



ABN 59 009 815 605

ESPERANCE MINERALS LIMITED AND ITS CONTROLLED ENTITIES

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2014

DIRECTORS

Kris Knauer (Executive Chairman)
Jacob Khouri (Non-Executive Director)
Vincent Fayad (Non-Executive Director)

COMPANY SECRETARY

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CHAIRMAN'S LETTER

September 2014

Dear Shareholder

The year ended 30 June 2014 was constrained by the lack of funding available for exploration, following the depletion of funds in the financial year ended 30 June 2013 for the due diligence costs of the Brazilian project. Accordingly, Esperance Minerals Limited ("**Esperance** or "the **Company**") focus has been on preserving the company's existing Kununurra Tenement with a view to recommencing exploration once conditions improve.

Full details of the Kununurra project have been outlined in the Review of Operations, which follow this letter.

The Board has also continued to review and evaluate potential exploration/mining opportunities. However, given the tight market conditions and lack of appetite for funding of exploration projects, no project to date has been assessed as suitably viable for the Company over the long term. As at the date of this report, the tight market conditions remain in place and such conditions are expected to remain in place in the foreseeable future.

Your Directors remain committed to creating shareholders' value and continue to review a number of new projects for your company.

I look forward to meeting with you all at the annual general meeting.



Kris Knauer
Chairman

Dated at Sydney this 30th day of September 2014.

REVIEW OF OPERATIONS AND TENEMENTS

KUNUNURRA PROJECT

The Kununurra (**see Figure 1**) project is covered by granted Exploration License. As at the date of this report this is the sole project of Esperance. This project is prospective for a variety of commodities including iron, gold, silver, lead, copper and zinc.

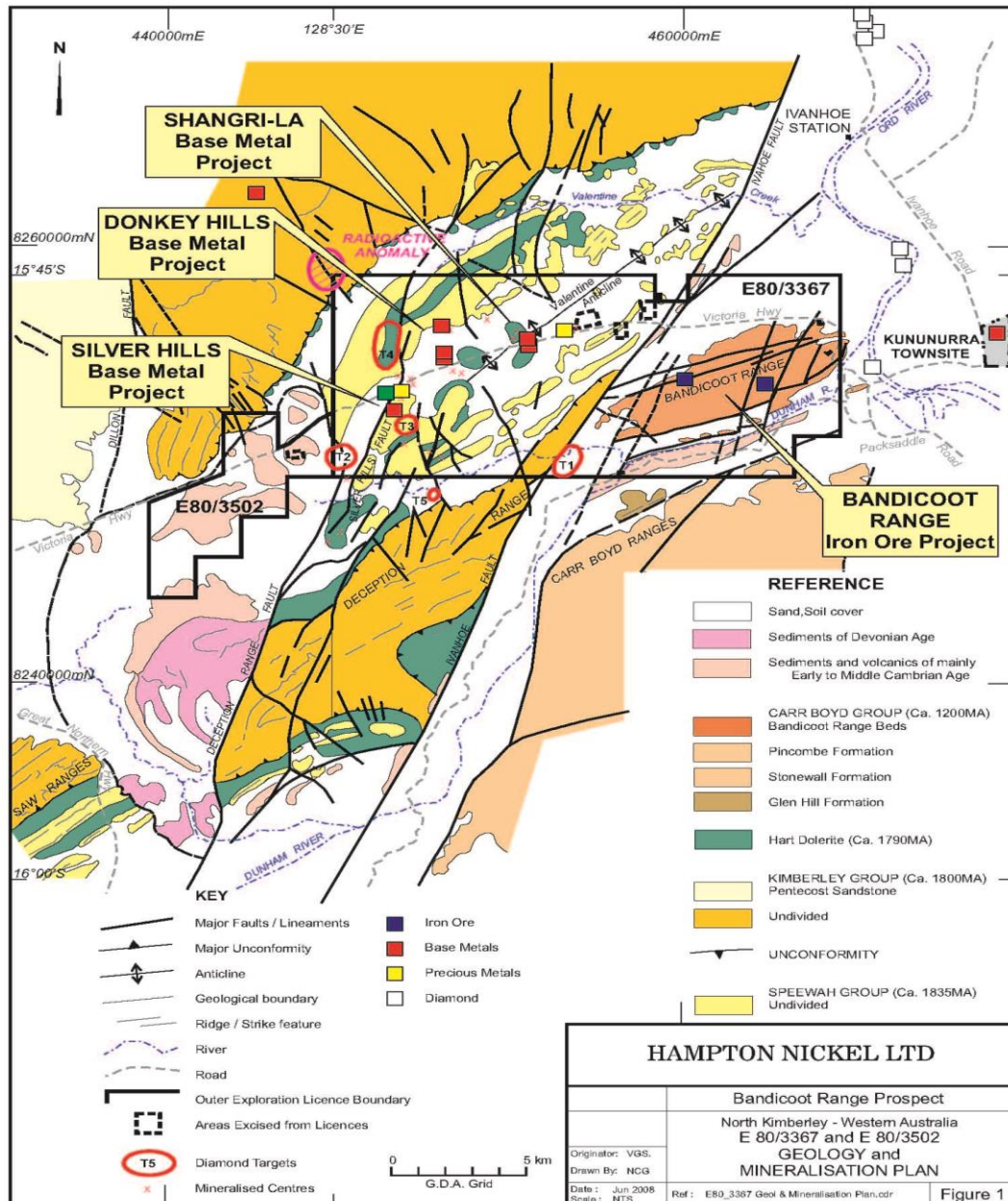


Figure 1: Kununurra project location map

Kununurra Project

The Kununurra base metal project (**see Figure 1**) is prospective for iron, gold, silver, lead, copper and zinc. Kununurra comprises one granted exploration licence E80/3367 which was initially granted for a period of 5 years to 31 March 2013, has been renewed for 2 years to 31 March 2015. The project is only 5Km west of Kununurra. Access is via the Victoria Highway between Kununurra and the port of Wyndham which traverses the project area from east to west.

Known mineralisation within the Kununurra area includes strata-bound iron-rich beds forming from the Bandicoot Range on the east of the tenement. In addition there are several precious and base metal (gold, lead-copper-zinc-silver) occurrences at Donkey Hills, Shangri La South and Silver Hills. The old Shangri La Mine is excised from E80/3367. All known base metal occurrences are hosted by the Hart Dolerite, a large up to 4km thick intrusive body.

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To date only the more accessible areas near the highway have been investigated in some detail, but over 90% of this highly prospective ground is in rugged terrain and has for that reason not been subjected to any detailed exploration. Until this year this prospective ground has never been subjected to modern exploration technologies.

In view of the above, the potential for buried base metal deposits in the project area is thought to be high. A larger ore body or a group of smaller mineralised veins could well be commercially feasible to mine as very high grades have been returned from the known deposits. The Silver Hills area which hosts poly metallic quartz veins over more than 1,500m along a major fault appears to be the most attractive target and detailed investigations are certainly warranted.

Bandicoot Range (see Figure 1)

Bandicoot Range is an isolated hilly range stretching up to 250m above the surrounding flat terrain. Within this area three major ferruginous horizons are recognized with thicknesses varying from 5 to 10m and in addition there are several thinner iron-rich horizons. The central iron-rich horizon can be traced along a strike length in excess of 6km.

Past exploration returned rock samples in excess of 40% iron. However, based on present knowledge there is little potential for an economic deposit largely because of the rugged terrain and the very high overburden to ore stripping ratio.

No modern work, other than rock chip sampling, has been undertaken on Bandicoot and a reassessment of the project is warranted.

Shangri La (see Figure 1)

At Shangri La there are six known en-echelon mineralised quartz veins in Hart Dolerite. The veins can be traced for up to 300m. Some 1,450m of drilling was carried out and mineralisation was reported to have been intersected to a depth of 80m. A maximum drill intercept of 435 g/t gold at a depth of 25m was reported.

Shangri La South (see Figure 1)

At Shangri La South immediately south of the highway several mineralised quartz veins have been opened up by three small open cuts. Analysis results from sampling returned an overall grade of **12.9% lead, 0.8% copper, 145 g/t silver and 3.88 g/t gold**. The vein system appeared to be identical to that at Shangri La. The principal mineral is argentiferous galena with lesser amount of malachite, azurite, pyromorphite and traces of free gold.

Drilling at Shangri La South returned results including;

- KU-10: from 15 to 22m: **7m @ 2.11g/t Au including 3m @ 4.34g/t Au from 15m**
- KU-13: from 26 to 27m: **1m @ 0.63g/t Au**

The two holes KU-10 and KU-13 were collared to test the down dip extent of the subsurface mineralisation hosted by moderately dipping quartz veins. These veins have been partially extracted from two small open pits. Hole KU-10 showed a strongly mineralised zone from 14 to 23m with a best assay of 8.47g/t gold, 31g/t silver, 1.47% lead and 0.2% zinc.

Silver Hills North (see Figure 2)

This prospect comprises a swarm of mineralised quartz veins parallel to the Silver Hills Fault. These auriferous veins can be traced over a distance of more than 1500m. Surface assays from a strongly mineralised gossanous quartz vein returned **8.36 g/t gold, 195 g/t silver and 5% lead**. Clay alteration appears to be associated with this mineralisation. Five trenches were dug and several more samples returned spectacular values for gold (**up to 11.5 g/t**), silver (**maximum 1350 g/t**) and lead (**17%**).

At Silver Hills drilling Esperance has focused on one of two areas of high chargeability (SH2) identified by the IP Survey (Figure 2). This survey outlined an 800m long resistivity high which is open to the north (SH1) and two areas of high chargeability (SH2 and SH3). The SH2 anomaly is encouraging as this area largely coincides with the SH1 resistivity high and strong supporting evidence for mineralisation associated with the SH2 area was located in the field. At SH2 a

REVIEW OF OPERATIONS AND TENEMENTS

number of old trenches were discovered and all ten surface samples collected from trenches returned highly anomalous values of gold, silver, copper, lead and zinc including **7.78g/t gold, 365ppm Ag, 1.94% Cu, 16.57%Pb and 0.38% Zn.**

This shallow mineralisation at Silver Hills is widespread over a large area. It is thought that this gold and base metal mineralisation is associated with a large North-South Fault System, the Silver Hills Fault (Figure 1). The principal aim of this drilling phase was to establish whether this surface mineralisation continues at depth indicating the presence of a larger deeper-seated gold and base metal mineralised system. In addition known surface base metal mineralisation at Shangri La South was drill tested.

Drilling undertaken by Esperance has returned results including

- KU-01 from 26 to 28m: **2m @ 6.23g/t Au incl. 1m @ 11.74g/t Au from 27m**
- KU-03 from 21 to 22m: 1m @ 0.62g/t Au
- KU-03 from 56 to 59m 3m @ 0.63g/t Au

From the drilling conducted at **Silver Hills**, it is now evident that the precious and base metal mineralisation is contained in quartz veining. These veins are most frequently found close to the intrusive contact between mainly sandstones and dolerite. The contact zone often shows strong hematite alteration with visible magnetite and/or arsenopyrite. These sulphides probably explain the presence of a strong IP anomaly.

Donkey Hills South (see Figure 1)

At the Donkey Hill South prospect north of the Highway malachite and galena-bearing quartz veining were discovered in several areas. Despite the paucity of outcrop, this area hosts the largest occurrence of mineralised quartz veins so far found. Limited trenching exposed several narrow mineralised quartz veins which assayed up to **5.95 g/t gold, 1450 g/t silver, 7.4% copper and 4.40% lead.**

General

For a number of reasons, the North Kimberley Region including the Kununurra Project, area remains largely underexplored. Contributing factors include its remoteness and limited accessibility because of the rugged terrain and the presence of dense vegetation in the areas of low relief.

Despite this, the limited exploration undertaken to date has resulted in the discovery of several swarms of strongly mineralised vein systems. This high-grade precious and base metal mineralisation is associated with faulting and the intrusion of one of the largest dolerite sill complexes in the world, the Hart Dolerite (Ruddock, 2003).

REVIEW OF OPERATIONS AND TENEMENTS

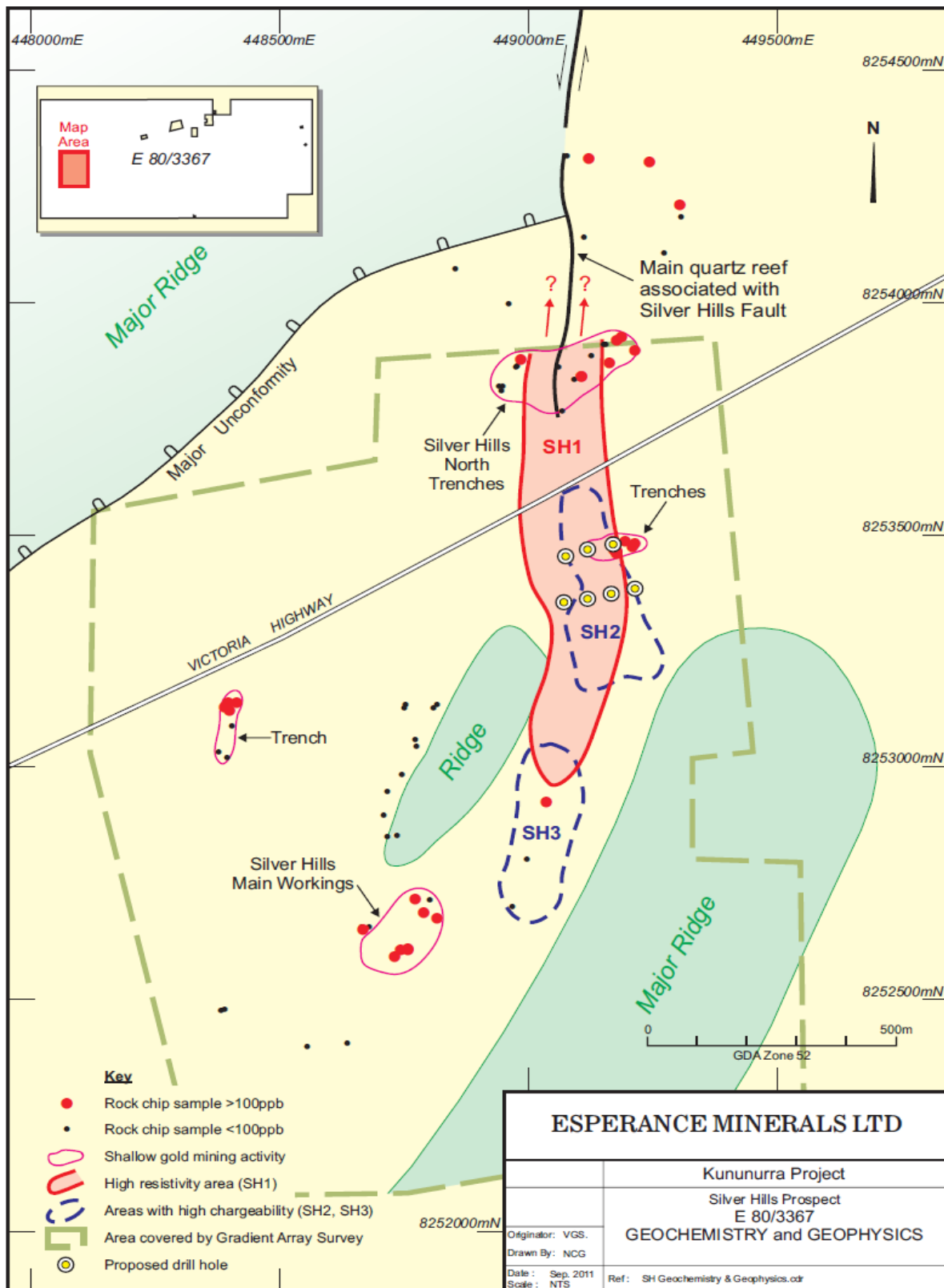


Figure 2: Kununurra Base Metal Project – Silver Hills Prospect

REVIEW OF OPERATIONS AND TENEMENTS

TABLE 1 – Drill hole Locations

Project Area	Hole No	GDA Co-ordinates		Azimuth	Dip	Depth (m)
		Eastings	Northings			
Silver Hills	KU-01	449069	8253349	360	-90	66
Silver Hills	KU-02	449080	8253357	90	-60	114
Silver Hills	KU-03	449165	8253374	360	-90	72
Silver Hills	KU-04	449213	8253384	360	-90	81
Silver Hills	KU-05	449073	8253453	360	-90	60
Silver Hills	KU-06	449125	8253465	360	-90	60
Silver Hills	KU-07	449172	8253484	360	-90	60
Shangri La West	KU-08	453361	8355379	360	-90	60
Shangri La West	KU-09	453411	8255394	360	-90	60
Shangri La South	KU-10	453938	8255462	300	-60	54
Shangri La South	KU-13	453999	8255490	320	-60	68

CORPORATE ACTIVITIES

During the year the Company issued the following convertible notes:

- Series 1 – being notes in connection with the payment of certain due diligence costs associated with the Brazilian project with a face value of \$330,000; and
- Series B – being notes in connection with the ongoing funding of the Company with a face value \$570,000.

Both notes (the combines notes referred to as “**Notes**”) involve various shareholders, including a company that is associated with the Chairman, Mr Kris Knauer.

The Series A note has been drawn down has been used to a refinance unsecured loan with a face value of \$345,000. The Series B note had an upfront payment of \$90,000, which has been received by the Company, with an additional \$100,000 at call component. The \$100,000 can be drawn down at the Company’s election at any time from 30 days from the date of the Note. As at 30 June 2014, the Series B note has been drawn to \$325,000 and \$245,000 remains undrawn.

The key terms of the Notes are as follows:

- conversion price of the lesser of 5 cents per ordinary share, or the 5 day volume weighted average price (“VWAP”) of the Company’s ordinary shares on the ASX immediately prior to the issue of a conversion notice by the Noteholder to the Company;
- the Notes cannot be converted until after 31 August 2014 and then at any time up to the Maturity Date of 31 August 2015;
- for each share issued on conversion, the Noteholder will be issued with 1 free option to subscribe for an additional ordinary share in the Company exercisable on or before 31 August 2018 at an exercise price of 10 cents per Company share (**Options**);
- the Notes will accrue interest at a rate of 8% per annum; and
- the Notes are unsecured.

The funds raised from the Series B note have been used for current working capital exploration at the Company’s Kununurra Project, and the evaluation of potential new projects for the company.

The shareholders not associated with the Notes approved the terms of conversion on the 30th April 2014.

REVIEW OF OPERATIONS AND TENEMENTS



Kris Knauer

Chairman

Dated at Sydney this 30th day of September 2014.

The information in this Report that relates to the Exploration Results of the Company's Kimberley leases is based on information compiled by Frans Voermans who is a Fellow of the Australian Institute of Mining and Metallurgy and an independent consultant. Frans Voermans' services are provided under contract by Voermans Geological Services Pty Ltd, a company in which Frans Voermans has an interest as a Director. Frans Voermans 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 as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Frans Voermans consents to the inclusion in the report of the matters based on their information in the form and context in which it appears.

CORPORATE GOVERNANCE STATEMENT

The Esperance Minerals Limited group (“Esperance”), through its Board and executives, recognises the need to establish and maintain corporate governance policies and practices that reflect the requirements of the market regulators and participants, and the expectations of members and others who deal with Esperance. These policies and practices remain under constant review as the corporate governance environment and good practices evolve.

In August 2007, the ASX updated its corporate governance principles and companies were given a period of time to report against what became 8 principles. This statement outlines the main corporate governance practices of Esperance during the financial year against those new requirements, which are captured now under the heading Corporate Governance Principles and Recommendations, published in August 2007 by the ASX Corporate Governance Council. The third edition of the *Principles and Recommendations* take effect on or after 1 July 2014. This report is based on the current 2nd edition.

ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

The 8 Corporate Governance Principles and Recommendations on how to achieve best practice for each principle are set out in a different format to that used previously, with a comment for each recommendation identifying whether Esperance’s approach conformed to the 8 principles. It should be noted that Esperance is currently a small cap listed company and that where its processes do not fit the model of the 8 principles, the Board believes that there are good reasons for the different approach being adopted.

Reporting against the 8 Principles, we advise as follows:

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The primary responsibilities of Esperance’s board include:

- the establishment of long term goals of the company and strategic plans to achieve those goals;
- the review and adoption of the annual business plan for the financial performance of the company and monitoring the results on a monthly basis;
- the appointment of the Managing Director;
- ensuring that the company has implemented adequate systems of internal control together with appropriate monitoring of compliance activities; and
- the approval of the annual and half-yearly statutory accounts and reports.

The board meets on a regular basis, during the year, to review the performance of the company against its goals both financial and non-financial. In normal circumstances, prior to the scheduled monthly board meetings, each board member is provided with a formal board package containing appropriate management and financial reports.

The responsibilities of senior management including the Managing Director are contained in letters of appointment and job descriptions given to each appointee on appointment and updated at least annually or as required.

The primary responsibilities of senior management are:

- (i) achieve Esperance’s objectives as established by the Board from time to time;
- (ii) operate the business within the cost budget set by the Board;
- (iii) ensure that Esperance’s appointees work with an appropriate Code of Conduct and Ethics; and
- (iv) ensure that Esperance appointees are supported, developed and rewarded to the appropriate professional standards

CORPORATE GOVERNANCE STATEMENT

- 1.2 *Companies should disclose the process for evaluating the performance of senior executives and appointees.*

Currently the company does not employ senior executives. The performance of the Executive Chairman is reviewed on an annual basis, by the board.

- 1.3 *Companies should provide the information indicated in the Guide to reporting on Principle 1.*

A performance evaluation for each senior executive has taken place in the reporting period in line with the process disclosed.

A Statement covering the primary responsibilities of the Board is set out in 1.1 above.

A Statement covering the primary responsibilities of the senior executives is set out in 1.1 above.

The Esperance Corporate Governance Charter is available on the Esperance web site, and includes sections that provide a board charter. The Esperance board reviews its charter when it considers changes are required.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

- 2.1 *A majority of the Board should be independent directors.*

Esperance operates in a market where it finds that it must regularly seek investor support to raise additional capital. As a consequence, Board members themselves often have a significant interest in the Company. During the reporting period, the Esperance Board consisted of two non-executive directors, and one Executive Director/ Chairman. Both of the non-executive Directors consider themselves as independent.

- 2.2 *The Chairperson should be independent.*

Kris Knauer, the executive chairman, is not independent.

- 2.3 *Chief Executive Officer should not be the same as Chairman.*

Kris Knauer assumed the role of Executive Chairman on 31 January 2010. The Board believe this is appropriate in the current circumstances of the Company, its level of activity and having regard to Mr Knauer's qualifications, experience and background.

- 2.4 *A nomination committee should be established.*

The Remuneration and Nomination committee is established with Jacob Khouri and Vince Fayad as its members.

- 2.5 *Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.*

The Esperance board has only three members, who are in regular contact with each other as they deal with matters relating to Esperance's business. The board uses a personal evaluation process to review the performance of directors, and at appropriate times the Chairman takes the opportunity to discuss Board performance with individual directors and to give them his own personal assessment. The Chairman also welcomes advice from Directors relating to his own personal performance. The Remuneration & Nomination Committee determines whether any external advice or training is required. The Board believes that this approach is most appropriate for a company of the size and market cap of Esperance.

CORPORATE GOVERNANCE STATEMENT

2.6 *Companies should provide the information indicated in the Guide to reporting on Principle 2*

A description of the skills and experience of each director is contained in the 2014 Directors Report.

Vincent Fayad and Jacob Khouri are considered to be independent. Directors are able to take independent professional advice at the expense of the company, with the prior agreement of the Chairman.

The Remuneration and Nomination Committee consisted of Vincent Fayad, as Chairman and Jacob Khouri as its other member. No formal Remuneration and one Nomination Committee meetings took place during the year.

An evaluation of the board directors took place during the reporting period and was in accordance with the process described in 2.5 above.

New directors are selected by the Remuneration and Nomination Committee and their appointment voted by the board. Each year, in addition to any board members appointed to fill casual vacancies during the year, one third of directors retires by rotation and is subject to re-election by shareholders at the Annual General Meeting.

A copy of the Remuneration and Nomination Committee charter is available on the Esperance web site. As is appropriate in a small cap listed company that must raise funds from shareholders and investors to fund its activities, there is some informality in the Board appointment process. The details of attendance at committee meetings are set out in the Directors' report.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

3.1 *Companies should establish a code of conduct and disclose the code or a summary of the code as to:*

- *the practices necessary to maintain confidence in the company's integrity;*
- *the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and*
- *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

Esperance's policies contain a formal code of conduct that applies to all directors and employees, who are expected to maintain a high standard of conduct and work performance, and observe standards of equity and fairness in dealing with others. The detailed policies and procedures encapsulate the company's ethical standards.

The code of conduct is contained in the Esperance Corporate Governance Charter.

Esperance's shares are listed on the Australian Securities Exchange ('ASX'). The company's policies relating to board and employee trading in shares have been designed to meet the requirements of the law and the ASX Listing Rules. The policy is set out in the Esperance Corporate Governance Charter and is publicly available on the Esperance web site.

All Directors have an obligation to immediately advise the Company when in possession of any information which, if made publicly available, could reasonably be expected to materially affect the price of the Company's securities, whether upwards or downwards.

All Directors are required to comply with ASX Listing Rule 3.19A regarding disclosure by Company Director's notifiable interests within 5 business days.

The Company complies with CGC principles and recommendations 3.1.1 and 3.1.2.

3.2 & 3.3 Diversity policy – CGC Principles and Recommendations ("establish the policy concerning diversity")

CORPORATE GOVERNANCE STATEMENT

The Company takes a broad view of diversity, it recognises that the key factor to the company's success is a talented and diverse workforce at all levels of the company. Due to its size the Company does not currently have a formal diversity policy in place, and therefore does not comply with CGC Principles and Recommendations 3.2 and the CGC Principle and Recommendation 3.3 pertaining to disclosure for achieving gender diversity set by the Board.

3.4 Gender participation – CGC Principles and Recommendations (“disclose the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.”)

There are no women on the Board or on the senior management team of Esperance Minerals Limited as at 30 June 2014. The Board and senior management team consist of three Directors and the Company Secretary. However, the Board does consider its responsibility to ensuring that to the maximum extent possible, women are provided with an opportunity to obtain senior management or Board positions.

A copy of the code of conduct is publicly available on the Esperance web site.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 Establish an audit committee.

The company has an Audit, Corporate Governance and Risk Management Committee.

4.2 Audit, Corporate Governance and Risk Management committee composition.

The Audit committee consists of Jacob Khouri and Vincent Fayad. All of these Directors are independent non-executive directors. Vincent Fayad is the Chairman of the committee. Mr Fayad who is a Chartered Accountant with over 30 years of accounting and finance experience is considered to be an appropriate chairman of the audit committee.

4.3 A formal charter should be established for the audit committee.

The company has adopted an Audit, Corporate Governance and Risk Management Committee charter. It is publicly available on the Esperance web site.

4.4 Companies should provide the information indicated in the Guide to reporting on Principle 4.

The Audit, Corporate Governance and Risk Management Committee met 2 times during the course of the year.

The Audit, Corporate Governance and Risk Management Committee provide a forum for the effective communication between the board and external auditors. The Committee reviews:

- the annual and half-year financial reports and accounts prior to their approval by the board;
- the effectiveness of management information systems and systems of internal control; and
- the efficiency and effectiveness of the external audit functions.

The committee meets with and receives regular reports from the external auditors concerning any matters that arise in connection with the performance of their role, including the adequacy of internal controls.

In conjunction with the auditors the Audit, Corporate Governance and Risk Management Committee monitors the term of the external audit engagement partner and ensures that the regulatory limit for such term is not exceeded. At the completion of the term, or earlier in some circumstances, the auditor nominates a replacement engagement partner. The Committee interviews the nominee to assess relevant prior experience, potential conflicts of interest and general suitability for the role. If the nominee is deemed suitable, the committee reports to the Board on its recommendation.

CORPORATE GOVERNANCE STATEMENT

The Audit, Corporate Governance and Risk Management Committee also reviews the Esperance Corporate Governance and Risk Management processes to ensure that they are effective for a listed public company that is currently small cap.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURES

5.1 Written policies and procedures should be established to ensure an entity complies with the ASX Listing Rule disclosure requirements and that senior management is accountable for compliance.

The Esperance board and senior management are conscious of the ASX Listing Rule Continuous Disclosure requirements, which are supported by the law, and take steps to ensure compliance. The company has a policy, which can be summarised as follows:

- the Board, with appropriate advice, to determine whether an announcement is required under the Continuous Disclosure principles;
- all announcements be monitored by the Company Secretary; and
- all media comment to be handled by the Chairman.

To ensure that shareholders are kept well informed on Esperance's activities, and to improve communication to shareholders generally, Esperance has decided that all shareholders should be sent an actual copy of the annual report.

5.2 Esperance's disclosure policy to shareholders is set out as part of the Esperance Corporate Governance charter, which is publicly available on the Esperance web site, as are all of Esperance's recent announcements.

PRINCIPLE 6 RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Esperance provides information to its shareholders through the formal communications processes (e.g. ASX releases, general meetings, annual report, and occasional shareholder letters). This material is also available on the Esperance website (www.esperanceminerals.com).

Shareholders are encouraged to participate in general meetings and time is set aside for formal and informal questioning of the board, senior management and the auditors. The external audit partner attends the annual general meeting to be available to answer any shareholder questions about the conduct of the audit and the preparation and content of the audit report.

6.2 The company's communications policy is described in 5.1 and 5.2, and 6.1 above.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

7.1 Companies should establish a sound system for the oversight and management of material business risks.

The Company has established policies for the oversight and management of material business risks.

The Board monitors the risks and internal controls of Esperance through the Audit, Corporate Governance and Risk Management Committee. That Committee looks to the executive management to ensure that an adequate system is in place to identify and, where possible, on a cost effective basis appropriate for a small cap company, to manage risks inherent in the business, and to have appropriate internal controls.

CORPORATE GOVERNANCE STATEMENT

As part of the process, Esperance's management formally identifies and assesses the risks to the business, and these assessments are noted by the Audit, Corporate Governance and Risk Management Committee and the Board.

- 7.2 The board has required management to design and implement the risk management and internal control system appropriate to a small cap company of the size of Esperance to manage the company's material business risks and report to it on whether those risks are being managed effectively. Management has reported to the board as to the effectiveness of the company's management of its material business risks.
- 7.3 The board has received assurance from the Executive Chairman and the Chief Financial Officer (or its equivalent) that the declaration provided in accordance with section 295A of the *Corporations Act 2001* is founded on a sound system of risk management and internal control appropriate for a small cap company of the size of Esperance, and that the system is operating effectively in all material respects in relation to financial reporting risks.
- 7.4 The board has received the report from Management under Recommendation 7.2; and the board has received the assurances referred to under Recommendation 7.3. The company's policies on risk oversight and management of material business risks for a small cap company the size of Esperance are not publicly available.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

8.1 *Establish a remuneration committee.*

Esperance has established a Remuneration and Nomination committee. Vincent Fayad (independent non-executive director) is the Chairman of that Committee and Jacob Khouri (independent non-executive director's) is the other member of that Committee.

8.2, 8.3 & 8.4 *Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.*

The remuneration details of non-executive directors, executive directors and senior management are set out in the Remuneration Report that forms part of the Directors' report.

Senior Executives remuneration packages are reviewed by reference to Esperance's performance; the executive director's or senior executive's performance, comparable information from industry sectors and other listed companies in similar industries, which guidance from external remuneration sources. This provides a basis to ensure that base remuneration is set to reflect the market for a comparable role.

The performance of the executive director and senior executives is measured against criteria agreed annually and bonuses and incentives are linked to predetermined performance criteria and may, with shareholder approval, include the issue of shares and / or options.

There are no schemes for retirement benefits, other than statutory superannuation for non-executive directors.

For a small company like Esperance (as measured by its market capitalisation) it is not appropriate to carry a statement on prohibiting transactions in associated products.

A copy of the Remuneration and Nomination committee charter is publicly available on the Esperance web site.

DIRECTORS' REPORT

The Directors of the consolidated entity (referred to hereinafter as the **(Group or consolidated entity)** consisting of Esperance Minerals Limited (**Esperance or the Company**) and the entities it controlled at the end of, or during, the year ended 30 June 2014 hereby submit the Directors' Report as part of the annual financial report. The Chairman's letter to Shareholders, the Corporate Governance Statement and the Review of Operations and Tenements all form part of the Directors' Report.

DIRECTORS

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

KRIS KNAUER

Executive Chairman

B. Sc. (Hons) in Geology

Mr Knauer was appointed to the Esperance Board on 25 September 2009 and was appointed Executive Chairman on 31 January 2010.

Mr Knauer has a B.Sc. (Hons) in Geology and spent 5 years working in the Mining Industry as a geologist. He has worked in the Finance Industry for the past 12 years; initially as a Mining Analyst and more recently in Corporate Advisory. He is currently Executive Director of Equities at Novus Capital Limited and his key focus area is on smaller listed companies. He was a Director of Citadel Resource Group Limited (ASX: CGG) and was instrumental in the acquisition and financing of Citadels Saudi Arabian Mining Projects. Kris has a wealth of experience in project acquisition and evaluation, particularly in the Resource Sector.

Mr Knauer is currently a director of Greenvale Mining NL (ASX: GRV), Astro Resources NL (ASX: ARO) and BioProspect Limited (ASX: BPO).

JACOB KHOURI

Non-Executive Director

Mr Khouri was appointed to the Esperance Board on 17 February 2012.

Mr Khouri has a broad range of corporate experience, including serving as a director of BioProspect Limited (ASX: BPO) and has been involved with a number of ASX listed companies including Cape Lambert Limited.

Mr Khouri founded and operates a successful mechanical engineering business, and has a solid understanding of new market trends and sustainability issues.

VINCENT FAYD

Non-Executive Director

Mr Fayad was appointed to the Esperance Board on 20 February 2013.

Mr Fayad is currently a Director of PKF Lawler Corporate Finance Pty Ltd and has over 30 years of experience in Corporate Finance, accounting and other advisory related services. Over the last 10 years, Vince has spent a significant amount of time advising on various transactions that are related to the mining industry. He is also a member of the Institute Chartered of Accountants and is a registered tax agent and company auditor.

Mr Fayad was formerly a Non-Executive Chairman for MetalBank Limited (ASX: MBK) and Executive Director of Global Strategic Metals NL (ASX: GSZ), where he undertook a number of positive initiatives.

Mr Fayad is currently an executive director and interim Chief Financial Officer of Ashley Services Group Limited (ASX: ASH) and non-executive Chairman of BioProspect Limited (ASX: BPO).

COMPANY SECRETARY

Mr Robert Lees, an external consultant, was appointed Company Secretary & Chief Financial Officer on 7 January 2010.

Mr Lees is member of the Institute of Chartered Accountants in Australia and the Governance Institute of Australia. He is a graduate of the University of Technology, Sydney, holding a Bachelor of Business

DIRECTORS' REPORT

(Accounting) and a Graduate Diploma in Data Processing. He also holds a Graduate Diploma in Corporate Governance. In the last 14 years he has provided Company Secretarial services to small ASX listed companies, including involvement in 10 IPO's and back door listings. He is currently Company Secretary of 4 Listed Public Companies.

DIRECTORS' MEETINGS

During the financial year, 3 meetings of directors were held. Attendance by each director was as follows:

Director	Board Meetings		Audit Committee		Remuneration Committee	
	Meetings attended	Meetings held whilst in office	Meetings held	Meetings held whilst in office	Meetings attended	Meetings held whilst in office
Mr Knauer	3	3	-	-	-	-
Mr Lorentz	2	2	1	1	-	-
Mr Fayad	3	3	2	2	-	-
Mr Khouri	3	3	2	2	-	-

REMUNERATION REPORT (AUDITED)

This report details the nature and amount of remuneration for each key management person of Esperance Minerals Limited. The *Corporations Act* requires that this report be shown in the Directors' Report and that it be audited. Key management personnel have authority and responsibility for planning, directing, and controlling the activities of the Group. Key management personnel comprise the Directors of the Group. The Group does not have any other specified executives.

Compensation levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced Directors and Executives. The Remuneration Committee obtains independent advice on the appropriateness of compensation packages of the Group given trends in comparable companies both locally and internationally.

OFFICERS' REMUNERATION (AUDITED)

The Board's policy for determining the nature and amount of remuneration for key management personnel of the Group is as follows:

- total compensation for all Directors including Directors' fees, amounted to \$127,226 (2013: \$122,150);
- the maximum approved total Directors fees is \$250,000, which was last voted upon at the 2008 AGM;
- Non-Executive Directors do not receive performance related compensation. Directors' fees cover all main board activities and membership of committees; and
- termination benefits have been determined on a case-by-case basis and are not contractually defined.

On 7 January 2010, Coysec Services Pty Limited, a company associated with Mr Robert Lees entered into an agreement with the Company to provide company secretarial and Chief Financial Officer services on an hourly charge basis with the period of the agreement at the Directors' discretion.

DIRECTORS' REPORT

OFFICERS' REMUNERATION (CONT'D) (AUDITED)

The following table provides details of all the Directors and executives of the Group and the nature and amount of the elements of their remuneration for the year ended 30 June 2014.

	Short-term Employee Benefits				Post-employment Benefits	Other Long-term Benefits	Termination Benefits	Share Based Payment	Total
2014	Cash, salary, Directors Fees	Cash profit share, bonuses	Non-cash benefits	Allowance	Super-annuation				
Mr Lorentz*	15,896	-	-	-	-	-	-	-	15,896
Mr Knauer	36,000	-	-	-	-	-	-	-	36,000
Mr Fayad	36,000	-	-	-	-	-	-	-	36,000
Mr Khouri	36,000	-	-	-	3,330	-	-	-	39,330
	123,896	-	-	-	3,330	-	-	-	127,226

* Mr Lorentz retired at the Annual General Meeting on 29 November 2013

	Short-term Employee Benefits				Post-employment Benefits	Other Long-term Benefits	Termination Benefits	Share Based Payment	Total
2013	Cash, salary, Directors Fees	Cash profit share, bonuses	Non-cash benefits	Allowance	Super-annuation				
Mr Lorentz	35,000	-	-	-	3,150	-	-	-	38,150
Mr Knauer	36,000	-	-	-	-	-	-	-	36,000
Mr Fayad*	12,000	-	-	-	-	-	-	-	12,000
Mr Khouri	36,000	-	-	-	-	-	-	-	36,000
	119,000	-	-	-	3,150	-	-	-	122,150

* Mr Fayad was appointed on 20 February 2013

The remuneration policy of the Group has been designed to remunerate the Directors based upon their skills and contributions to the Group. No performance based remuneration has been granted. No options over share capital have been granted to key management personnel.

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2014.

	30 June 2014 \$	30 June 2013 \$	30 June 2012 \$	30 June 2011 \$	30 June 2010 \$
Revenue	2,079	33,571	39,705	44	13
Loss before tax	(562,541)	(1,715,692)	960,932	(417,798)	(1,299,289)
Loss after tax	(562,541)	(1,715,692)	960,932	(417,798)	(1,299,289)
	30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Share price start of year	2.9 cents	3 cents	6 cents	5 cents	3 cents
Share price end of year	2 cents	2.9 cents	3 cents	6 cents	5 cents
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic (loss) / profit per share (cents)	(0.67)	(2.04)	1.14	(0.59)	(3.90)
Diluted (loss) / profit per share (cents)	(0.67)	(2.04)	1.14	(0.59)	(3.90)

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES

The principal activity of the Group during the course of the year was mineral exploration primarily in the Kimberly Region Western Australia. . The Company also reviewed other potential acquisitions, but did not proceed. Further details of these activities can be found in the Review of Operations and Tenements section.

RESULT AND REVIEW OF OPERATIONS

The consolidated loss after income tax for the year was \$562,541 (2013: \$1,715,692).

During the year the Group continued its mineral exploration activities in the Kimberley Region Western Australia.

Key aspects of the consolidated financial result were as follows:

- exploration due diligence costs of \$54,391 were written off;
- there were financing costs associated with the Notes of \$21,371;
- regulatory and professional fees associated with the ongoing management of the Company.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Company since the end of financial year under review.

ENVIRONMENTAL REGULATIONS

The Group's interest in its tenements in Western Australia are subject to the Environmental laws of those States. The Group is committed to the protection of the environment and to compliance with all applicable environmental laws. Requirements exist relating to waste disposal, water and air pollution and site rehabilitation. The Directors are not aware of any breaches of any environmental regulations during the period covered by this report.

DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year to the date of this report.

EVENTS SUBSEQUENT TO REPORTING DATE

There have been no events subsequent to year end which would have a material effect on the Group's financial statements at 30 June 2014.

DIRECTORS' REPORT

LIKELY FUTURE DEVELOPMENTS

Despite the adverse impacts from tight equity markets relating to exploration, the Company remains focused on re-vitalising itself by diversifying its exploration activities into prospective mineral tenements that may provide better and earlier benefits for shareholders.

DIRECTORS' INTERESTS

The relevant interest of each director in the shares of the Company as notified by the Directors to the Australian Securities Exchange in accordance with s.205G(1) of the *Corporations Act* at the date of this report is as follows:

	ORDINARY SHARES FULLY PAID
Mr Lorentz	4,000
Mr Knauer	11,048,044
Mr Khouri	1,000,000 ²
Mr Fayad	nil

¹ Relevant interests held in shares registered in the name of Moneybung Pty Limited ATF Moneybung Family Trust of which Kris is a beneficiary, and Pitt Street Absolute Return Pty Ltd of which Kris is a Director and beneficiary.

² Relevant interests held in shares registered in the name of Bejjol Pty Limited of which Jacob Khouri is a Director and beneficiary.

No Director has a margin loan on any of the above shares.

OPTIONS

There are 16,100,000 options over the Company's shares issued or outstanding at 30 June 2014 expiring on 31 December 2014 exercisable at 5 cents. The options are held by shareholders as a consequence of capital raising initiatives in August 2010 and October 2010. Refer to note 9(b)(ii).

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During or since the end of the financial year, the company has not, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred such as an officer or auditor.

NON-AUDIT SERVICES

During the year there were no non-audit services provided by RMS Bird Cameron.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 22 and forms part of the directors' report for the financial year ended 30 June 2014.

DIRECTORS' REPORT

Signed in accordance with a resolution of the Board

A handwritten signature in black ink, consisting of a stylized 'K' followed by a long, horizontal, wavy line.

Kris Knauer
Executive Chairman

Dated at Sydney this 30th day of September 2014.

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Esperance Minerals Pty Ltd. for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.



RSM BIRD CAMERON PARTNERS



C J Hume
Partner

Sydney, NSW
Dated: 30 September 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the Year Ended 30 June 2014

	Note	2014 \$	2013 \$
Financial income	2	2,079	33,571
OTHER INCOME			
Administration expenses		(47,504)	(113,176)
Compliance and regulatory expenses		(69,581)	(102,573)
Professional fees		(133,474)	(43,400)
Directors fees and benefits		(130,225)	(122,150)
Finance costs		(129,445)	(399)
Exploration costs written off	8	(54,391)	(1,367,565)
LOSS BEFORE INCOME TAX		(562,541)	(1,715,692)
Income tax	3	-	-
LOSS FOR THE YEAR		(562,541)	(1,715,692)
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(562,541)	(1,715,692)
Basic and diluted (loss) / earnings per share	5	(0.67) cents	(2.04) cents

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the attached notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	2014 \$	2013 \$
CURRENT ASSETS			
Cash and cash equivalents	13(b)	17,899	215,185
Trade and other receivables	6	-	2,500
TOTAL CURRENT ASSETS		<u>17,899</u>	<u>217,685</u>
NON-CURRENT ASSETS			
Intangible assets – Exploration and evaluation expenditure	7	795,518	766,489
TOTAL NON-CURRENT ASSETS		<u>795,518</u>	<u>766,489</u>
TOTAL ASSETS		<u>813,417</u>	<u>984,174</u>
CURRENT LIABILITIES			
Trade and other payables	8	146,814	518,105
Borrowings	9	607,800	-
TOTAL CURRENT LIABILITIES		<u>754,614</u>	<u>518,105</u>
TOTAL LIABILITIES		<u>754,614</u>	<u>518,105</u>
NET ASSETS		<u>58,803</u>	<u>466,069</u>
EQUITY			
Issued capital	10	10,163,083	10,163,083
Reserves	20	155,275	-
Accumulated losses		(10,259,561)	(9,697,020)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		<u>58,797</u>	<u>466,063</u>
Non-controlling interest		6	6
TOTAL EQUITY		<u>58,803</u>	<u>466,069</u>

The consolidated statement of financial position should be read in conjunction with the attached notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the Year Ended 30 June 2014

	Issued Capital \$	Reserve \$	Accumulated Losses \$	Non- controlling interest \$	Total Equity \$
BALANCE AT 1 JULY 2012	10,163,083	-	(7,981,328)	6	2,181,761
Net loss for the year	-	-	(1,715,692)	-	(1,715,692)
Total comprehensive loss for the year	-	-	(1,715,692)	-	(1,715,692)
BALANCE AT 30 JUNE 2013	10,163,083	-	(9,697,020)	6	466,069
Net loss for the year	-	-	(562,541)	-	(562,541)
Total comprehensive loss for the year	-	-	(562,541)	-	(562,541)
Equity portion of convertible notes	-	155,275	-	-	155,275
BALANCE AT 30 JUNE 2014	10,163,083	155,275	(10,259,561)	6	58,803

The consolidated statement of changes in equity is to be read in conjunction with the attached notes to the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

for the Year Ended 30 June 2014

	Note	2014 \$	2013 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(495,335)	(275,196)
Interest received		2,079	33,571
NET CASH USED IN OPERATING ACTIVITIES	14(a)	<u>(493,256)</u>	<u>(241,625)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration expenditure		(29,050)	(1,156,204)
NET CASH USED IN INVESTING ACTIVITIES		<u>(29,050)</u>	<u>(1,156,204)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES			
Issue of Convertible Notes		325,000	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		<u>325,000</u>	<u>-</u>
Net decrease in cash held		(197,306)	(1,397,829)
Cash at the beginning of the financial year		<u>215,185</u>	<u>1,613,014</u>
CASH AT THE END OF THE FINANCIAL YEAR	14(b)	<u><u>17,879</u></u>	<u><u>215,185</u></u>

The consolidated statement of cash flows is to be read in conjunction with the attached notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Esperance Minerals Limited (**Esperance** or the **Company**) is a company domiciled in Australia. The financial statements of Esperance and its controlled entities (the **Group**) are for the year ended 30 June 2014.

The Company is a for-profit entity.

The financial statements were approved by the Board of Directors on 30 September 2014.

BASIS OF PREPARATION

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. The financial statements comprise the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements comply with International Financial Reporting Standards ('IFRS'). Material accounting policies adopted in the preparation of those financial statements are presented below. They have been consistently applied unless otherwise stated. The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of certain non-current assets, financial assets, and financial liabilities. The financial statements are presented in Australian dollars which is the Group's functional and presentation currency.

(A) GOING CONCERN

The Group's statement of profit or loss and other comprehensive income for the year ended 30 June 2014 reflected a net loss of \$562,541 (2013: \$1,715,692) and the Group's statement of financial position as at 30 June 2014 reflected net current liabilities of \$736,715 (2013: net current liabilities of \$300,420). The Group's consolidated statement of cash flows for the year ended 30 June 2014 reflected net cash used in operating and investing activities of \$522,306 (2013: \$1,397,829).

On 30 September 2013, the Company announced that it had arranged a facility to borrow \$570,000 from certain shareholders of the Company through convertible loan agreements ("Loan Agreements"), the terms of which are set out in Note 9. On 30 April 2014 shareholders approved the ability of the convertible note holders to convert the notes into ordinary shares. At 30 June 2014 the company had drawn down \$325,000 pursuant to the Loan Agreements and a further \$55,000 was drawn down in July 2014. The balance of \$190,000 remains undrawn (refer to Note 8 – Trade and other payables for the terms of loan agreements and Note 19 - Events Subsequent to Balance Date).

The ability of the Company and the Group to continue as going concerns is dependent upon:

- the additional draw down of funds under the Loan Agreements;
- the convertible notes discussed above can be converted to equity from August 2014, at the note holders discretion, therefore have been disclosed as current. If not converted, the term of the convertible notes expires in August 2015.
- the ability of the Company to raise further capital to enable them to meet expenditure requirements. The company intends to raise approximately \$275,000 within the next 12 months ; and
- to the extent that it becomes necessary, sell the Company's exploration asset.

The Directors of Esperance Minerals Limited are confident that the Company will be able to raise funds under the Loan Agreements and seek out further support from MIL.

However, should the Company be unsuccessful in the above, there is significant uncertainty as to whether the Company and the Group would be able to continue as going concerns and therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that may be necessary should the Company and the Group be unable to continue as going concerns.

NOTES TO THE FINANCIAL STATEMENTS

(B) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of the acquisition and up to the effective date of disposal as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-group transactions, balances, income and expenditure are eliminated in full on consolidation.

Non-controlling interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Group, are shown separately within the Equity section of the consolidated Statement of Financial Position and in the consolidated Statement of Profit and Loss and Other Comprehensive Income.

(C) INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current tax liabilities/ (assets) are therefore measured at the amounts expected to be paid to/ (recovered from) the relevant taxation authority.

Deferred tax expense reflects movements in deferred tax asset and liability balances during the year as well as unused tax losses.

Current and deferred income tax expense is charged or credited to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available, against which the benefits of the deferred tax asset can be utilised.

(D) EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation costs are capitalised as exploration and evaluation assets on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project. The capitalised costs are presented as an intangible exploration and evaluation asset. When a licence is relinquished or a project abandoned, the related costs are recognised in the profit or loss immediately.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units consistent with the determination of reportable segments.

Upon determination of proven reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within tangible assets.

(D) EXPLORATION AND EVALUATION EXPENDITURE (CONTINUED)

Amortisation is not charged on exploration and evaluation assets until they are available for use.

Pre-licence costs are recognised in profit or loss as incurred. Expenditure deemed unsuccessful is recognised in profit or loss immediately.

(E) FINANCIAL INSTRUMENTS

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the Group becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the Group no longer has any significant continuing involvement in the risks and rewards associated with the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract are discharged, cancelled or expire.

Classification and Subsequent Measurement

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

ii) Financial liabilities

Non-derivative financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

(F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(G) SHARE CAPITAL

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

(H) REVENUE AND OTHER INCOME

Financial Income comprises interest income. Interest income is recognised in profit or loss as it accrues, using the effective interest rate method.

Other income is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

(I) IMPAIRMENT

The carrying amount of non-financial assets other than exploration and evaluation assets are reviewed each reporting date to determine whether there is any indication of impairment. If any such indications exist, the assets recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of receivables is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

(J) GOODS AND SERVICES TAX (GST)

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

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

(K) EARNINGS PER SHARE

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of any dilutive potential ordinary shares, which comprise convertible notes and share options.

(L) USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Recovery of Capitalised Exploration and Evaluation Expenditure

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 site itself, or if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to the environmental restoration obligations) and changes to commodity prices.

Deferred Tax Assets not brought to Account

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

NOTES TO THE FINANCIAL STATEMENTS

(M) APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

Standards and Interpretations affecting the reported results or financial position

There are no new, revised or amending Standards and Interpretations adopted in these financial statements affecting the reported results or financial position.

(N) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ISSUED NOT YET EFFECTIVE

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<ul style="list-style-type: none"> AASB 9 'Financial Instruments', and the relevant amending standards 	1 January 2015	30 June 2016
<ul style="list-style-type: none"> AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities' 	1 January 2014	30 June 2015
<ul style="list-style-type: none"> AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets' 	1 January 2014	30 June 2015
<ul style="list-style-type: none"> AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting' 	1 January 2014	30 June 2015
<ul style="list-style-type: none"> AASB 2013-5 'Amendments to Australian Accounting Standards – 'Investment Entities' 	1 January 2014	30 June 2015
<ul style="list-style-type: none"> Interpretation 21 'Levies' 	1 January 2014	30 June 2015

NOTES TO THE FINANCIAL STATEMENTS

2. INCOME

	2014 \$	2013 \$
FINANCIAL INCOME		
Interest income – other sources	2,079	33,571

3. INCOME TAX

	2014 \$	2013 \$
(a) Loss before tax	(562,541)	(1,715,692)
Prima facie tax (credit) / expense on loss before income tax using corporate rate of 30% (2013: 30%)	(168,762)	(514,708)
Difference from income tax expense due to:		
Current year losses not brought to account	168,762	514,708
Income tax attributable to consolidated entity	-	-
(b) Balance of franking account at year end	-	-

4. DEFERRED TAX ASSETS AND LIABILITIES

	2014 \$	2013 \$
Deferred tax assets – not recognised		
Deferred tax assets arising from tax losses not recognised calculated at 30%:		
Tax losses - Revenue	2,421,002	2,284,662
Capital losses	554,292	554,292
	2,975,894	2,838,954

5. EARNINGS PER SHARE

The calculation of basic earnings and diluted earnings per share at 30 June 2014 was based on the loss attributable to ordinary shareholders of \$562,541 (2013: \$1,715,692) and the weighted average number of ordinary shares outstanding during the financial year ended 30 June 2014 of 84,039,679 (2013: 84,039,679), calculated as follows:

	2014 Cents	2013 Cents
Basic and diluted (loss) / earnings per share	(0.67)	(2.04)
Weighted average number of ordinary shares:		
Fully paid ordinary shares used in calculation of basic and diluted (loss) / earnings per share	84,039,679	84,039,679

16,100,000 options were not included in earnings per share because they were anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS

6. TRADE AND OTHER RECEIVABLES

	2014 \$	2013 \$
Current		
Deposits	-	2,500
	-	2,500

7. INTANGIBLE EXPLORATION AND EVALUATION EXPENDITURE

	2014 \$	2013 \$
Exploration and evaluation phase costs carried forward at cost:	795,518	766,489

Movements in Carrying Amounts

Carrying amount at beginning of year	766,489	632,059
Additions	29,029	1,501,995
Exploration costs written off (a)	-	(1,367,565)
Carrying amount at end of year	795,518	766,489

Exploration and Evaluation Phase Costs

Exploration expenditure carried forward at 30 June 2014 represents the Group's interest in the Kununurra exploration tenement.

The recovery of the expenditure carried forward in respect of these exploration tenements depends on the successful development and commercial exploitation or sale of mineral resources in the Kununurra tenement which have been, or may be, discovered in these leases.

(a) Exploration costs written off

Yampi Sound project

On 21 September 2012, the Directors elected to withdraw from the group's joint venture arrangements in respect of the Yampi Sound project. As a result total exploration costs previously incurred and capitalised in respect of the Yampi Sound Project of \$174,275 was charged to profit or loss during the year.

Brazilian project

In March 2013, the company entered into a non-binding heads of agreement ("Agreement") with Afro-Asian Resources Pty Limited ("AAR"), a company related to certain directors and shareholders of the company.

AAR entered into an earn-in agreement with Tiger Gold Mineracao Ltda ("TRL") a company incorporated in Brazil ("Earn-in Agreement") which gave AAR the right, upon completion of satisfactory due diligence, to acquire an increasing equity interest in TRL, up to a 100% equity interest, as a result of an earn-in arrangement over tenements held by TRL in Amazonas State, Brazil ("Brazilian Project").

The Agreement required the company to take over the funding and conduct of the due diligence being conducted by AAR pursuant to the Earn-in Agreement and, if the company was satisfied with the results of the due diligence, and subject to shareholder approval, the company could elect to acquire up to 100% equity in AAR ("Acquisition") after which the company could proceed to exercise AAR's rights under the Earn-in Agreement. If the company completed the Acquisition, it will then have rights to acquire an interest of between 50% and 100% in the equity of TRL and the Brazilian Project through the Earn-in Agreement subject to meeting funding requirements and other obligations.

In June 2013 after initial due diligence the results did not support further exploration expenditure, the Board elected not to proceed with the agreement. As a result the total acquisition, exploration and due diligence costs incurred of \$1,193,290 were charged to profit or loss during the year.

NOTES TO THE FINANCIAL STATEMENTS

8. TRADE AND OTHER PAYABLES

	2014 \$	2013 \$
Current		
Other creditors and accruals (i)	146,814	172,134
Payable to related party (ii) (Note 15)	-	345,971
	<u>146,814</u>	<u>518,105</u>

- (i) The average credit period is 45 days (2013: 45 days). No interest is charged on overdue payables. The Group has financial risk management policies in place to ensure that all payables are paid within the credit terms.
- (ii) As disclosed in Note 7(a), in March 2013, the company entered into a non-binding heads of agreement ("Agreement") with Afro-Asian Resources Pty Limited ("AAR"), a company related to certain directors and shareholders of the company in relation to the Brazilian Project. In June 2013, the Board elected not to continue with the Agreement. Under the terms of the Agreement, the company was required to reimburse AAR for their initial due diligence costs totalling \$345,971, which were accrued at 30 June 2013.

9. BORROWINGS

	2014 \$	2013 \$
Current		
Series A Convertible Notes	330,000	-
Series B Convertible Notes	325,000	-
Less: Equity component of Convertible Notes	(47,200)	-
	<u>607,800</u>	<u>-</u>

During the year the Company issued the following convertible notes:

- Series A – being notes in connection with the payment of certain due diligence costs associated with the Brazilian project with a face value of \$330,000; and
- Series B – being notes in connection with the ongoing funding of the Company with a face value \$570,000.

Both notes (the combines notes referred to as "**Notes**") involve various shareholders, including a company that is associated with the Chairman, Mr Kris Knauer.

The Series A note has been drawn down has been used to a refinance unsecured loan with a face value of \$345,000.

The Series B note had an upfront payment of \$90,000, which has been received by the Company, with an additional \$100,000 at call component. The \$100,000 can be drawn down at the Company's election at any time from 30 days from the date of the Note. As at 30 June 2014, the Series B note has been drawn to \$325,000 and \$245,000 remains undrawn.

The key terms of the Notes are as follows:

- conversion price of the lesser of 5 cents per ordinary share, or the 5 day volume weighted average price ("**VWAP**") of the Company's ordinary shares on the ASX immediately prior to the issue of a conversion notice by the Noteholder to the Company;
- the Notes cannot be converted until after 31 August 2014 and then at any time up to the Maturity Date of 31 August 2015;
- for each share issued on conversion, the Noteholder will be issued with 1 free option to subscribe for an additional ordinary share in the Company exercisable on or before 31 August 2018 at an exercise price of 10 cents per Company share (**Options**);
- the Notes will accrue interest at a rate of 8% per annum; and
- the Notes are unsecured.

The funds raised from the Series B note has been used for current working capital, meeting of exploration at the Company's Kununurra Project, and the evaluation of potential new projects for the company.

The shareholders not associated with the Notes approved the terms of conversion on the 30 April 2014.

NOTES TO THE FINANCIAL STATEMENTS

10. ISSUED CAPITAL

			2014 \$	2013 \$
84,039,679 (2013: 84,039,679) Fully paid ordinary shares:			10,163,083	10,163,083
	2014 \$	2013 \$	2014 No.	2013 No.
(a) Movement in fully paid ordinary shares				
Opening balance	10,163,083	10,163,083	84,039,679	84,039,679
Movement during the year	-	-	-	-
Closing balance	10,163,083	10,163,083	84,039,679	84,039,679

(b) Terms of Issue:

(i) Fully paid ordinary shares

Ordinary shares participate in dividends and are entitled to one vote per share at shareholders meetings. In the event of winding up the company, ordinary shareholders rank after creditors and are entitled to any proceeds of liquidation in proportion to the number of shares held.

(ii) Options

The issue of ordinary shares in August 2010 and October 2010 included one free attaching option for every new share issued.

As a result there are 16,100,000 options over the Company's shares issued or outstanding at 30 June 2014 expiring on 31 December 2014 exercisable at 5 cents. Unless converted to ordinary shares, the options do not participate in dividends. Options are not entitled to one vote at shareholders meetings. In the event of winding up the company, option holders are not entitled to any proceeds of liquidation.

11. SEGMENT INFORMATION

The Group operates in a single segment being mining and exploration activities in Australia.

12. FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks and trade and other payables. The Group does not use derivative financial instruments to hedge exposure to financial risks.

(i) Treasury Risk Management

There have been no changes in the Group's approach to capital management during the year. The Group is not subject to any externally imposed capital requirements.

(ii) Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future developments of the business. Refer to Note 1(A) regarding the Company and the Group's ability to continue as going concerns.

(iii) Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk, credit risk and price risk.

NOTES TO THE FINANCIAL STATEMENTS

12. FINANCIAL RISK MANAGEMENT (CONT'D)

Interest rate risk

The Group does not enter into interest rate swaps, forward rate agreements, or interest rate options to manage cash flow risks associated with interest rates on borrowings that are floating, or to alter interest rate exposures arising from mismatches in repricing dates between assets and liabilities.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Refer to Note 1(A) regarding the Company and the Group's ability to continue as going concerns.

The tables that follow reflect an undiscounted contractual maturity analysis for financial assets and liabilities.

Cash flows from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will roll forward.

	Within 1 year		1 to 5 years		Over 5 years		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
<i>Financial liabilities – due for payment:</i>								
Trade and other payables	146,814	518,105	-	-	-	-	146,814	518,105
Borrowings	607,800	-	-	-	-	-	607,800	-
	754,614	518,105	-	-	-	-	754,614	518,105
<i>Financial assets – cash flows realisable</i>								
Cash and cash equivalents	17,879	215,185	-	-	-	-	17,879	215,185
Trade and other receivables	-	2,500	-	-	-	-	-	2,500
	17,879	217,685	-	-	-	-	17,879	217,685

As described in Note 17 the Company has commitments for further cash expenditure not included above in relation to mining tenements.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. There is negligible credit risk on financial assets, excluding investments, since there is no exposure to individual customers or countries and the Group's exposure is limited to the amount of cash, short-term investments and receivables which have been recognised in the statement of financial position.

Price risk

The Group is exposed to commodity price risk through its interests in mining leases. Changes in market price for commodities impact the economic viability of the mining leases. The Group has not entered into any hedges in relation to these commodities. It is not possible to quantify the effect on profit or equity of any change in commodity prices.

NOTES TO THE FINANCIAL STATEMENTS

13. PARENT ENTITY DISCLOSURES

Set out below is the supplementary information about the Parent Entity.

	2014	2013
	\$	\$
Financial position		
Assets		
Current assets	17,893	217,685
Non-current assets	795,518	766,483
Total assets	813,411	984,168
Liabilities		
Current liabilities	754,614	518,105
Total liabilities	754,614	518,105
Equity		
Issued capital	10,163,083	10,163,083
Reserves	155,275	-
Accumulated losses	(10,259,561)	(9,697,020)
Total equity	58,797	466,063
Financial performance		
Loss for the year	(562,541)	(1,715,692)
Other comprehensive income	-	-
Total comprehensive loss	(562,541)	(1,715,692)

Contingent liabilities

See note 18 for details of contingent liabilities of the Parent Entity.

NOTES TO THE FINANCIAL STATEMENTS

14. CASH FLOW INFORMATION

	2014 \$	2013 \$
(a) Reconciliation of cash flows from operations with loss after income tax		
Loss after income tax	(562,541)	(1,715,692)
Non cash flows in operating activities:		
Exploration costs written off	-	1,367,565
Equity component on convertible notes	108,074	-
Changes in assets and liabilities:		
• Decrease in receivables	2,500	22,118
• (Decrease) / increase in payables	(41,289)	84,384
Net Cash Used in Operating Activities	<u>(493,256)</u>	<u>(241,625)</u>
(b) Reconciliation of cash and cash equivalents		
Cash at bank	<u>17,879</u>	<u>215,185</u>
(c) Credit Standby Arrangements with Banks		
Overdraft facility limit	25,000	25,000
Amount utilised	-	-
	<u>25,000</u>	<u>25,000</u>

* Part of the proceeds on sale of mining tenements was satisfied by non-cash contribution of shares in Greenvale Mining NL (GRV) which were then distributed in-specie to the company's shareholders (Note 7(b)).

NOTES TO THE FINANCIAL STATEMENTS

15. RELATED PARTY TRANSACTIONS

KEY MANAGEMENT PERSONNEL COMPENSATION IS AS FOLLOWS:

	2014 \$	2013 \$
Short-term employee benefits	123,896	119,000
Post-employment benefits	3,330	3,150
	<u>127,226</u>	<u>122,150</u>

Information regarding individual Directors' compensation is provided in the remuneration report section of the Directors' report.

There were no other material contracts involving Directors' interests existing at year end.

OTHER KEY MANAGEMENT PERSONNEL TRANSACTIONS:

There were no transactions with other key management personnel.

MOVEMENT IN SHARES

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

Director	Held 1 July 2012	Purchases	Sales	Other	Held at 30 June 2013	Purchases	Sales	Other	Held at 30 June 2014
Fully Paid Ordinary Shares									
Mr Lorentz	4,000 ¹	-	-	-	4,000 ¹	-	-	(4,000)	-
Mr Knauer	10,086,130 ²	341,385	-	-	10,427,515 ²	620,529	-	-	11,048,044 ²
Mr Khouri	1,000,000 ³	-	-	-	1,000,000 ³	-	-	-	1,000,000 ³
Mr Fayad	-	-	-	-	-	-	-	-	-

¹ Retired at Annual General Meeting November 2013

¹ Relevant interests held in shares registered in the name of Moneybung Pty Limited ATF Moneybung Family Trust of which Kris Knauer is a beneficiary and Pitt Street Absolute Return Pty Ltd of which Kris Knauer is a Director and beneficiary.

² Relevant interests held in shares registered in the name of Bejjol Pty Limited in which Jacob Khouri is a Director and beneficiary. Jacob Khouri was appointed as a director on 17 February 2012.

No Director has a margin loan on any of the above shares.

TRANSACTIONS WITH RELATED PARTIES

The Series A and Series B Convertible Notes are with entities associated with Executive Chairman Kris Knauer, MIL (who is a substantial shareholder of the Company and another shareholder. The terms of these Notes are detailed in Note 10. The terms of the Notes were approved by the non-associated shareholders on 30 April 2014.

16. SUBSIDIARIES

Subsidiary	Country of incorporation	Ownership interest	
		2014 %	2013 %
Dingo Resources Pty Limited	Australia	70	70
Yampi Sound Pty Limited	Australia	70	70

Under the terms of the shareholders agreement with the outside equity shareholder in Dingo Resources Pty Limited and Yampi Sound Pty Limited, the Company is responsible for all funding of the exploration and mining costs. Accordingly, there is no allocation of the loss to the outside equity holders.

NOTES TO THE FINANCIAL STATEMENTS

17. AUDITORS' REMUNERATION

	2014 \$	2013 \$
Auditing and reviewing financial reports – Deloitte	-	55,000
Auditing and reviewing financial reports – RSM Bird Cameron Partners	27,500	-

For the year ended 30 June 2013 the auditor appointed was Deloitte Touche Tohmatsu.

For the year ended 30 June 2014 the auditor appointed is RSM Bird Cameron Partners.

18. COMMITMENTS AND CONTINGENCIES

As at 30 June 2014 there are no contingencies that affect the company and consolidated entity.

Capital expenditure commitments of the company and consolidated entity as at 30 June 2014:

Kununurra Tenements

To retain its interest, the Group must solely fund up to a maximum of \$2,000,000 to the conclusion of exploration phase of the project. In addition, the Group is required to solely fund an additional \$200,000 in exploration costs and subject to approval from the joint venture partner, \$100,000 to increase the Group's effective interest in the tenement from 42% to 56%.

19. EVENTS SUBSEQUENT TO BALANCE DATE

At 30 June 2014, the Company had received \$325,000 from the Series B Convertible Note with a face value of \$570,000. On 25 July 2014 a further \$55,000 was received bring the total draw down amount to \$380,000 of the \$570,000 commitment.

Other than the above, there have been no events subsequent to year end which would have a material effect on the Group's financial statements at 30 June 2014.

20. RESERVES

Share premium reserve

The share premium reserve records items recognised as expenses on valuation of the equity component on convertible notes issued (note 9).

	2014 \$	2013 \$
Share based payment reserve	155,275	-
	2014 \$	2013 \$
(a) Movement in share options reserve		
Opening balance	-	-
Equity component on convertible notes	155,275	-
Closing balance	155,275	-

DIRECTOR'S DECLARATION

The Directors of Esperance Minerals Limited declare that:

- (a) based on the matters set out in Note 1(A), in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity;
- (c) in the directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 1 to the financial statements; and
- (d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Board of directors made pursuant to S295 (5) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to be 'Kris Knauer', with a stylized initial 'K' and a long horizontal stroke extending to the right.

Kris Knauer
Chairman

Dated at Sydney this 30th day of September 2014.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
ESPERANCE MINERALS LIMITED

Report on the Financial Report

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

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Opinion

In our opinion:

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

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial report, which indicates that the company and consolidated entity incurred losses of \$562,541 and the consolidated entity had net cash outflows from operating activities of \$493,256 and for exploration expenditure of \$29,050 for the year ended 30 June 2014. As at that date the company and consolidated entity had net current liabilities of \$736,715. The ability of the company and consolidated entity to continue as going concerns is dependent on a number of factors, the most significant of which is the ability to source sufficient capital to repay existing creditors and fund its future exploration and operational activities. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company and consolidated entity's ability to continue as going concerns and therefore, the company and consolidated entity may be unable to realise their assets and discharge their liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 18 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Esperance Minerals Limited for the year ended 30 June 2014 complies with section 300A of the Corporations Act 2001.


RSM BIRD CAMERON PARTNERS
C J Hume

Partner

Sydney, NSW

Dated: 30 September 2014

ADDITIONAL INFORMATION REQUIRED BY THE ASX

At 29 September 2014

THE NUMBER OF SHAREHOLDERS AND THE DISTRIBUTION OF THEIR HOLDINGS IN EACH CLASS OF QUOTED SECURITIES WAS AS FOLLOWS:

	Fully Paid	Options
1 - 1,000	673	-
1,001 - 5,000	274	-
5,001 - 10,000	51	-
10,001 - 100,000	70	1
100,001 and over	43	9
	<u>1,111</u>	<u>10</u>

SHAREHOLDERS WITH HOLDINGS LESS THAN A MARKETABLE PARCEL OF 25,000 SHARES:

1,026

THE TWENTY LARGEST SHAREHOLDERS HOLD:

Fully Paid	Options
86.80%	100.00%

SUBSTANTIAL SHAREHOLDERS:

	Share Holding	
Mining Investments Limited	17,000,000	10.50%
Moneybung Pty Ltd	8,470,000	10.08%
Q Supa Pty Ltd	6,062,500	7.21%

TOP TWENTY HOLDERS OF FULLY PAID SHARES

	Number	%
Mining Investments Limited	17,000,000	20.23
Moneybung Pty Ltd	8,470,000	10.08
HSBC Custody Nominees (Aust.) Limited	7,459,056	8.88
Citicorp Nom Pty Ltd	7,277,792	8.66
Q Supa Pty Ltd	6,062,500	7.21
Trayburn Pty Ltd	4,004,480	4.76
Sunshore Holdings Pty Ltd	3,112,298	3.70
Ms Louise Quinn	2,857,985	3.40
Pershing Australia Nominees	2,809,885	3.34
Pitt Street Absolute Returns	2,578,044	3.07
Mr Robert Martin Rowley <No2 S/F A/C>	1,921,902	2.29
Sanperez Pty Ltd	1,875,000	2.23
Mr Steven Dellidis	1,518,000	1.81
J P Morgan Nominees Australia Ltd	1,370,646	1.63
Bejjol Pty Ltd	1,000,000	1.19
Bell Potter Nominees Ltd	900,000	1.07
Ayl Pty Ltd	729,017	0.87
Traian Johnny	713,061	0.85
Kelly Neil Stewart	650,000	0.77
Bennett & Bennett Pty Ltd	637,500	0.76
	<u>72,947,166</u>	<u>86.80</u>

ADDITIONAL INFORMATION REQUIRED BY THE ASX

At 29 September 2014

TOP HOLDERS OF OPTIONS - UNQUOTED

	Number	%
Sabre Limited	5,000,000	31.1
Novus Capital Nominees Pty Limited	5,000,000	31.1
Pralas Marketing Pty Ltd	2,300,000	14.3
Bejjol Pty Ltd	1,000,000	6.2
Mr Steven Dellidis	700,000	4.3
Mining Investments Limited	600,000	3.7
PJS Marketing Pty Ltd	600,000	3.7
AYL Pty Ltd	500,000	3.1
Mr Jason Eveleigh	300,000	1.9
Filmytruck Pty Ltd	100,000	0.6
	16,100,000	100.0

VOTING RIGHTS:

All ordinary shares carry one vote per share without restriction.

Option holders have no voting rights.