; one quarter upon the Company producing a Pre-Feasibility study for the Project stage 2; and one quarter upon the optionholder remaining a KMP of the Company by 1 March 2017.

On resignation, any unvested options will be forfeited. Share options do not carry any dividend rights and can be exercised once the vesting conditions have been met until their expiry date.

Options granted as part of remuneration have been valued using the Black-Scholes option pricing model, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the expected time to maturity of the option. Options granted under the plan carry no dividend or voting rights. For details on the valuation of options, including models and assumptions used, please refer to note 26.

No options were exercised for the twelve months ended 31 December 2015 or for the six months ended 31 December 2014.

### 19.7 Additional disclosures relating to options and shares

**Shareholdings of Key Management Personnel**

*Share holdings*

The number of shares in the company held during the period by each Director and Executive of Avanco Resources Limited, including their personally related parties, is set out below. There were no shares granted during the reporting period as compensation.

| Movement of Shares for the 12 months ended 31 December 2015 | | | | | |
|---|---|---|---|---|---|
| **Director** | **No. shares at 1 January 2015** | **Number granted as compensation** | **On exercise of share options** | **Other changes[b]** | **No. shares at 31 December 2015** |
| Mr. C. Jones | 782,120 | - | - | 433,035 | 1,215,155 |
| Mr. A. Polglase | 6,162,693 | - | - | 1,032,922 | 7,195,615 |
| Mr. S. Funston | 1,557,728 | - | - | 287,923 | 1,845,651 |
| Mr. S. Mottram | 1,356,974 | - | - | 387,707 | 1,744,681 |
| Mr. W. Phillips | 150,000 | - | - | 42,857 | 192,857 |
| Mr. L. Azevedo | 768,750 | - | - | 219,642 | 988,392 |
| Mr V. Tidy[a] | - | - | - | - | - |
| **Total** | **10,778,265** | **-** | **-** | **2,404,086** | **13,182,351** |

(a) Mr Tidy was appointed Non-Executive Director on 20 July 2015. Mr Tidy acquired shares on-market trades (325,000) on 10 February 2016.
(b) Other changes during the year relate to shares acquired on-market trades (258,422) and entitlements issue (2,145,664) held directly, indirectly and beneficially by Key Management Personnel.

**Option holdings of Key Management Personnel**

The numbers of options over ordinary shares in the company held during the period by each Director of Avanco Resources Limited and specified Executive of the group, including their personally related parties, are set out below:

| Movement of Options for the 12 months ended 31 December 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | **Vested options** | |
| **Director** | **No. options at 1 January 2015** | **Number granted as compensation** | **Number Exercised** | **Other changes[b]** | **No. options at 31 December 2015[c]** | **Exercisable** | **Non-exercisable** |
| Mr. C. Jones | 5,000,000 | 5,000,000 | - | (5,000,000) | 5,000,000 | - | - |
| Mr. A. Polglase | 30,000,000 | 45,000,000 | - | (30,000,000) | 45,000,000 | - | - |
| Mr. S. Funston | 5,000,000 | 15,000,000 | - | (5,000,000) | 15,000,000 | - | - |
| Mr. S Mottram | 20,000,000 | 35,000,000 | - | (20,000,000) | 35,000,000 | - | - |
| Mr. W. Phillips | 5,000,000 | 20,000,000 | - | (5,000,000) | 20,000,000 | - | - |
| Mr. L. Azevedo | 10,000,000 | 20,000,000 | - | (10,000,000) | 20,000,000 | - | - |
| Mr V. Tidy[a] | - | - | - | - | - | - | - |
| **Total** | **75,000,000** | **140,000,000** | **-** | **(75,000,000)** | **140,000,000** | **-** | **-** |

(a) Mr Tidy was appointed Non-Executive Director on 20 July 2015.
(b) Other changes during the year relate to options exercisable at A$0.12 that lapsed on 31 December 2015.
(c) Options are held directly, indirectly and beneficially by Key Management Personnel.

There were no other alterations to the terms and conditions of options granted as remuneration since their grant date.

All equity transactions with Key Management Personnel other than arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

**End of Remuneration Report (Audited)**

Signed on behalf of the board in accordance with a resolution of the Directors.

Anthony Polglase

Managing Director

29 March 2016

***Competent Persons Statement***

*The information in this report that relates to Exploration Results is based on information compiled by Mr Simon Mottram who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Mottram is an Executive Director of Avanco Resources Limited, in which he is also a shareholder. Mr Mottram has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person (CP) as defined in the 2012 Edition of the Joint Ore Reserves Committee (JORC) "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Mottram consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

1. See ASX Announcement "Pedra Branca Resource Upgrade Delivers Substantial Increase in Both Contained Copper and Confidence", 13 July 2015, for Competent Person's Consent, material assumptions, and technical parameters underpinning the Pedra Branca resource estimates.
2. See ASX Announcement "Stage 1 set to excel on new high grade Copper Resource", 7 May 2014, for Competent Person's Consent, material assumptions, and technical parameters underpinning the Antas North resource estimate.
3. See ASX announcement "Major Resource Upgrade for Rio Verde", 8 February 2012, for Competent Person's Consent, material assumptions, and technical parameters underpinning the Antas South resource estimate.
4. The Antas South JORC compliant resource was prepared and first disclosed under the JORC Code 2004. It has not been updated since to comply with the JORC Code 2012, on the basis that the information has not materially changed since it was last reported.
5. Grade Tonnage Reported above a Cut-off Grade of 0.9% Copper.
6. Grade Tonnage Reported above a Cut-off Grade of 0.3% Cu for Oxide Resources.
7. See ASX Announcement "Maiden Reserves Exceed Expectations for Antas Copper", 17 September 2014, for Competent Person's Consent, material assumptions, and technical parameters underpinning the Antas North JORC (2012) Reported Reserve estimate.
8. Measured and Indicated Resources are inclusive of those Mineral Resources modified to produce the Ore Reserves.

*Governance Arrangements and Internal Controls*

*A summary of the governance and controls applicable to the Company's Mineral Resource process is as follows:*

- *Review and validation of drilling and sampling methodology and data spacing, geological logging, data collection and storage, sampling and analytical quality control;*
- *Review of known and interpreted geological structure, lithology and weathering controls;*
- *Review of estimation methodology relevant to the mineralisation style;*
- *Visual validation of block model against raw data; and*
- *Internal peer review by senior company personnel.*

# Corporate Governance Statement

The Board of Directors of Avanco Resources Limited ("Avanco Resources" or "the Company") is responsible for corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

Upon listing the Company established a set of corporate governance policies and procedures. These were based on the Australian Securities Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure.

The board is currently reviewing the structure of the board to further comply with the Recommendations, including appointing non-executive independent directors.

For further information on corporate governance policies adopted by the Company, refer to our website: www.avancoresources.com.

**Structure of the Board**

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

The Board has accepted the following definition of an Independent Director:

"An Independent Director is a Director who is not a member of management, is a Non-executive Director and who:

- is not a substantial shareholder (under the meaning of Corporations Law) of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Company member, or been a Director after ceasing to hold any such employment;
- is not a principal of a professional adviser to the Company or another Company member;
- is not a significant consultant, supplier or customer of the Company or another Company member, or an officer of or otherwise associated, directly or indirectly, with a significant consultant, supplier or customer;
- has no significant contractual relationship with the Company or another Company member other than as a Director of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company."

In accordance with the definition of independence above, two Directors are considered independent. Accordingly, a majority of the board is not considered independent.

There are procedures in place, as agreed by the Board, to enable Directors to seek independent professional advice on issues arising in the course of their duties at the company's expense. The term in office held by each Director in office at the date of this report is as follows:

| Director | Term in office |
|---|---|
| Anthony Polglase | 9 years 3 months |
| Scott Funston | 7 years 6 months |
| Simon Mottram | 5 years 7 months |
| Wayne Phillips | 3 years 8 months |
| Colin Jones | 5 years 10 months |
| Luis Azevedo | 3 years 9 months |
| Vern Tidy | 8 months |

**Remuneration Committee**

The Board established a Remuneration Committee during 2015 comprising two independent Directors being Mr Vern Tidy (Chairman of the Committee) and Mr Colin Jones (Non-Executive Chairman of the Board) and one Executive Director being Scott Funston.

The Remuneration Committee assists the Board in fulfilling its corporate governance responsibilities in regard to remuneration matters, including executives and senior management appointments, retention and termination policies; performance evaluation, and equity-based incentives plan reviews.

The Remuneration Committee operates under a charter approved by the Board. The Remuneration Committee is scheduled to meet at least annually and met three times during 2015.

**Audit Committee**

The Board has established an Audit Committee comprising two independent Directors being Mr Vern Tidy (Chairman of the Committee) and Mr Colin Jones (Non-Executive Chairman of the Board) and one Executive Director being Scott Funston (Mr Simon Mottram resigned from the Audit Committee during 2015), whose qualifications are set out in the Directors' Report. The Audit Committee was established on 1 July 2013.

The Board has formally adopted an Audit and Risk Management Committee Charter to give assurance to the Board that all financial statements and reports to be adopted by the Board are consistent with all applicable reporting requirements and are, in all respects, accurate and not misleading. Additionally, the Audit Committee is the mechanism through which the Company's Auditors will interface with the Board.

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes both internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial and non-financial information. It is the Board's responsibility for the establishment and maintenance of a framework of internal control of the Company.

**Performance**

The Board of Avanco Resources conducts its performance review of itself on an ongoing basis throughout the period. The small size of the Company and hands on management style requires an increased level of interaction between Directors and Executives throughout the period. Board members meet amongst themselves both formally and informally. The Board considers that the current approach that it has adopted with regard to the review of its performance provides the best guidance and value to the Company.

**Remuneration**

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board by remunerating Directors fairly and appropriately with reference to relevant employment market conditions. The Company does not currently link the nature and amount of Executive and Directors' emoluments to the company's financial and operational performance, however this policy is under review by the board given the Company is transitioning from exploration into development and production.

For details of remuneration of Directors and Executives please refer to the Directors' Report.

The Board is responsible for determining and reviewing compensation arrangements for Executive Directors. The Board has formally adopted a Remuneration Committee Charter and formed a separate Committee.

There is no scheme to provide retirement benefits, other than statutory superannuation when applicable.

**Diversity Policy**

The Company is committed to workplace diversity and to ensuring a diverse mix of skills and talent exists amongst its Directors, officers and employees, to enhance Company performance. The Board has adopted a Diversity Policy which addresses equal opportunities in the hiring, training and career advancement of Directors, officers and employees.

In accordance with this policy, the Board provides the following information pertaining to the proportion of women across the organisation at the date of this report.

| | Actual | |
|---|---|---|
| | **Number** | **Percentage** |
| Women in the whole organisation | 4 | 6.9% |
| Women in senior executive positions | - | - |
| Women on the board | - | - |

**Trading Policy**

Under the Company's securities trading policy, an Executive or Director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities.

Before commencing to trade, an Executive must first obtain the approval of the Managing Director to do so and a Director must first obtain approval of the Chairman. Only in exceptional circumstances will approval be forthcoming inside of the period commencing on the tenth day of the month in which the Company is required to release its Quarterly Activities Report and Quarterly Cashflow Report and ending two days following the date of that release.

**Assurance**

The CEO and CFO (or equivalent) periodically provide formal statements to the Board that in all material aspects:

- the Company's financial statements present a true and fair view of the company's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

This assurance forms part of the process by which the Board determines the effectiveness of its risk management and internal control systems in relation to financial reporting risks.

**Shareholder Communication Policy**

Pursuant to Principle 6, the Company's objective is to promote effective communication with its shareholders at all times.

Avanco Resources Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information
- Complying with continuous disclosure obligations contained in the ASX listing rules and the Corporations Act 2001 in Australia
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with the Company

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

- Through the release of information to the market via the ASX
- Through the distribution of the annual report and notices of annual general meeting
- Through shareholder meetings and investor relations presentations
- Through letters and other forms of communications directly to shareholders
- By posting relevant information on the Company's website: www.avancoresources.com

The external auditors are required to attend the annual general meeting and are available to answer any shareholder questions about the conduct of the audit and preparation of the audit report.

**Corporate Governance Compliance**

During the period Avanco Resources has complied with each of the 8 Corporate Governance Principles and the corresponding Best Practice Recommendations, other than in relation to the matters specified below:

| Best Practice Recommendation | Notification of Departure | Explanation of Departure |
|---|---|---|
| 2.1 | The Group does not have a Nomination Committee | The role of Nomination Committee has been assumed by the full Board operating under the Nomination Committee Charter adopted by the Board |
| 2.4 | The Company does not have a majority of independent directors | The Directors consider that the current structure and composition of the Board is appropriate to the size and nature of operations of the Company. |
| 3.3 | The Company has not disclosed in its annual report its measurable objectives for achieving gender diversity and progress towards achieving them. | The Board continues to monitor diversity across the organisation and is satisfied with the current level of gender diversity within the Company as disclosed above. Due to the size of the Company and its small number of employees, the Board does not consider it appropriate at this time, to formally set measurable objectives for gender diversity. |
| 4.1 | An Executive Director is a member of the Audit Committee | The Directors consider the current structure of the Committee to be appropriate considering that the majority of members are independent directors and chaired by an independent director. |
| 7.1 | The Group does not have a Risk Committee | The role of Risk Committee has been assumed by the full Board operating under the Audit and Risk Committee Charter adopted by the Board. |
| 8.3 | Non-Executive Directors receive options as a part of remuneration. | To attract and retain an independent Non-Executive Director with sufficient skills and experience to the Company, incentive options were required as part of the remuneration package. |

As outlined in the Review of Operations, further organisational changes are planned and compliance with Corporate Governance Principles and the corresponding Best Practice Recommendations will be considered in implementing these changes.

## Consolidated Statement of Comprehensive Income *for the twelve months ended 31 December 2015*

| | Notes | Consolidated 12 months ended 31 December 2015 A$000 | 6 months ended 31 December 2014[a] A$000 |
|---|---|---|---|
| **Revenue** | | | |
| Interest income | | 279 | 387 |
| Other income | | 47 | - |
| **Total revenue** | | **326** | **387** |
| | | | |
| **Other income** | | | |
| Foreign exchange gain | | 4,401 | 134 |
| | | | |
| **Expenses** | | | |
| Public company costs | | (87) | (77) |
| Consulting fees | | (638) | (398) |
| Legal fees | | (370) | (54) |
| Share based payments | *26* | (314) | (327) |
| Rent and outgoings | | (346) | (192) |
| Travel expenses | | (434) | (77) |
| Impairment of exploration expenditure | *9(b)* | - | (2,019) |
| Impairment of investments | | (30) | - |
| Other expenses | *4* | (802) | (316) |
| **Profit/(loss) before income tax** | | **1,706** | **(2,939)** |
| | | | |
| Income tax expense | *5* | - | - |
| **Net profit/(loss) for the period** | | **1,706** | **(2,939)** |
| | | | |
| **Other Comprehensive loss** | | | |
| | | | |
| **Items that may be reclassified subsequently to profit and loss** | | | |
| Foreign currency translation | | (15,462) | (1,556) |
| **Other comprehensive loss for the period** | | **(15,462)** | **(1,556)** |
| | | | |
| **Total comprehensive loss for the period** | | **(13,756)** | **(4,495)** |
| | | | |
| **Loss per share attributable to owners of Avanco Resources Limited** | | | |
| | | | |
| Basic and diluted profit/(loss) per share (cents per share) | *23* | 0.08 | (0.180) |

*[a]The Group has changed its financial year end date. Refer to Note 2(b) for further details.*

*The consolidated statement of comprehensive income is to be read in conjunction with the notes to the consolidated financial statements set out on pages 30 to 60.*

## Consolidated Statement of Financial Position *as at 31 December 2015*

| | Notes | Consolidated 31 December 2015 A$000 | Consolidated 31 December 2014 A$000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | *6* | 43,446 | 19,805 |
| Trade and other receivables | *7* | 1,043 | 165 |
| **Total Current Assets** | | **44,489** | **19,970** |
| | | | |
| **Non-Current Assets** | | | |
| Trade and other receivables | *7* | 1,600 | - |
| Deferred exploration and evaluation assets | *9* | 23,088 | 50,282 |
| Property, plant and equipment | *10* | 86,908 | 7,872 |
| Available for sale investments | | - | 30 |
| **Total Non-Current Assets** | | **111,596** | **58,184** |
| **TOTAL ASSETS** | | **156,085** | **78,154** |
| | | | |
| **Current Liabilities** | | | |
| Trade and other payables | *11* | 6,519 | 3,469 |
| Financial liabilities | *12* | 2,675 | - |
| Provisions | *13* | 4,481 | - |
| Deferred revenue | *14* | 790 | |
| **Total Current Liabilities** | | **14,465** | **3,469** |
| | | | |
| **Non-Current Liabilities** | | | |
| Financial liabilities | *12* | 8,287 | - |
| Provisions | *13* | 10,950 | - |
| **Total Non-Current Liabilities** | | **19,237** | **-** |
| **TOTAL LIABILITIES** | | **33,702** | **3,469** |
| | | | |
| **NET ASSETS** | | **122,383** | **74,685** |
| | | | |
| **Equity** | | | |
| Issued capital | *15* | 148,001 | 86,861 |
| Reserves | *16* | (13,044) | 2,104 |
| Accumulated losses | *17* | (12,574) | (14,280) |
| **TOTAL EQUITY** | | **122,383** | **74,685** |

*The consolidated statement of financial position is to be read in conjunction with the notes to the consolidated financial statements set out on pages 30 to 60.*

## Consolidated Statement of Cash Flows *for the twelve months ended 31 December 2015*

| | Notes | Consolidated 12 months ended 31 December 2015 A$000 | 6 months ended 31 December 2014[(a)] A$000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | (2,566) | (1,055) |
| Interest received | | 280 | 446 |
| **Net cash used in operating activities** | 6 | **(2,286)** | **(609)** |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment and assets under construction | | (32,052) | (5,671) |
| Expenditure on exploration and evaluation assets | | (18,777) | (6,222) |
| Term deposit for registered office guarantee | | - | (29) |
| **Net cash used in investing activities** | | **(50,829)** | **(11,922)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | 63,618 | - |
| Payments for share issue costs | | (2,478) | - |
| Proceeds from Royalty agreements | | 11,194 | - |
| **Net cash from financing activities** | | **72,334** | **-** |
| | | | |
| Net increase/(decrease) in cash held | | 19,219 | (12,531) |
| Cash and cash equivalents at beginning of period | | 19,805 | 32,205 |
| Foreign exchange variances on cash | | 4,422 | 131 |
| **Cash and cash equivalents at end of the period** | 6 | **43,446** | **19,805** |

[(a)] *The Group has changed its financial year end date. Refer to Note 2(b) for further details.*

*The consolidated statement of Cash Flows is to be read in conjunction with the notes to the consolidated financial statements set out on pages 30 to 60*

## Consolidated Statement of Changes in Equity *for the twelve months ended 31 December 2015*

| | Issued capital A$000 | Accumulated losses A$000 | Foreign Currency Translation Reserve A$000 | Option reserves A$000 | Share based payment reserves A$000 | Total A$000 |
|---|---|---|---|---|---|---|
| At 1 January 2015 | **86,861** | **(14,280)** | **(4,351)** | **549** | **5,906** | **74,685** |
| Profit for the period | - | 1,706 | - | - | - | 1,706 |
| Other comprehensive loss | - | - | (15,462) | - | - | (15,462) |
| **Total comprehensive loss** | **-** | **1,706** | **(15,462)** | **-** | **-** | **(13,756)** |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Shares issued during the period | 63,618 | - | - | - | - | 63,618 |
| Transaction costs | (2,478) | - | - | - | - | (2,478) |
| Share based payments | - | - | - | - | 314 | 314 |
| **At 31 December 2015** | **148,001** | **(12,574)** | **(19,813)** | **549** | **6,220** | **122,383** |
| | | | | | | |
| At 1 July 2014[(a)] | **86,861** | **(11,341)** | **(2,795)** | **549** | **5,579** | **78,853** |
| Loss for the period | - | (2,939) | | | | (2,939) |
| Other comprehensive loss | - | - | (1,556) | - | - | (1,556) |
| **Total comprehensive loss** | **-** | **(2,939)** | **(1,556)** | **-** | **-** | **(4,495)** |
| **Transactions with owners in their capacity as owners** | | | | | | |
| Share based payments | - | - | - | - | 327 | 327 |
| **At 31 December 2014** | **86,861** | **(14,280)** | **(4,351)** | **549** | **5,906** | **74,685** |

*[(a)] The Group has changed its financial year end date. Refer to Note 2(b) for further details.*

*The consolidated statement of changes in equity is to be read in conjunction with the notes to the consolidated financial statements set out on pages 30 to 60.*

## 1. CORPORATE INFORMATION

The financial report of Avanco Resources Limited ("Avanco Resources" or "the Company") and its controlled entities (together referred to as the 'Group') for the twelve months ended 31 December 2015 was authorised for issue in accordance with a resolution of the Directors on 29 March 2016.

Avanco Resources Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and the principal activities of the Group are described in the Directors' Report.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of Preparation

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

The financial report has also been prepared on a historical cost basis except for the following:

- available for sale financial assets are measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand (A$000), except when otherwise indicated.

### (b) Change in Financial Year End Date

During 2014 the Company obtained approval from the Australian Securities and Investments Commission ("ASIC") to change its financial year end date from 30 June to 31 December. As a result, the current financial year of the Company is the twelve-month period 1 January 2015 to 31 December 2015 and the previous financial year is the six-month period 1 July 2014 to 31 December 2014. As such, the amounts presented in the financial report are not entirely comparable.

### (c) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### (d) Changes in accounting policies, interpretations and disclosures

***i. New and amended standards and interpretations***

The Group applied, for the first time, certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual consolidated financial statements of the Group. Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

- AASB 2014-1 Part A –Annual Improvements 2010–2012 Cycle. The amendment did not have a significant effect on the Group's financial statements.
- AASB 2014-1 Part A –Annual Improvements 2011–2013 Cycle. The amendment did not have a significant effect on the Group's financial statements.

### *ii. New accounting standards and interpretations issued but not yet effective*

The following applicable accounting standards and interpretations have been issued or amended but are not yet effective. These standards have not been adopted by the Group for the twelve months ended 31 December 2015:

| Reference | Title | Summary | Impact on Group's financial report | Application date for Group |
|---|---|---|---|---|
| AASB 9 | Financial Instruments | AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.<br>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. | The Group has not yet determined the likely impact on the Group's financial statements. | 1 January 2018 |
| AASB 15 | Revenue from Contracts with Customers | AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments).The core principle of AASB 15 is that an entity recognises 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. | The Group has not yet determined the likely impact on the Group's financial statements. | 1 January 2018 |
| AASB 1057 | Application of Australian Accounting Standards | This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped where they are the same. Accordingly, paragraphs 5 and 22 respectively specify the application paragraphs for Standards and Interpretations in general. Differing application paragraphs are set out for individual Standards and Interpretations or grouped where possible.<br>The application paragraphs do not affect requirements in other Standards that specify that certain paragraphs apply only to certain types of entities. | The Group has determined the likely impact on the Group's financial statements are not material. | 1 January 2016 |
| AASB 2014-3 | Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11] | AASB 2014-3 amends AASB 11 Joint Arrangements to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. # | The Group has determined the likely impact on the Group's financial statements will be immaterial. | 1 January 2016 |
| AASB 2014-4 | Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138) | AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. | The Group has determined the likely impact on the Group's financial statements will be immaterial. | 1 January 2016 |
| AASB 2014-9 | Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements | AASB 2014-9 amends AASB 127 Separate Financial Statements, and consequentially amends AASB 1 First-time Adoption of Australian Accounting Standards and AASB 128 Investments in Associates and Joint Ventures, to allow entities to use the equity method of accounting for | The Group has not yet determined the likely impact on the Group's financial statements. | 1 January 2016 |

| Reference | Title | Summary | Impact on Group's financial report | Application date for Group |
|---|---|---|---|---|
| | | investments in subsidiaries, joint ventures and associates in their separate financial statements. | | |
| AASB 2014-10 | Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<br><br>Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | AASB 2014-10 amends AASB 10 Consolidated Financial Statements and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require: | The Group has not yet determined the likely impact on the Group's financial statements. | 1 January 2016 |
| AASB 2015-2 | Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 | The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures. | The Group has determined the likely impact on the Group's financial statements will be immaterial. | 1 January 2016 |
| AASB 2015-3 | Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality | The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards | The Group has determined the likely impact on the Group's financial statements will be immaterial. | 1 January 2016 |
| AASB 16 | Leases | AASB 16 supersedes:<br>(a) IAS 17 Leases;<br>(b) IFRIC 4 Determining whether an Arrangement contains a Lease;<br>I SIC-15 Operating Leases—Incentives; and<br>(d) SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.<br><br>The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16. | The Group has not yet determined the likely impact on the Group's financial statements. | 1 January 2019 |

**(e) Changes in accounting policies and disclosures**

In the twelve months ended 31 December 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 reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

**(f) Basis of Consolidation**

The consolidated financial statements comprise the financial statements of Avanco Resources Limited ("Avanco Resources" or "the Company") and its subsidiaries as at 31 December each year ('the Group'). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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-company transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

**(g) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the subsidiary entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional and presentation currency of Avanco Resources Limited is Australian dollars. The functional and presentation currency of the overseas subsidiaries is Brazilian Reais and Euros.

*(ii) Foreign currency transactions*

Transactions denominated in foreign currencies are initially recorded in the functional currency rate ruling at the date of the underlying transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All exchange differences are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

*(iii) Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income.

*(iv) Net investment in foreign operations*

Exchange differences arising from the transaction of the net investment in foreign operations are disclosed within the translation reserve and recognised in other comprehensive income and expense. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

*(i) Recognition and measurement*

Property, plant and equipment is stated at cost, less accumulated depreciation.

Once the technical feasibility and commercial viability of the extraction of mineral resources in a particular area of interest become demonstrable, the exploration and evaluation assets attributable to that area of interest are reclassified as assets under construction within property, plant and equipment. All development costs subsequently incurred within that area of interest are capitalised and carried at cost and starts depreciating only when the asset is brought to use. The Group performs impairment testing when facts and circumstances suggest that the carrying amount has been impaired. If it is determined that the asset has been impaired it is immediately written off in the statement of profit or loss and other comprehensive income (refer note 10).

*(ii) Subsequent costs*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Repairs and maintenance expenditure is charged to the profit and loss during the financial period in which it is incurred.

*(iii) Depreciation*

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the Group commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

| *Class of Fixed Asset* | *Depreciation Rate* |
|---|---|
| Plant and equipment | 25% – 50% |
| Furniture, Fixtures and Fittings | 15% |
| Computer and software | 25% |
| Motor Vehicles | 20% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

*(iv) Derecognition*

Plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit and loss.

**(i) Impairment**

*(i) Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment charge in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment charge in respect of an available-for-sale financial asset is calculated by reference to its fair value less cost to sell. Fair value less cost to sell is determined as a present value of the estimated real future cash flows expected to arise from the continued use of the asset using assumptions that an independent market participant may consider. These cashflows are discounted using a real after tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment charges are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in other comprehensive income and expense is transferred to profit or loss. An impairment charge is reversed if the reversal can be related objectively to an event occurring after the impairment charge was recognized. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income and expense.

*(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

In assessing whether an impairment is required, the carrying value of the asset or CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs to sell (FVLCS) and value in use (VIU). Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place.

Consequently, the FVLCS for each CGU is estimated based on discounted future estimated cash flows (expressed in real terms) expected to be generated from the continued use of the CGUs using market based commodity price and exchange assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements, including any expansion projects, and its eventual disposal, based on the CGU five-year plans and latest life of mine (LOM) plans. These cash flows were discounted using a real post- tax discount rate that reflected current market assessments of the time value of money and the risks specific to the CGU.

Estimates of quantities of recoverable minerals, production levels, operating costs and capital requirements and sourced from out planning process, including the LOM plans, five-year plans, one-year budgets and CGU-specific studies.

**(j) Exploration and evaluation assets**

Exploration and evaluation expenditure incurred by or on behalf of the Group is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific nexus with a particular area of interest.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation. Exploration and evaluation expenditure for each area of interest is carried forward as an asset provided the rights to tenure of the area of interest are current and at least one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or, alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing.

Expenditure which fails to meet the conditions outlined above is written off, furthermore, the directors regularly review the carrying value of exploration and evaluation expenditure and make write downs if the values are not expected to be recoverable.

Identifiable exploration assets acquired are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 6 Exploration for and evaluation of mineral resources. Exploration assets acquired are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions referred to in AASB 6 is met.

Exploration and evaluation expenditure incurred subsequent to acquisition in respect of an exploration asset acquired, is accounted for in accordance with the policy outlined above for exploration expenditure incurred by or on behalf of the entity.

Acquired exploration assets are not written down below acquisition cost until such time as the acquisition cost is not expected to be recovered.

When an area of interest is abandoned, any expenditure carried forward in respect of that area is written off.

**(k) Trade and Other Receivables**

Trade receivables, which generally have 30 – 90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**(l) Cash and Cash Equivalents**

Cash and cash equivalents in the statement of financial position includes cash on hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as described above.

**(m) 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.

Where 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 asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit and loss net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money, and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

*Rehabilitation*

Rehabilitation includes mine closure and restoration costs which include the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas specific to the site. Provisions are recognised at the time that the environmental disturbance occurs.

The provision is the best estimate of the present value of the future cash flows required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes are reflected in the present value of the restoration provision at the end of the financial year.

The amount of the provision for future rehabilitation costs is capitalised as an asset and recognised in property, plant and equipment and is depreciated over the useful life of the mineral resource. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

**(n) Trade and other payables**

Liabilities for trade creditors and other amounts are measured initially at fair value of the consideration to be paid in the future for goods and services received that are unpaid, whether or not billed to the Group and subsequently at amortised cost.

**(o) Financial liabilities**

Non-derivative financial liabilities are initially recognised at fair value, net of transaction costs incurred and then are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the financial liability using the effective interest method. Fees paid on the establishment of facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Financial liabilities are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

**(p) Current and Deferred Income Tax**

*(i) Current tax*

The current income tax charge is calculated in accordance with taxation regulations in each jurisdiction that have been or are subsequently enacted by the reporting date. Current tax is based on the taxable income and tax allowable expenses reported by the Group. 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.

*(ii) Deferred tax*

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

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 that have been enacted or substantively enacted at the balance sheet date.

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

Deferred tax assets are only recognised when there is sufficient probability of future taxable profits.

**(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.

**(r) Revenue**

Revenue is recognised in the statement of profit or loss to the extent that it is probable that the economic benefits will flow to the Group and the revenue is capable of being reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Deferred revenue*

Deferred revenue or unearned revenue is initially recognised in the statement of financial position as a liability until the services have been rendered or products have been delivered and all risks have been transferred. They represents products or services that are owed to customers. Once the product or service is delivered over time, it is recognised as revenue in the statement of profit or loss.

*Interest income*

Revenue is recognised as the interest accrues using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**(s) Segment Information**

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 Avanco Resources Limited.

**(t) Earnings/Losses per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding any costs of servicing equity other than dividends, by the weighted average number of ordinary shares, adjusted for any bonus elements.

*(ii) Diluted earnings per share*

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

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised; 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 elements.

**(u) Consumption taxes**

Revenues, expenses and assets are recognised net of the amount of consumption taxes, except where the amount of consumption tax incurred is not recoverable from the tax authority. In these circumstances the consumption tax is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of consumption taxes.

The net amount of consumption tax recoverable from, or payable to, tax authorities is included as part of receivables or payables in the statement of financial position.

Cash flows are presented in the cash flow statement on a gross basis, except for the consumption tax component of investing and financing activities, which is receivable from or payable to the tax authority, are disclosed as operating cash flows.

**(v) Employee benefits**

*(i) Share-based payments*

The group provides benefits to individuals acting as, and providing services similar to employees (including Directors) of the group in the form of share based payment transactions, whereby individuals render services in exchange for shares or rights over shares (‘equity settled transactions’).

There is currently an Employee Share Option Plan (ESOP) in place, which provides benefits to Directors and individuals providing services similar to those provided by an employee.

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 26.

In valuing equity settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Avanco Resources Limited (‘market conditions’).

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

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 number of awards that, in the opinion of the Directors of the group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of the market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The profit and loss charge or credit for a period represents the movement in cumulative expense recognised at the beginning and end of the period.

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

Where 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 increase in the value of the transaction as a result of the modification, as measured at the date of the modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of the 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 cost of equity-settled transactions with non-employees is measured by reference to the fair value of goods and services received unless this cannot be measured reliably, in which case the cost is measured by reference to the fair value of the equity instruments granted.

The dilutive effect, if any, of outstanding options is reflected in the computation of earnings/loss per share (see note 23).

*(ii) Wages, salaries and annual leave*

Liabilities for employee benefits for wages, salaries and annual leave that are expected to be settled within 12 months of the reporting date, which represent present obligations resulting from employees' services provided to the reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as pension and superannuation contributions, social security, workers compensation and health insurance, as well as payroll related tax.

*(iii) Short-term employee benefits*

Short term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash incentives if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

*(iv) Termination benefits*

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than twelve months after the reporting date, then they are discounted to their present value.

**(w) Critical accounting estimates and judgements**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities at the date of the consolidated financial statements. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In particular, the Group has identified a number of areas where significant judgements, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described with the associated accounting policy note within the related qualitative and quantitative note as described below.

**Judgements:**

*Production start date*

The Group assesses the stage of each mine under development/construction to determine when a mine moves into the production phase, this being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine development/construction project, such as the complexity of the project and its location. The Group considers various relevant criteria to assess when the production phase is considered to have commenced. At this point, all related amounts are reclassified from 'Assets under construction' to 'Producing mines'. Some of the criteria used to identify the production start date include, but are not limited to:

• Level of capital expenditure incurred compared with the original construction cost estimate
• Completion of a reasonable period of testing of the mine plant and equipment
• Ability to produce metal in saleable form (within specifications)
• Ability to sustain ongoing production of metal

When a mine development project moves into the production phase, the capitalisation of certain mine development costs ceases and costs are either regarded as forming part of the cost of inventory or expensed, except for costs that qualify for capitalisation relating to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation/amortisation commences.

*Functional currency translation reserve*

Under the Accounting Standards, each entity within the Group is required to determine its functional currency, which is the currency of the primary economic environment in which the entity operates. Prior to commercial production management considers the Brazilian subsidiaries to be foreign operations with Brazilian Reais as the functional currency. In arriving at this determination, management has given priority to the currency that influences the labour, materials and other costs of exploration activities as they consider this to be a primary indicator of the functional currency.

**Estimates**

*Capitalised exploration and evaluation assets*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices. To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

*Recoverability of assets*

Impairment assessments require the use of estimates and assumptions such as long-term commodity prices (considering current and historical prices, price trends and related factors), discount rates, operating costs, future capital requirements, closure and rehabilitation costs, exploration potential, reserves above) and operating performance (which includes production and sales volumes). These estimates and assumptions are subject to risk and uncertainty. Therefore, there is a possibility that changes in circumstances will impact these projections, which may impact the recoverable amount of assets and/or CGUs. In such circumstances, some or all of the carrying amount of the assets/CGUs may be further impaired or the impairment charge reduced with the impact recognised in the statement of profit or loss and other comprehensive income.

*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 by using the Black Scholes. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in, as discussed in note 26.

*Rehabilitation provision*

The Group makes full provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis at the time of developing the mines and installing and using those facilities.

The rehabilitation provision represents the present value of rehabilitation costs relating to mine sites, which are expected to be incurred up to 2030, which is when the producing mine properties are expected to cease operations. These provisions have been created based on the Group's internal estimates. Assumptions based on the current economic environment have been made, which management believes are a reasonable basis upon which to estimate the future liability.

These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual rehabilitation costs will ultimately depend upon future market prices for the necessary rehabilitation works required that will reflect market conditions at the relevant time. Furthermore, the timing of rehabilitation is likely to depend on when the mines cease to produce at economically viable rates. This, in turn, will depend upon future gold and copper prices, which are inherently uncertain.

**(x) Fair Value**

The Group measures financial instruments, such as available for sale assets and derivatives, at fair value at each reporting date. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or CGU at fair value less costs of disposal. Also, fair values of financial instruments measured at amortised cost are disclosed in Note 28.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

## 3. SEGMENT INFORMATION

For management purposes, the Group is organised into one main operating segment, which involves mineral project development for copper and gold. All of the Group's activities are interrelated, and discrete financial information is reported to the Board (Chief Operating Decision Makers) as a single segment.

Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole. Total revenue earned by the Group is generated in Australia and relates to interest income and all of the Group's non-current assets reside in Brazil.

## 4. OTHER EXPENSES

| | Consolidated | |
|---|---|---|
| | **12 months ended 31 December 2015 A$000** | **6 months ended 31 December 2014 A$000** |
| Accounting and audit fees | (201) | (81) |
| Bank fees | (195) | (92) |
| Computer and website expenses | (20) | (6) |
| Courier | (3) | (3) |
| Insurance | (62) | (19) |
| Printing and stationary | (20) | (16) |
| Subscriptions | (12) | (3) |
| Communications | (21) | (16) |
| Conferences and seminars | (15) | (7) |
| Depreciation | (64) | (23) |
| Other | (189) | (50) |
| **Total other expenses** | **(802)** | **(316)** |

## 5. INCOME TAX EXPENSE

| | Consolidated | |
|---|---|---|
| | 12 months ended 31 December 2015 A$000 | 6 months ended 31 December 2014 A$000 |
| **(a) Income tax expense** | | |
| Major component of tax expense for the period: | | |
| Current tax | - | - |
| Deferred tax | - | - |
| | **-** | **-** |
| **(b) Numerical reconciliation between aggregate tax expense recognised in the statement of comprehensive income and tax expense calculated per the statutory income tax rate.** | | |
| A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable tax rate is as follows: | | |
| Profit/(loss) from continuing operations before income tax expense | 1,706 | (2,939) |
| Tax at the Australian rate of 30% | 512 | (881) |
| Expense of remuneration options | 94 | 98 |
| Entertainment | 1 | 1 |
| Impairment of investments | 9 | - |
| Exploration costs | - | 605 |
| Income tax expense/(benefit) not brought to account | (616) | 177 |
| Income tax expense | **-** | **-** |
| **Deferred tax** | | |
| The following deferred tax balances have not been brought to account: | | |
| *Liabilities* | | |
| Capitalised exploration and evaluation expenditure | 10,687 | 8,916 |
| Offset by deferred tax assets | (10,687) | (8,916) |
| **Deferred tax liability recognised** | **-** | **-** |
| Losses available to offset against future taxable income | 12,246 | 14,864 |
| Share issue costs deductible over five years | 948 | 424 |
| Accrued expenses | 3,300 | 14 |
| Deferred tax assets offset against deferred tax liabilities | (10,687) | (8,916) |
| Deferred tax assets not brought to account as realisation is not regarded as probable | (5,807) | (6,386) |
| **Deferred tax asset recognised** | **-** | **-** |
| **(d) Unused tax losses** | | |
| Unused tax losses | 19,357 | 21,289 |
| Potential tax benefit not recognised at 30% | **5,807** | **6,386** |

The benefit for tax losses will only be obtained if:

(i) the Group derives future assessable income in Australia of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and

(ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation in Australia; and

(iii) no changes in tax legislation in Australia, adversely affect the Group in realising the benefit from the deductions for the losses.

## 6. CASH AND CASH EQUIVALENTS

**Reconciliation of Cash and Cash Equivalents**

| | Consolidated | |
|---|---|---|
| | **31 December 2015 A$000** | **31 December 2014 A$000** |
| Cash comprises of: | | |
| Cash at bank | 35,147 | 10,805 |
| Short term deposits | 8,299 | 9,000 |
| Cash at bank | **43,446** | **19,805** |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

| | Consolidated | |
|---|---|---|
| | **12 months ended 31 December 2015 A$000** | **6 months ended 31 December 2014 A$000** |
| **Reconciliation of operating loss after tax to the cash flows from operations** | | |
| Profit/(loss) from ordinary activities after tax | 1,706 | (2,939) |
| ***Non-cash items*** | | |
| Foreign exchange gain | (4,401) | (134) |
| Share based payment | 314 | 327 |
| Impairment of investments | 30 | - |
| Depreciation charges | 64 | 23 |
| Loss on sale of assets | - | 4 |
| Exploration expenditure written off | - | 2,019 |
| ***Change in assets and liabilities*** | | |
| (Increase)/decrease in trade and other receivables | (482) | 135 |
| Increase/(decrease) in trade and other payables | 483 | (44) |
| **Net cash outflow used in operating activities** | **(2,286)** | **(609)** |

## 7. TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| **Current asset** | | |
| Trade receivables[(a)] | 790 | - |
| Prepayments | 178 | 47 |
| GST receivable | 46 | 43 |
| Security bond | 29 | 29 |
| Accrued interest | - | 46 |
| | **1,043** | **165** |
| **Non-current asset** | | |
| Recoverable taxes[(b)] | 1,600 | - |
| | **1,600** | **-** |

a) Trade receivables mainly include a pre-sale spot contract of 500 Wet Metric Tonnes (WMT) of Copper in Concentrate to be delivered during 2016 (See note 14).

b) Recoverable taxes mainly relate to Brazilian federal and state taxes arising from the construction stage of the Antas North project.

## 8. INVESTMENTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(f).

| Name of Entity | Country of Incorporation | Status | Equity Holding as at 31 December 2015 | Equity Holding as at 31 December 2014 |
|---|---|---|---|---|
| Avanco Holdings Pty Ltd | Australia | Dormant | 100% | 100% |
| Estrela Metals Ltd | Australia | Dormant | 100% | 100% |
| Estrela de Brasil Mineracão Ltda | Brazil | Active | 100% | 100% |
| AVB Mineração Ltda | Brazil | Active | 100% | 100% |
| Avanco Resources Mineração Ltda | Brazil | Active | 100% | 100% |
| Vale Dourado Mineração Ltda | Brazil | Active | 100% | 100% |
| ARL South America Exploration Ltd | Bermuda | Dormant | 100% | 100% |
| ARL Holdings Ltd | Bermuda | Dormant | 100% | 100% |
| Avanco Luc S.a.r.l. | Luxembourg | Active | 100% | 100% |
| Avanco Lux I S.C.S | Luxembourg | Active | 100% | 100% |

## 9. DEFERRED EXPLORATION AND EVALUATION ASSETS

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| At beginning of the period | 50,282 | 45,189 |
| Exploration expenditure during the period | 19,571 | 8,668 |
| Transferred to Property, plant and equipment[(a)] | (35,960) | - |
| Impairment loss[(b)] | - | (2,019) |
| Net exchange differences on translation | (10,805) | (1,556) |
| **Balance at the period end** | **23,088** | **50,282** |

(a) During the twelve months ended 31 December 2015 the exploration and evaluation costs associated with the Group's Antas project (Stage 1) were reclassified to assets under construction following technical and commercial feasibility completion and financing approval.

(b) The impairment loss relates to the withdrawal from tenements held in Brazil that the Group has made a decision not to continue exploration and wrote down the carrying value to nil.

## 10. PROPERTY, PLANT AND EQUIPMENT

| 31 December 2015 A$000 | Plant & equipment | Computer and software | Furniture, fixtures and fittings | Motor vehicles | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 January 2015 | 176 | 70 | 99 | 60 | 7,696 | 8,101 |
| Additions | 31 | 199 | 81 | - | 36,806 | 37,117 |
| Transferred from exploration and evaluation expenditure (See note 9a) | - | - | - | - | 35,960 | 35,960 |
| Rehabilitation cost (see note 13c) | - | - | - | - | 10,950 | 10,950 |
| Effect of movement in exchange rates | (6) | (12) | (21) | (13) | (4,889) | (4,941) |
| **Balance at 31 December 2015** | **201** | **257** | **159** | **47** | **86,523** | **87,187** |
| **Depreciation** | | | | | | |
| Balance at 1 January 2015 | (117) | (36) | (63) | (13) | - | (229) |
| Depreciation charge for the period | (30) | (16) | (8) | (10) | - | (64) |
| Effect of movement in exchange rates | 1 | 4 | 6 | 3 | - | 14 |
| **Balance at 31 December 2015** | **(146)** | **(48)** | **(65)** | **(20)** | **-** | **(279)** |
| **Net book value at 31 December 2015** | **55** | **209** | **94** | **27** | **86,523** | **86,908** |

**Recoverable amount of assets under construction**

As the Group identified impairment indicators such as decline in copper and gold prices, the Group performed an impairment test on the recoverability of its assets.

The Group is a an emerging copper and gold producer focused on the Carajas region in Brazil currently dedicated to developing its 100%-owned Antas North project, therefore the Group determined the Antas North project the cash generating unit (CGU) for impairment testing purposes. The recoverable amount of the CGU was considered based on fair value less cost to sell (FVLCS). FVLCS was determined as the present value of the estimated real future cash flows expected to arise from the Antas North project using assumptions that an independent market participant may consider. These cash flows were discounted using a real after-tax discount rate that reflected current market assessments of the time value of money and the risks specific to the CGU.

The basis for determination of the recoverable amount was:

- Copper price of US$2.28/lb. and Gold price of US$1,100/oz. – future commodity prices were based on the 2016 consensus views from market participants in the period;
- Copper and Gold production – future copper and gold production was based on the Definite Feasibility Study (DFS) and Group's Life of Mine Plan (LOM);
- Current (LOM) is based only on proven and probable reserves as per DFS;
- Operating and capital cost – these costs were based on management's best estimates at the time of the impairment testing;
- Foreign exchange rates – Brazilian Real to US dollar exchange rates were based on the forward curve and consensus views; and
- Discount rate – a post–tax real discount rate of 10%.

Based on the above review, the Group is of the opinion that no impairment exists for the twelve months ended 31 December 2015.

| **31 December 2014 A$000** | **Plant & equipment** | **Computer and software** | **Furniture, Fixtures and Fittings** | **Motor vehicles** | **Assets under construction** | **Total** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| Balance at 1 July 2014 | 133 | 59 | 87 | 61 | - | 340 |
| Additions | 42 | 7 | 1 | - | 7,570 | 7,620 |
| Net effect of movement in exchange rates | 1 | 4 | 11 | (1) | 126 | 141 |
| **Balance at 31 December 2014** | **176** | **70** | **99** | **60** | **7,696** | **8,101** |
| **Depreciation** | | | | | | |
| Balance at 1 July 2014 | (106) | (31) | (62) | (6) | - | (205) |
| Depreciation charge for the period | (11) | (5) | (1) | (7) | - | (24) |
| **Balance at 31 December 2014** | **(117)** | **(36)** | **(63)** | **(13)** | **-** | **(229)** |
| **Net book value at 31 December 2014** | **59** | **34** | **36** | **47** | **7,696** | **7,872** |

## 11. TRADE AND OTHER PAYABLES

| | **Consolidated** | |
|---|---|---|
| | **31 December 2015 A$000** | **31 December 2014 A$000** |
| Trade payables | 4,767 | 1,244 |
| Other payables and accrued expenses | 1,752 | 2,225 |
| | **6,519** | **3,469** |

Other payables and accrued expenses as at 31 December 2015 mainly comprise Brazilian federal taxes and social security obligations.

Trade creditors and accruals are non-interest bearing and generally payable on 60 day terms. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

## 12. FINANCIAL LIABILITIES

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| Royalty agreements current | 2,675 | - |
| Royalty agreements non-current | 8,287 | - |
| | **10,962** | |

During the 2014 year the Group executed a binding agreement with BlackRock World Mining Trust PLC (BlackRock) for up to US$12 million (A$16.44 million) non-dilutive production royalty investment subject to satisfying certain conditions precedent and in return for Net Smelter Return (NSR) royalty payments comprising 2% on copper, 25% on gold and 2% on all other metals that will be produced from Stage 1 (Antas North) and Stage 2 (Pedra Branca) and reduced proportionally on the basis of the actual amount of the funding being received by the Group.

During July 2015, the Group satisfied all conditions precedent associated with the agreement. This triggered the prorated construction expenditure payments of US$4 million (A$5.48 million) in July 2015 and US$4 million (A$5.71 million) in November 2015, with the balance payable in one further tranche upon completion of construction. The effective interest rate for the BlackRock royalty agreement is 21%. The subsequent fair value measurement of the royalty is dependent on commodity prices and production assumptions.

## 13. PROVISIONS

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| **Current liability** | | |
| Provision for land access payments[(a)] | 3,129 | **-** |
| Provision for royalty payment[(b)] | 1,352 | **-** |
| | **4,481** | **-** |
| **Non-current liability** | | |
| Provision for rehabilitation[(c)] | 10,950 | - |
| | **10,950** | **-** |

a) During January 2015 the Group entered into an agreement with the land owners of the Rio Verde property where the Antas North project is located. The agreement requires the Group to pay certain fixed amounts adjusted by annual Brazilian inflation upon the Group achieving its first despatch of copper from the Project.

b) In 1993 Britagem E Laminacao de Rochas SA ("Brilasa"), an industrial minerals firm, registered the Rio Verde property with the National Department of Mineral Production (DNPM). On 3 November 2005 Apoquindo Minerals Inc ("Apoquindo") entered into an agreement with Brilasa in which Brilasa granted Apoquindo a 100% interest in the Rio Verde project. In October 2007 the Group purchased Apoquindo and consequently 100% of the Rio Verde property and its associated commitments. The agreement specified a royalty payment of 0.7% of the net smelter return from production of gold, copper or other products from the Rio Verde project, payable every four months after deducting duties, taxes, legal contributions, fees, transport expenses and insurance related to the sale of the product. This royalty can be satisfied by the payment of US$1 million (A$1.35 million) to Brilasa at any time.

c) The provision for rehabilitation is an estimate of the value of future costs for dismantling, demobilisation, remediation and ongoing treatment and monitoring of the Antas Project in Brazil. This provision has been created based on the Group's internal estimates which are reviewed over time as the operation develops. The unwinding of the effect of discounting on the provision is recognised as a finance cost. In addition, the rehabilitation obligation has been recognised as an asset and will be amortised over the life of the mine upon reaching commercial production. During the twelve months ended 31 December 2015 the Company recognised a provision for rehabilitation of A$10.95 million (31 December 2014: Nil).

### 14. DEFERRED REVENUE

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| Unearned revenue | 790 | - |
| | **790** | **-** |

During December 2015 the Company entered into an agreement (Pre-sale agreement) with an external party to sell 500 Wet Metric Tonnes (WMT) of Copper in Concentrate at the spot rate prevailing at the date of the transaction less any attributable refining charges. The Group expects to deliver the copper during 2016.

### 15. ISSUED CAPITAL

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| **Issued and paid up capital** | | |
| Issued and fully paid | **148,001** | **86,861** |

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| | No. | A$000 | No. | A$000 |
| **Movements in issued capital** | | | | |
| Opening balance | 1,661,675,855 | 86,861 | 1,113,993,968 | 48,135 |
| Shares issued during the period | 795,230,588[(a)] | 63,618 | 547,681,887[(b)] | 41,076 |
| Transaction costs on share issue | - | (2,478) | - | (2,350) |
| Closing balance | **2,456,906,443** | **148,001** | **1,661,675,855** | **86,861** |

a) On 24 June 2015, the Group finalised a A$63.62 million financing comprising of a 15% Placement followed by an Entitlements Issue for a further A$19.94 million and A$43.68 million respectively at an issue price of $0.08 per share.

b) During 2014 the Company completed placements totalling A$41.1 million at $0.075 per share.

**Ordinary shares**

The Group does not have authorised capital nor par value in respect of its issued capital. Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Group, to participate in the proceeds from 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 proxy, at a meeting of the Group.

**Capital risk management**

The Group's capital comprises share capital, reserves less accumulated losses amounting to $122.38 million at 31 December 2015 (31 December 2014: $74.69 million). The Group manages its capital to ensure its ability to continue as a going concern and to optimise returns to its shareholders. The Group was ungeared at period end and not subject to any externally imposed capital requirements. Refer to note 24 for further information on the Group's financial risk management policies.

**Share options**

At 31 December 2015, there were 152,550,000 unissued ordinary shares under options (31 December 2014: 87,550,000 options). The details of the options are as follows:

| Number | Exercise price | Expiry date |
|---|---|---|
| 140,000,000 | $0.10 | 30 June 2018 |
| 12,550,000 | $0.15 | 31 December 2016 |
| **152,550,000** | | |

No option holder has any right under the options to participate in any other share issue of the Group or any other entity.

Information relating to the Avanco Resources Limited Employee Share Option Plan, including details of options issued under the plan, is set out in note 26.

## 16. RESERVES

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| Share based payment reserve | 6,220 | 5,906 |
| Option reserves | 549 | 549 |
| Foreign currency translation reserve | (19,813) | (4,351) |
| | **(13,044)** | **2,104** |
| **Movements in Reserves** | | |
| *Share based payment reserve* | | |
| At beginning of the period | 5,906 | 5,579 |
| Share based payment expense | 750 | 327 |
| Options lapsed | (436) | - |
| At end of period | **6,220** | **5,906** |
| *Option reserves* | | |
| At beginning of the period | 549 | 549 |
| Options issued | - | - |
| Options exercised | - | - |
| At end of period | **549** | **549** |
| *Foreign currency translation reserve* | | |
| At beginning of the period | (4,351) | (2,795) |
| Foreign currency translation | (15,462) | (1,556) |
| At end of period | **(19,813)** | **(4,351)** |

The share based payment reserve is used to record the value of equity benefits provided to directors, executives and employees as part of their remuneration and non-employees for their services. During the period ended 31 December 2015, the conditions attached to 75,000,000 options expiring on 31 December 2015 were not met and lapsed without vesting. As a result, the expense recognised in prior years was reversed. Refer to note 26 for further details of the movement of options during the period.

The option reserves are used to record the premium paid on the issue of listed options on 30 April 2008, which expired on 30 June 2010, less any of those options exercised.

The Foreign Exchange differences arising on translation of the foreign operations are taken to the foreign currency translation reserve, refer to note 2(g). The reserve is recognised in profit and loss when the net investment is disposed of.

### 17. ACCUMULATED LOSSES

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| Movements in accumulated losses were as follows: | | |
| At beginning of the period | (14,280) | (11,341) |
| Profit/(loss) for the period | 1,706 | (2,939) |
| **At end of period** | **(12,574)** | **(14,280)** |

### 18. CAPITAL AND OTHER COMMITMENTS

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| **Operating lease commitments – Group as lessee[(a)]** | | |
| *Non-cancellable operating lease rentals:* | | |
| Within one year | 262 | 66 |
| One year or later and no later than five years | 113 | 44 |
| | **375** | **110** |
| **Contractual, capital and other commitments[(b)]** | | |
| *Contracted but not provided for and payable:* | | |
| Within one year | 5,020 | 5,818 |
| One year or later and no later than five years | 1,317 | - |
| | **6,337** | **5,818** |

a) **Operating lease commitments**

The Group has entered into leases for offices, buildings, motor vehicles and various items of plant and machinery. These leases have an average life of 1.5 years (2014: 2 years) with renewal terms at the option of the lessee whereby they can extend at lease terms based on market prices at the time of renewal. There are no restrictions placed upon the lessee by entering into these leases.

b) **Contractual, capital and other commitments**

The Group entered into contracts for civil works, dam construction and supply of materials, services and steel works for the construction of the Stage 1 Antas North Project.

### 19. AUDITORS REMUNERATION

| | Consolidated | |
|---|---|---|
| | 31 December 2015 A$ | 31 December 2014 A$ |
| The auditor of Avanco Resources Limited is Ernst & Young (Australia) | | |
| Amounts received or due and receivable by Ernst & Young (Australia) for: | - | - |
| - an audit or review of the financial report of the entity and any other entity in the Consolidated group | 42,000 | 32,500 |
| - tax advice in relation to the entity and any other entity in the consolidated group | - | - |
| | **42,000** | **32,500** |

## 20. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Details of Key Management Personnel

| | |
|---|---|
| C. Jones | Non-Executive Chairman |
| A. Polglase | Managing Director |
| S. Funston | Executive Director |
| S. Mottram | Executive Director |
| W. Phillips | Executive Director |
| L. Azevedo | Executive Director |
| V. Tidy | Non-Executive Director |
| M. Wood | Non-Executive Director (resigned 22 September 2014) |

### (b) Remuneration of Key Management Personnel

Details of the nature and amount of each element of the emolument of each Director and Executive of the Group for the period are as follows:

| | 12 months ended 31 December 2015 A$ | 6 months ended 31 December 2014 A$ |
|---|---|---|
| Short term employee benefits | 1,768,350 | 939,972 |
| Post-employment benefits | - | - |
| Share based payments | (228,417) | - |
| **Total remuneration** | **1,539,933** | **939,972** |

As at 31 December 2015, there were 140,000,000 share options (31 December 2014: 75,000,000) held by key management personnel to purchase ordinary shares. Refer to the Remuneration Report on section 19.7.

## 21. EVENTS SUBSEQUENT TO BALANCE DATE

On 23 March 2016 the Company received the final US$4 million tranche in satisfaction of the completion of construction condition associated with the US$12 million BlackRock Royalty Agreement.

## 22. RELATED PARTY DISCLOSURES

For Director related party transactions please refer to the Remuneration Report on page 13.

Kernow Mining Consultants Pty Ltd, a company of which Mr. Polglase is a Director, charged the Group consulting fees for the twelve months ended 31 December 2015 A$425,000 (six months ended 31 December 2014: A$204,167). As at 31 December 2015 there was an amount outstanding of A$Nil (30 June 2014: A$29,167).

During the twelve months ended 31 December 2015 Resourceful International Consulting Pty Ltd, a company of which Mr. Funston is a Director, invoiced the Group A$268,750 (six months ended 31 December 2014: A$119,063) for director's fees, corporate, consulting, accounting and associated services. As at 31 December 2015 there was an amount outstanding of A$28,334 (31 December 2014: A$18,187).

JENS Dominion Pty Ltd, a company of which Mr. Mottram is a Director, charged the Group director's and consulting fees for the twelve months ended 31 December 2015 A$325,000 (six months ended 31 December 2014: A$175,000). As at 31 December 2015 there was an amount outstanding of A$29,166 (31 December 2014: A$25,000).

CI Jones C Eng., a company of which Mr. Jones is a Director, charged the Group Director's and consulting fees for the twelve months ended 31 December 2015 A$160,000 (six months ended 31 December 2014: A$87,209). As at 31 December 2015 there was an amount outstanding of A$24,186 (31 December 2014: A$14,803).

FFA Legal Ltda, a company in which Mr. Azevedo is a Director and shareholder, provided the Group with a serviced office, legal, administrative and accounting services in Brazil for the twelve months ended 31 December 2015 A$477,063 (six months ended 31 December 2014: A$109,779). As at 31 December 2015 there was an amount outstanding of A$162,135 (31 December 2014: Nil).

The Warra Dream Trust of which Mr. Vern Tidy is a trustee, charged the Group Director's fees for the twelve months ended 31 December 2015 A$40,000 (six months ended 31 December 2014: Nil). As at 31 December 2015 there was an amount outstanding of A$15,000 (31 December 2014: Nil).

These transactions have been entered into on normal commercial terms.

## 23. PROFIT/(LOSS) PER SHARE

**Basic and diluted losses per share**

The calculation of basic profit per share of A$0.08 for the twelve months ended 31 December 2015 (six months 31 December 2014: A$0.018 loss per share) was based on the profit attributable to ordinary shareholders of A$1.71 million (31 December 2014: A$2.94 million loss) and a weighted-average number of ordinary shares outstanding during the financial year ended 31 December 2015 of 2,077,810,217 (31 December 2014: 1,661,675,855) calculated as follows:

| | **Basic profit/(loss) per share** | | **Diluted profit/(loss)loss per share** | |
|---|---|---|---|---|
| | **12 months ended 31 December 2015** | **6 months ended 31 December 2014** | **12 months ended 31 December 2015** | **6 months ended 31 December 2014** |
| Profit/(loss) attributable to ordinary shareholders (A$000) | 1,706 | (2,939) | 1,706 | (2,939) |
| Issued ordinary shares at start of the period | 1,661,675,855 | 1,113,993,968 | 1,661,675,855 | 1,113,993,968 |
| Effect of issue of shares | 416,134,362 | 547,681,887 | 416,134,362 | 547,681,887 |
| Weighted average number of shares | **2,077,810,217** | 1,661,675,855 | **2,077,810,217** | 1,661,675,855 |
| **Profit/(loss) per share in A$ cents per share** | **0.08** | **(0.180)** | **0.08** | **(0.180)** |

For fully diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of dilutive potential ordinary shares. The Group's potentially dilutive securities consist of share options. As the options are out of the money, none of the potentially dilutive securities are currently dilutive

There is no impact from 152,550,000 options outstanding at 31 December 2015 (31 December 2014: 87,550,000 options) on the profit per share calculation because they are anti-dilutive. These options could potentially dilute basic EPS in the future. There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

## 24. FINANCIAL RISK MANAGEMENT

The Group has exposure to interest rate, liquidity risk, market risk and credit risk arising in the normal course of the Group's business.

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all of its financial commitments and maintain the capacity to fund the construction, operation and exploration activities. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks.

Market, liquidity and credit risks (including foreign exchange, commodity price, interest rate and counterparty risk) arise in the normal course of business. These risks are managed under Board approved treasury processes and transactions.
The principal financial instruments as at the reporting date include receivables, payables, royalty agreements and cash.
This note presents information about exposures to the above risks, the objectives, policies and processes for measuring and managing risk, and the management of capital. The objective is to support the delivery of the financial targets while protecting future financial security.

**(a) Liquidity Risk**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.The Group manages liquidity risk by maintaining sufficient cash facilities to meet the operating requirements of the business and investing excess funds in highly liquid short term investments. The responsibility for liquidity risk management rests with the Board of Directors.

The Group prepares detailed models as part of its process of budget planning, which are used to predict liquidity needs and to support the Group's funding activities. The construction, operation and evaluation of the phases 1 and 2 of the project are measured on a regular basis so as to determine the cash spent to date and the forecast cash requirement. Liquidity risk is managed by monitoring the actual and forecast cash flows for the Group, including capital expenditure, operational costs, and working capital requirements.

At 31 December 2015 the Group had cash of A$43.45 million and net current assets of A$30.02 million. Current liabilities of A$14.47 million include trade payable obligations and provisions for the construction of the Antas North project and exploration of Phase 2 and Royalty payments. During the year the Group completed a financing package of A$80.06 million to fund the commercial development of the Project comprising A$63.62 million equity raising and A$16.44 million (US$12 million) BlackRock Royalty Agreement of which A$10.96 million (US$8 million) have been drawndown and a further $5.48 million (US$4 million) will be available to be drawn upon completion of construction.

Alternatives for sourcing future capital needs include the issue of equity instruments. These alternatives are evaluated to determine the optimal mix of capital resources for capital needs. The Group expect that, absent a material adverse change in a combination of sources of liquidity, present levels of liquidity along with future positive cashflows arising from the Antas North operation and a combination of capital raising or debt will be adequate to meet the Group's expected capital needs.

*Maturity analysis for financial liabilities*

The following are the contractual maturities of financial liabilities, including estimated royalty payments at period end:

| 31 December 2015<br>A$000 | Carrying Amount | Contractual cash outflows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 6,519 | 6,519 | 6,519 | - | - | - | - |
| Royalty Agreements | 10,962 | 22,110[(a)] | 986 | 1,665 | 5,969 | 9,699 | 3,791 |
| | **17,481** | **30,031** | **7,505** | **1,665** | **5,969** | **9,699** | **3,791** |

[(a)]This relates to estimate undiscounted future cash outflows

| 31 December 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|
| A$000 | Carrying Amount | Contractual cash outflows | 6 months or less | 6-12 months | 1-2 years | 2-5 years | More than 5 years |
| **Financial liabilities** | | | | | | | |
| Trade and other payables | 3,469 | 3,469 | 3,469 | - | - | - | - |
| | **3,469** | **3,469** | **3,469** | **-** | **-** | **-** | **-** |

**(b) Interest Rate Risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Group's exposure to market risk for changes to interest rate risk relates primarily to its earnings on cash and term deposits. The Group manages the risk by investing in short term deposits.

| | | Consolidated | |
|---|---|---|---|
| | Note | 31 December 2015 A$000 | 31 December 2014 A$000 |
| Cash and cash equivalents | 6 | 43,446 | 19,805 |

***Interest rate sensitivity***

The following table demonstrates the sensitivity of the Group's profit and loss to a reasonably possible change in interest rates, with all other variables constant.

| Judgements of reasonably possible movements | Effect on Post Tax Earnings Increase/(Decrease) | |
|---|---|---|
| | 12 months ended 31 December 2015 A$000 | 6 months ended 31 December 2014 A$000 |
| Increase 100 basis points | 434 | 198 |
| Decrease 100 basis points | (434) | (198) |

A sensitivity of 100 basis points has been used as this is considered reasonable given the current level of both short term and long term Australian Dollar interest rates. The change in basis points is derived from a review of historical movements and management's judgement of future trends. The analysis was performed on the same basis in 2015.

**(c) Credit Risk Exposures**

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Group to incur a financial loss. The Group's maximum credit exposure is the carrying amounts on the statement of financial position. The Group holds financial instruments with credit worthy third parties.

***Exposure to credit risk***

The carrying amount of the Group's financial assets represents the maximum credit exposure of the Group. The Group's maximum exposure to credit risk at the reporting date was:

**Carrying Amount**

| | | Consolidated | |
|---|---|---|---|
| | Note | 31 December 2015 A$000 | 31 December 2014 A$000 |
| Trade and other receivables (excludes recoverable taxes) | 7 | 1,043 | 165 |
| Cash and cash equivalents | 6 | 43,446 | 19,805 |

The Group's significant concentration of credit risk is in relation to held cash at bank were held with financial institutions with a rating from Standard & Poors of AA or above (long term). The Group has no past due or impaired debtors as at 31 December 2015 (31 December 2014: Nil).

**(d) Market risk**

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange and interest rates will affect the Group's income or the value of its holdings of financial instruments. Market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return.

The Group is exposed to fluctuations in metal prices (principally copper and gold), fluctuations in foreign currency and interest rates, in each case in relation to its future operational cash flows and its ability to service existing and planned funding for the Project. The market prices for these commodities fluctuate widely. These fluctuations are caused by numerous factors beyond the Company's control. Such as: speculative positions taken by investors or copper and gold traders, changes in the demand and supply, actual or expected metal sales by central banks and The International Monetary Fund (IMF), global or regional economical events. A sustained period of significant copper and gold price volatility may adversely affect the Group's ability to evaluate the feasibility of undertaking new capital projects or continuing existing operations or to make other long-term strategic decisions.

The Group is constantly monitoring commodity prices and foreign exchange movements and may or may not utilise hedge contracts in the future to manage exposures to fluctuations in the price of commodities and exchange rates. The Group had no hedge position at or since the year end (31 December 2014: Nil).

***Exposure to currency risk***

The Group's exposure to foreign currency risk at the reporting date was as follows, based on notional amounts:

| **31 December 2015** | | | | | | |
|---|---|---|---|---|---|---|
| **Foreign Currency** | | **USD** | **BRL** | **AUD** | **EUR** | |
| **AUD equivalent** | *Note* | **A$000** | **A$000** | **A$000** | **A$000** | **Total** |
| Cash and cash equivalents | *6* | 28,978 | 11,099 | 3,365 | 4 | 43,446 |
| Trade and other receivables | *7* | 790 | 1,777 | 76 | - | 2,643 |
| Trade and other payables | *11* | - | (5,955) | (562) | (2) | (6,519) |
| Financial liabilities | *12* | (10,962) | - | - | - | (10,962) |
| **Balance sheet exposure** | | **18,806** | **6,921** | **2,879** | **2** | **28,608** |

| **31 December 2014** | | | | | | |
|---|---|---|---|---|---|---|
| **Foreign Currency** | | **USD** | **BRL** | **AUD** | **EUR** | |
| **AUD equivalent** | *Note* | **A$000** | **A$000** | **A$000** | **A$000** | **Total** |
| Cash and cash equivalents | *6* | 1,839 | 2,674 | 15,268 | 24 | 19,805 |
| Trade and other receivables | *7* | - | 46 | 119 | - | 165 |
| Trade and other payables | *11* | - | (3,211) | (258) | - | (3,469) |
| **Balance sheet exposure** | | **1,839** | **(491)** | **15,129** | **24** | **16,501** |

The following significant exchange rates (A$1.00) applied during the period:

| | **Average rate** | | **Year-end date spot rate** | |
|---|---|---|---|---|
| | **12 months ended 31 December 2015** | **6 months ended 31 December 2014** | **31 December 2015** | **31 December 2014** |
| USD | 0.7526 | 0.8905 | 0.7298 | 0.8156 |
| BRL | 2.4887 | 2.1332 | 2.8800 | 2.1862 |
| EUR | 0.6779 | 0.6914 | 0.6691 | 0.6710 |

***Sensitivity analysis***

A 10 per cent strengthening of the Australian dollar against the following currencies at 31 December would have increased/(decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the six months ended 31 December 2014.

The following table shows the increase/(decrease) in profit or loss:

| | Profit or loss | |
|---|---|---|
| | **12 months ended 31 December 2015 A$000** | **6 months ended 31 December 2014 A$000** |
| USD | (1,710) | 184 |
| BRL | (629) | 45 |
| EUR | - | (2) |

A 10 per cent weakening of the Australian dollar against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## 25. CONTINGENT LIABILITIES

During the year the Company received a writ from Bell Potter Securities Limited claiming a fee of $545,455 in relation to funds received by the Group pursuant to the BlackRock Royalty. The Company denies it is obliged to pay the fee and has lodged a defence accordingly. Subsequent to the reporting date the Company applied to have the writ dismissed on the basis that the Bell Potter claim has no real prospect of success. The dispute currently remains unresolved. No provision has been recognised by the Group in relation to the matter.

There are no other known contingent liabilities.

## 26. SHARE BASED PAYMENT PLAN

**Recognised share based payment transactions**

Share based payment transactions recognised as operating expenses in the statement of comprehensive income during the period were as follows:

| | **12 months ended 31 December 2015 A$000** | **6 months ended 31 December 2014 A$000** |
|---|---|---|
| *Operating expenses* | | |
| Employee share based payment | 314 | 327 |

***Employee share based payment plan***

The Group has established an employee share option plan (ESOP). The objective of the ESOP is to assist in the recruitment, reward, retention and motivation of employees of Avanco Resources Limited. Under the ESOP, the Directors may invite individuals acting in a manner similar to employees to participate in the ESOP and receive options. An individual may receive the options or nominate a relative or associate to receive the options. The plan is open to directors, executive officers, nominated consultants and employees of Avanco Resources Limited.

The fair value at grant date of options granted during the reporting period was determined using the Black Scholes option pricing model that takes into account the exercise price, the expected life of the options, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option. The table below summaries options granted under ESOP:

| Grant Date | Expiry date | Exercise price | Balance at 31 December 2014 Number | Granted Number | Exercised Number | Expired / Forfeited Number | Balance at 31 December 2015 Number | Exercisable at 31 December 2015 Number |
|---|---|---|---|---|---|---|---|---|
| 26 June 2015 | 30 June 2018 | A$0.10 | - | 140,000,000 | - | - | 140,000,000 | - |
| 30 July 2014 | 31 December 2016 | A$0.15 | 12,550,000 | - | - | - | 12,550,000 | - |
| 29 November | 31 December 2015 | A$0.12 | 75,000,000 | - | - | (75,000,000) | - | - |
| | | | **87,550,000** | **140,000,000** | **-** | **(75,000,000)** | **152,550,000** | **-** |
| Weighted remaining contractual life (years) | | | - | 2.5 | - | - | 2.38 | - |
| Weighted average exercise price | | | A$0.17 | A$0.10 | - | A$0.12 | A$0.10 | - |

The inputs on the Black Scholes model for options expensed during the twelve months ended 31 December 2015 and the six months ended 31 December 2014 included:

| Model inputs | Options Granted 26 June 2015 | Options Granted 30 July 2014 | Options Granted 29 November 2013 |
|---|---|---|---|
| Share price at grant date | A$0.069 | A$0.098 | A$0.064 |
| Exercise price | A$.10 | A$0.15 | A$0.12 |
| Expected life of the option | 3 years | 2 years and 5 months | 2 years and 1 month |
| Expected Volatility | 57% | 80% | 58% |
| Expected dividend yield | Nil | Nil | Nil |
| Risk-free interest rate | 2.58% | 2.53% | 2.66% |
| **Fair value per option** | **A$0.0200** | **A$0.0363** | **A$0.0098** |

***Performance Rights***

On 26 June 2015, on the Annual General Meeting (AGM), shareholders approved the adoption of the Group’s Performance Rights Plan (‘the Plan”).

The objective of the Plan is to provide the Group with a remuneration mechanism, through the issue of securities in the capital of the Company, to motivate and reward the performance of Directors and employees in achieving specified performance milestones within a specified performance period. The Board will ensure that the performance milestones pursuant to the Plan are aligned with the successful growth of the Company’s business activities.

As at 31 December 2015 (31 December 2014: Nil) no performance rights have been granted to participants under the Plan.

## 27. DIVIDENDS

No dividend was paid or declared by the Group in the period since the end of the period and up to the date of this report. The Directors do not recommend that any amount be paid by way of dividend for the financial years ended 31 December 2015 or 31 December 2014.

The balance of the franking account is Nil as at 31 December 2015 (31 December 2014: Nil).

## 28. FAIR VALUE ESTIMATION

The Group measures financial instruments, such as available for sale assets and derivatives, at fair value at each reporting date. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or CGU at fair value less costs of disposal. Also, fair values of financial instruments measured at amortised cost.

Management assessed that the fair values of cash and cash equivalents, trade receivables, trade and other payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments during the twelve months ended 31 December 2015 and the six months ended 31 December 2014.

The fair value of the financial liabilities approximates the carrying value of the liability due to the royalty agreement was initiated close to balance date.

## 29. PARENT ENTITY INFORMATION

The following information related to the parent entity, Avanco Resources Limited, at 31 December 2015. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

| | Parent entity | |
|---|---|---|
| | 31 December 2015 A$000 | 31 December 2014 A$000 |
| Current assets | 21,444 | 17,226 |
| Non-current assets | 101,501 | 57,717 |
| **Total Assets** | **122,945** | **74,943** |
| | | |
| Current liabilities | 562 | 258 |
| **Total Liabilities** | **562** | **258** |
| **Net Assets** | **122,383** | **74,685** |
| | | |
| Issued capital | 148,001 | 86,861 |
| Share based payment reserve | 6,220 | 5,906 |
| Option reserves | 549 | 549 |
| Accumulated losses | (32,387) | (18,631) |
| **Total Equity** | **122,383** | **74,685** |
| | | |
| Loss for the period | (13,756) | (4,495) |
| Other comprehensive income for the period | - | - |
| | | |
| **Total comprehensive loss for the period** | **(13,756)** | **(4,495)** |

## Directors' Declaration

In accordance with a resolution of the Directors of Avanco Resources Limited, I state that:

1. In the opinion of the Directors:

   (a) the financial statements and notes of the Group for the twelve month period ended 31 December 2015 are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Group as at 31 December 2015 and of its performance, for the twelve month period ended on that date; and

      (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

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

   (c) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2 (c);

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with sections of 295A of the Corporations Act 2001 for the twelve months ended 31 December 2015.

On behalf of the Board

Anthony Polglase
Managing Director
29 March 2016

Ernst & Young
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# Auditor's independence declaration to the Directors of Avanco Resources Limited

As lead auditor for the audit of Avanco Resources Limited for the year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Avanco Resources Limited and the entities it controlled during the year ended 31 December 2015.

Ernst & Young

G H Meyerowitz
Partner
29 March 2016





GHM:JT:AVANCO:004

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# Independent auditor's report to the members of Avanco Resources Limited

## Report on the financial report

We have audited the accompanying financial report of Avanco Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of 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 end or from time to time during the 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(c), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

## Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards.

Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, 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 controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Opinion

In our opinion:

a. the financial report of Avanco 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 31 December 2015 and of its performance for the year ended on that date

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

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(c).

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 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 Avanco Resources Limited for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
29 March 2016

# ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current at 22 March 2016.

**Substantial Share Holders**

The names of shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 are:

| Shareholder Name | No. of Ordinary Shares | Percentage % |
|---|---|---|
| Appian Natural Resources Fund | 471,775,083 | 19.20 |
| Greenstone Resources Fund | 409,937,578 | 16.69 |
| BlackRock World Mining | 315,977,988 | 12.86 |
| Glencore Plc | 203,099,095 | 8.27 |

**Distribution of Share Holders**

| Ordinary Shares | | |
|---|---|---|
| Range | Number of Holders | Number of Shares |
| 1 - 1,000 | 197 | 19,526 |
| 1,001 - 5,000 | 174 | 687,823 |
| 5,001 - 10,000 | 423 | 3,574,289 |
| 10,001 -100,000 | 2,069 | 92,778,935 |
| 100,001- and over | 1,363 | 2,359,845,470 |
| **Total** | **4,426** | **2,456,906,443** |

There were 189 holders of ordinary shares holding less than a marketable parcel.

**Top Twenty Share Holders**

| Name | Number of Ordinary Shares held | % |
|---|---|---|
| Citicorp Nominees Pty Limited | 471,775,083 | 19.20 |
| Greenstone Avb Holdings Cooperatief UA | 409,937,578 | 16.69 |
| National Nominees Limited | 315,977,988 | 12.86 |
| Ghp 104 160 689 Pty Ltd | 167,099,095 | 6.80 |
| Bnp Paribas Noms Pty Ltd | 37,027,505 | 1.51 |
| Ghp 104 160 689 Pty Ltd | 36,000,000 | 1.47 |
| Nefco Nominees Pty Ltd | 14,576,010 | 0.59 |
| Hsbc Custody Nominees (Australia) Limited | 13,911,139 | 0.57 |
| Keppoch Pty Ltd | 10,150,000 | 0.41 |
| Adziel Pty Ltd | 9,934,728 | 0.40 |
| J P Morgan Nominees Australia Limited | 8,827,708 | 0.36 |
| Tecr Pty Ltd | 8,452,638 | 0.34 |
| R Bradley Barry Krause | 8,375,000 | 0.34 |
| Mr Michael Riley & Ms Alison Meekink | 8,000,195 | 0.33 |
| Vadora Holdings Pty Ltd | 8,000,000 | 0.33 |
| Mr Jessie Xuan Nguyen | 7,719,886 | 0.31 |
| S&B Narula Pty Ltd Narula Family | 7,602,859 | 0.31 |
| Mr Graham Jenkins & Mrs Marianne Jenkins | 7,500,000 | 0.31 |
| Grizzley Holdings Pty Limited | 6,666,666 | 0.27 |
| Mr Cristopher Robert Towan | 6,530,000 | 0.27 |
| **Total Ordinary Shares** | **1,564,064,078** | **63.6** |

**Restricted Securities**
There are no restricted securities.

**On-Market Buy Back**
There is no current on-market buy back.

**Voting Rights**
All ordinary shares carry one vote per share without restriction.

### Interests in Mining Tenements Held

| Project | Property Name | Tenure Title Holder | Interest % | AREA (ha) | DNPM[8] No of Area | Status of Tenure |
|---|---|---|---|---|---|---|
| **STAGE 1** | RIO VERDE | AVB | 100 | 7,290.69 | PL 470 | Mining Concession |
| | RIO VERDE | AVB | 100 | 7,290.69 | 853.714/1993 | Mining Concession |
| | SERRA VERDE | AVB | 100 | 2,391 | 850.622/2007 | # |
| | SERRA VERDE | AVB | 100 | 7,359 | 850.892/2006 | Granted to 2018 |
| | ESTRELA EAST | VDM** | 100 | 4,230 | 850.825/2005 | # |
| | AGUA BOA | VDM | 100 | 1,327 | 850.016/2013 | # |
| | AGUA BOA | ARM | 100 | 8,907 | 850.823/2005 | *** |
| | AGUA BOA | ARM | 100 | 6,552 | 850.121/2009 | Granted to 2016 |
| | AGUA BOA | VDM | 100 | 8,957 | 850.826/2012 | *** |
| **STAGE 2** | PEDRA BRANCA | VDM | 100 | 3,195 | 850.318/2000 | Final Report Approved |
| | PEDRA BRANCA | VDM** | 100 | 9,997 | 850.015/2008 | Granted to 2016 |
| | PEDRA BRANCA | VDM | 100 | 8,881 | 850.570/2003 | Granted to 2016 |
| | PEDRA BRANCA | AVB | 100 | 4,106 | 850.202/2013 | Granted to 2016 |
| | PEDRA BRANCA | VDM | 100 | 9,391 | 850.707/2009 | Granted to 2017 |
| | PEDRA BRANCA | VDM | 100 | 9,879 | 850.526/2004 | Granted to 2017 |
| | PEDRA BRANCA | VDM | 100 | 1,040 | 850.278/2005 | Granted to 2017 |
| | PEDRA BRANCA | EST | 100 | 4,998 | 850.053/2014 | Granted to 2018 |
| | PEDRA BRANCA | VDM | # | 9,859 | 851.067/2007 | Granted to 2018 |
| | PEDRA BRANCA | VDM** | 100 | 240 | 850.217/2000 | Granted to 2018 |
| | PEDRA BRANCA | AVB | # | 5,000 | 851.674/2011 | Granted to 2018 |
| | PEDRA BRANCA | VDM | # | 7,770 | 850.780/2012 | Granted to 2018 |
| | PEDRA BRANCA | VDM | 100 | 9,988 | 850.226/2009 | ^ |
| | PEDRA BRANCA | EST | # | 4,999 | 850.700/2013 | # |
| | PEDRA BRANCA | AVB | # | 598 | 300.420/2011 | # |
| | PEDRA BRANCA | VDM** | # | 4,980 | 850.146/1995 | # |
| | PEDRA BRANCA | VDM** | # | 9,993 | 850.173/2002 | # |
| | PEDRA BRANCA | VDM** | # | 9,755 | 850.181/2001 | # |
| | PEDRA BRANCA | VDM** | # | 10,000 | 850.300/1993 | # |
| | PEDRA BRANCA | EST | # | 1,904 | 851.037/2013 | #*** |
| **Terrativa Carajas Option** | CARAJAS REGIONAL | TM | #@ | 182 | 850.570/2014 | #@ |
| | CARAJAS REGIONAL | TM | #@ | 5,409 | 851797/2013 | #@*** |
| | CARAJAS REGIONAL | TM | #@ | 9,729 | 850288/2014 | Granted to 2018 |
| **Touro Nickel Project** | TRINDADE SOUTH | AVB | # | 9,797 | 850.781/2013 | # |
| | TRINDADE SOUTH | AVB | # | 9,797 | 850.569/2011 | Granted to 2018 |
| **Regional Exploration** | CARAJAS NORTH | VDM | # | 4,347 | 850.015/2013 | #*** |

AVB = AVB Mineração ARM = Avanco Resources Mineração VDM = Vale Dourado Mineração
EST = Estela do Brazil Mineração TM = Terrativa Minerias.S.A.
* Renewable on approval of the Final Exploration Report by the National Department of Mineral Production. Awaiting final decision.
** Expected to be, or awaiting or in the process of being transferred into respective subsidiary
*** Subject to pending legal process
**** Option Agreement
^ Application for an extension of term, awaiting decision
# New application for exploration permit (size of tenement may be reduced/reshaped, if approved and before approval)
@ Part of the Terrativa Option