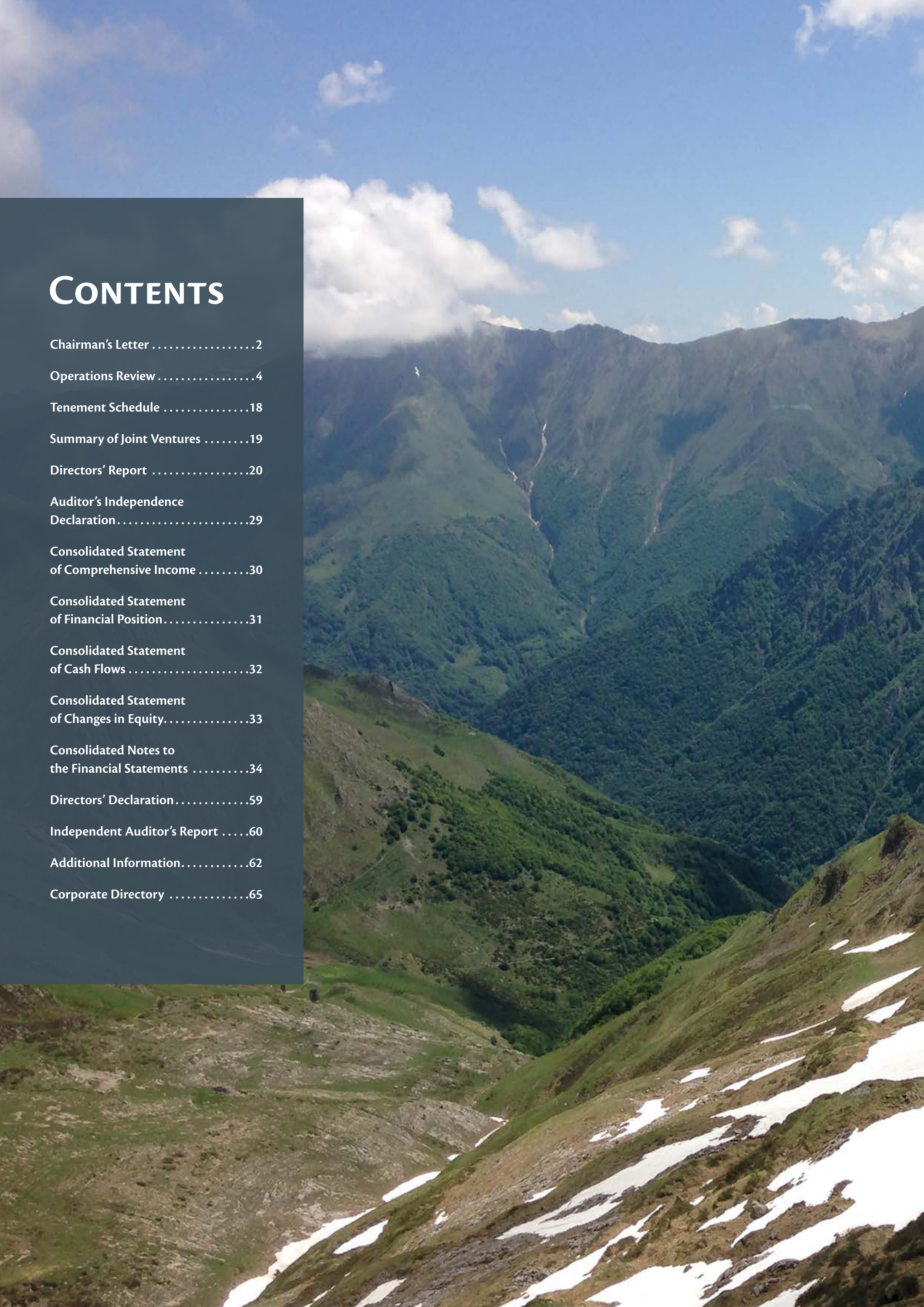
variscan mines

# Annual Report 2016

# Contents





# HIGHLIGHTS

- Multi-project portfolio enhanced with the addition of two new exploration licences – Loc Envel and Silfiac
- Other exploration licence applications within the approvals process, each with good potential for short-term resource generation and major new discoveries

## Merléac

- Maiden Mineral Resource estimate completed for the Porte-aux-Moines (PAM) volcanogenic massive sulphide (VMS) deposit to JORC 2012 reporting standards
- Mineral Resource is 2.2 million tonnes grading 6.0% zinc, 1.3% lead, 0.8% copper, 80.6 g/t silver and 0.9 g/t gold
- Places the deposit within the first grade quartile on a zinc equivalent basis for zinc-rich deposits worldwide
- Suggests good potential for economic extraction provided sufficient tonnage can be defined
- Excellent potential for additional VMS deposits in the same rock units that host PAM
- Two main trends of VMS mineralisation containing seven distinct mineralised centres defined over a total strike length of 22 kilometres
- Prospects include Les Essarts Prospect where shallow drilling by the BRGM during the 1970s recorded a number of zinc-lead-copper intersections of stratiform VMS mineralisation including:
  - 1.25 metre @ 7.0% zinc, 3.0% lead, 0.22% copper from 80 metres in LSS2
  - 1.0 metre @ 5.5% zinc, 2.7% lead and 0.26% copper from 66 metres in LSS3
- Drilling of PAM to commence shortly

## St Pierre

- Follow-up around a 21.5g/t gold rock chip at Belleville Prospect defined an 900 x 400 metre zone of strongly anomalous gold values with up to 2.4g/t gold in soils
- A historic data review at the Ville Tirard prospect revealed 1952 drilling intersected near-surface gold mineralisation with reported grades averaging around 3–4g/t gold over widths in excess of 15 metres
- Drill programmes to test these prospects planned to commence shortly

# Chairman's Letter

Dear fellow Variscan shareholders,

During the year we continued to concentrate on delivering Variscan's strategy of targeting 'brownfields' mineral projects in France – a country that has seen minimal modern exploration over the last two decades. We are now entering the exciting stage as we are about to commence drilling on the Merléac and St Pierre PERs.

We have the unique position of being the first mover in the renaissance of mineral exploration and development in France following the shift in government policy in 2012. We now hold a high quality project portfolio in France which includes gold, zinc, tungsten and tin targets. Your Directors consider we have strong prospects for an economic discovery.

Our ongoing progress has been against a backdrop of the usual market volatility. Although the S&P/ASX Metals and Mining Index ended about 13% above year ago levels, this was after it had fallen by 30% in January 2016. These movements were driven primarily by swings in metal prices and overall market sentiment. During the year our own share price has fluctuated between a low of 1.6 cents and a high of 3.2 cents, adjusted for entitlements issues we have made. We find this somewhat disappointing, given our Merléac zinc project is shaping up very well and the zinc price has started to reflect the supply cutbacks from mine closures.The London Metals Exchange 3-month Forward zinc price fell from around US$1,800/tonne to US$1,500/tonne by January 2016 but has now risen to around US$2,300/tonne.

Metals demand generally continues to grow modestly as Global Real GDP growth rates remain subdued and, in particular, China's metals demand growth has eased. Many metals markets appear to be at or close to demand/supply equilibrium and reported stocks tending to be reducing. This augurs well for prices looking forward as long as the demand side continues even modest growth.

In this regard, most Central Banks around the world continue to run very accomodative monetary policies as they continue to argue that deflation is a serious economic threat and inflation is generally contained around 1–2% in major developed economies. The US Federal Reserve is a potential exception where some increase in interest rates is being telegraphed. Overall, interest rates remain extremely low (or negative) by any historical comparison. However, these monetary policies have done little to stimulate real economic growth (and possibly the reverse) as the main beneficiaries of Zero (or Negative) Interest Rate Policies have been governments who predominantly continue to run large deficits which are primarily driven by consumption and entitlement spending rather than investment. It seems almost impossible to see through to: what happens next? There does seem a good possibility of strong demand and prices for gold (and other hard assets) as an investment preference by many investors as they seek a shelter from negative interest rates.

Despite these uncertainities many commodity prices are likely to strengthen as prices have been below the cash costs of higher-cost


producers, which sets the scene for the inevitable supply cuts. Any uplift in investment or financial demand for metals will amplify the uplift. We have finally seen the zinc prices reflect these forces at work which will help amplify the value we expect to add from our Porte-aux-Moines zinc deposit within our Merléac licence.

Variscan's exploration work in France is now about to gain substantial momentum after a five-year period of laying foundations. We have a strong working knowledge of the community, regulatory and geologic environments we are dealing with. This has been achieved through our small and enthusiastic team in Orleans, headed by Jack Testard.

Variscan now has a portfolio of six granted PER licences and a further two are proceeding through the regulatory processes. Four of the six granted PERs have non-JORC resources – an excellent start for future exploration.

With the support of shareholders who participated in our capital raisings we are now preparing to let the drill bit do the talking – initial programs are in preparation on the St Pierre gold and the Porte-aux-Moines zinc targets. We expect these programs will be the beginnings of a significant lift in activity.

On the St Pierre PER we have defined the Belleville and Ville Tirard gold prospects. At Belleville we have defined a 900 x 400 metre zone of strongly anomalous gold values up 2.4 grams/tonne gold in soils displaying a similar gross orientation to the gold-bearing shear structure at the La Belliere Mine which is reported to have produced 334,000 ounces gold. The Ville Tirard prospect is at the western end of the La Belliere shear system and limited previously reported drilling gave very encouraging results which will also be tested in Variscan's new drilling.

At Porte-aux-Moines we have assembled the available past data from the BRGM (French Government Geological Survey) and undertaken a Mineral Resource estimation to JORC 2012 reporting standards. We announced a Mineral Resource as at 31 May 2016 of 2.2 million tonnes of Indicated and Inferred Resources grading 6.0% zinc, 1.3% lead, 0.8% copper, 80.6 g/t silver and 0.9 g/t gold. An initial drilling program is expected to commence prior to year end with the objective of the geological interpretation and improving the confidence levels of the resource.

Of particular importance are the results of the VTEM (Versatile Time Domain Electromagnetic) and soil/rock chip geochemistry programs that show strong evidence that additional new volcanogenic massive sulphide deposits will be found in the same rock sequences that host Porte-aux-Moines.

Our aim at Porte-aux-Moines is to define enough high-grade tonnage to support the development of a low cost zinc-lead-copper-silver-gold mine.

The Beaulieu PER over France's largest hard-rock tin region was granted in 2015 and our team continues compiling the large volume of data that has been generated since modern mining commenced in the 1950s. Initial soil sampling over the main mineralised trend has progressed.

During the year the Silfiac and Loc Envel exploration licences were granted. Silfiac hosts the Plelauff zinc-lead-silver-germanium deposit which was subject to underground mine exploration by BRGM in the 1960s. This defined continuous mineralisation to a depth of approximately 130 metres, which is open at depth. Loc Envel covers a region with excellent potential for high-grade tungsten deposits notably around Coat-an-Noz. At Coat-an-Noz previous exploration reported high grade tungsten-copper drill intesections and generated a non-JORC resource.

The Company is in reasonable financial shape, primarily due to shareholders who supported our recent capital raisings. We have an active exploration program, including drilling campaigns planned in the coming year, which are funded by these raisings.

Variscan has concentrated its focus on exploration activities in France given the generally constrained availability of capital during the past year. As a consequence, we have limited our efforts for any new ventures, although our team is alert to opportunities in geologic environments and jurisdictions where we believe we have some competitive advantage or insight.

We continue to hold a number of investment positions in Thomson Resources Ltd, Silver City Minerals Limited and Eastern Iron Limited. We did take advantage of a spike in Silver City's share price to reduce our position but otherwise the investments remain static until we see developments within them.

Finally, I would like to acknowledge the continued dedication and hard work of our executive and staff led by our Managing Director, Greg Jones. The team remains enthusiastic as they focus on these things they can influence or control, namely, delivering our strategy in France.

I thank you for your continued support of our Company and look forward to further progress in France as we continue to build our unique story.

Pat Elliott
*Chairman*

# Operations Review

## Exploration

### FRANCE

#### Overview

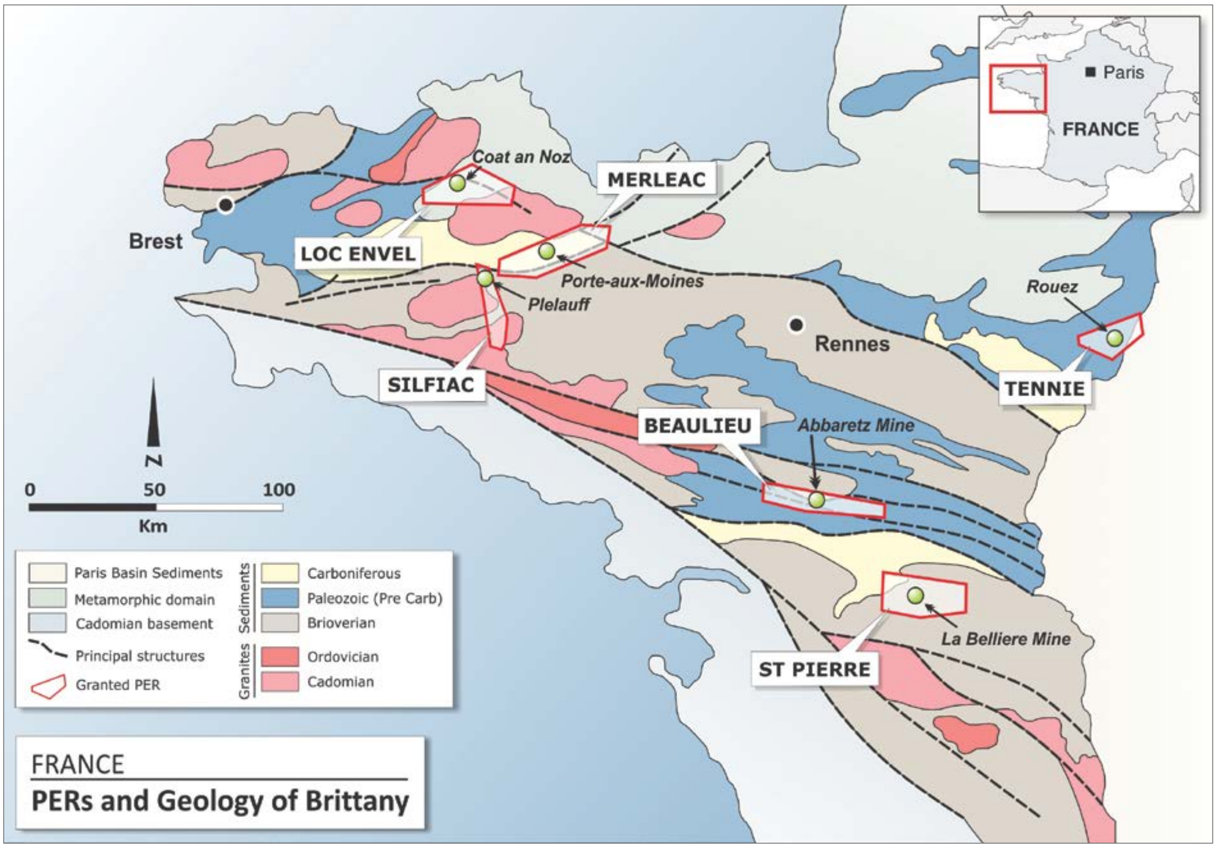
During 2015/16, Variscan Mines has targeted France for mineral deposits due to the country's favourable geology, good mineral endowment, excellent infrastructure, skilled workforce and strong government support. Variscan is one of the most active explorers in the region, and since 2011 has applied for a number of exploration licences over areas which have substantial old mine workings, mineralised zones defined by former exploration or contain non-JORC mineral resources as defined by previous owners.

In the past year Variscan was granted two additional exploration licences, the Loc Envel tungsten and Silfiac lead-zinc-silver PERs in Brittany, western France. Variscan now holds six licences in which it considers there is good potential for short-term resource generation and/or major new discoveries.

During 2015, the bulk of Variscan's exploration work focussed on its Merléac and St Pierre projects.

Granted exploration licences and licences still within the approvals process

| Project | Area ($km^2$) | Commodity | Significant old mines | High grades in exploration | Pre-JORC Resource | Type |
|---|---|---|---|---|---|---|
| Merléac | 411 | Zn, Pb, Cu, Ag, Au | | ✔ | ✔ | VMS |
| Silfiac | 173 | Zn, Pb, Ag, Ge | | ✔ | ✔ | Vein |
| Tennie | 205 | Zn, Pb, Cu, Au | ✔ | | | VMS |
| Beaulieu | 278 | Sn, W | ✔ | | ✔ | Stockwork and vein |
| Loc Envel | 336 | W, Cu | | ✔ | ✔ | Skarn and stockwork |
| St Pierre | 386 | Au | ✔ | ✔ | | Shear hosted |
| Applications | 42 | W, Cu, Au | ✔ | ✔ | ✔ | Skarn |
| | 166 | W | ✔ | | | Vein |




Project locations in France

## Merléac Project

The Merléac licence covers the eastern end of the Châteaulin Basin, a sequence of felsic volcanics and clastic sedimentary rocks containing a number of base and precious metal deposits. One of these is the high grade Porte-aux-Moines (PAM) volcanogenic massive sulphide (VMS) zinc-lead-copper-silver-gold deposit which lies near the centre of the licence about 125 kilometres west of Rennes, Brittany.

Following its discovery in 1975, the BRGM (Bureau de Recherches Géologiques et Minières – the French geological survey) completed considerable exploration on PAM, including about 9.5 kilometres of drilling and two kilometres of underground decline development. The work outlined zones of high grade lead-zinc-copper-silver-gold mineralisation up to 20 metres thick from surface to a depth of about 300 metres over a strike length in excess of 250 metres.

Aside from the underground development and sampling the deposit is essentially unmined.

In 2015 the Company accessed three remaining surface core holes from the BRGM exploration of PAM stored at the BRGM Orleans core farm. Resampling of mineralised intervals was completed and samples sent to ALS Geochemistry for confirmatory reassay. Results from this work confirmed the high-grade nature of the deposit with strong zinc dominant, polymetallic intersections recorded in all holes.

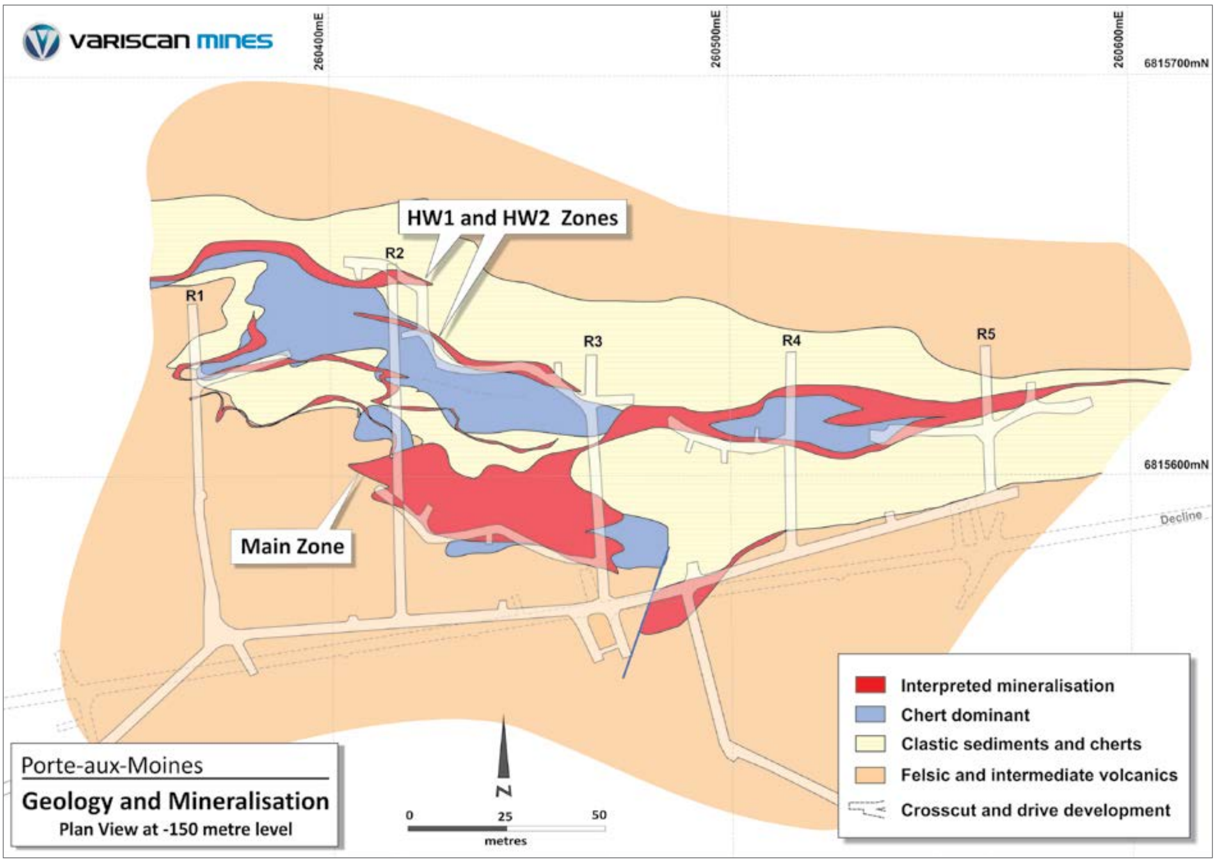
Importantly, the ALS assays were, on average, slightly higher grade than the original BRGM assays, confirming the general overall accuracy and the high quality of the BRGM work. This provides high confidence in the veracity of the BRGM assays for the remaining drilling and underground development.

### PAM Geology

The VMS mineralisation at PAM is broadly contained within a sequence of sediments and volcanics. Mineralisation occurs as multiple, disrupted sulphide lenses, mainly hosted by black shales and cherts.

Massive sulphides are very pyritic, with three main zones of mineralisation modelled to date from the BRGM data.

VTEM survey in progress showing the transmitting and receiving loops suspended below the helicopter.




Plan view of Porte-aux-Moines deposit showing interpreted mineralised zones and underground development completed by the BRGM

High grade, sphalerite (light honey colour) dominant massive sulfides in PAM5

Main Zone: This is the lowest stratigraphic horizon and is generally located at the interface between the volcanics and overlying host sediments, but is currently modelled to migrate into a more hanging-wall position to the east. The Main Zone can be subdivided into a thick zone of high-grade mineralisation (approximately 16 metres wide) that appears to have been deposited on the sea floor within a shallow depression, and thinner flanking mineralisation lateral to the thickened zone.

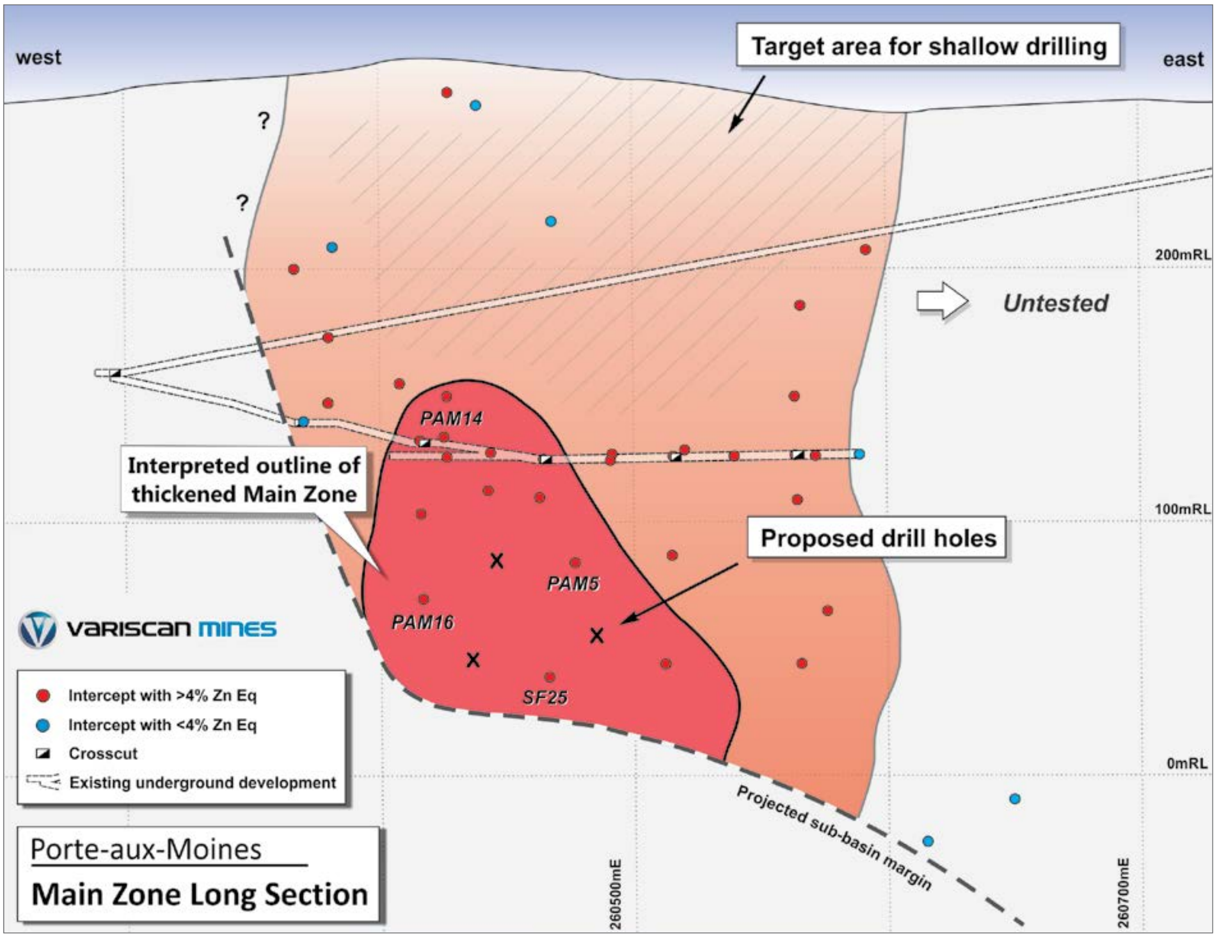
HW1 Zone: Mineralisation located up to about 20 metres into the hanging wall of the Main Zone. It is smaller and lower grade. However, the HW1 zone is laterally extensive and appears to have potential to extend to the west and down-dip.

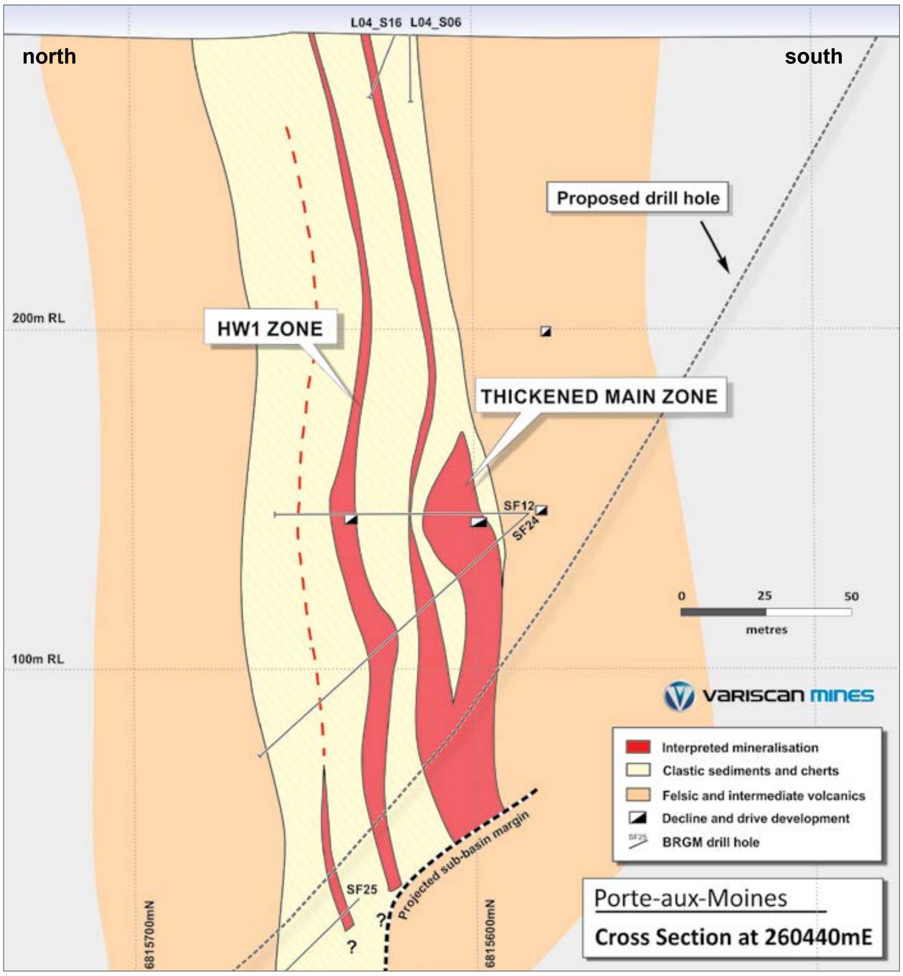
HW2 Zone: A small zone at the western end of the deposit.

## Porte-aux-Moines Mineral Resource

In June 2016 the company published a maiden Mineral Resource reported to JORC 2012.

The Mineral Resource for PAM is 2.2 million tonnes grading 6.0% zinc, 1.3% lead, 0.8% copper, 80.6 g/t silver and 0.9 g/t gold. This places the deposit within the first grade quartile for zinc-rich deposits worldwide, indicating good potential for economic extraction provided sufficient tonnage can be defined.




**Above**
Vertical long section of the Main Zone surface at Porte-aux-Moines showing the interpreted thickened zone and flanking mineralisation. Proposed deeper drilling pierce points shown as well as the target area for shallow drilling (hatched)

**Left**
Cross section through Porte-aux-Moines showing interpreted mineralised zones and proposed future drilling

## Porte-aux-Moines Mineral Resource as at 31 May 2016

| | Tonnes | Zinc % | Lead % | Copper % | Silver g/t | Gold g/t |
|---|---|---|---|---|---|---|
| **INDICATED** | | | | | | |
| Main | 291,000 | 6.1 | 1.2 | 0.8 | 76.5 | 0.9 |
| HW1 | – | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| HW2 | – | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | **291,000** | **6.1** | **1.2** | **0.8** | **76.5** | **0.9** |
| **INFERRED** | | | | | | |
| Main | 1,505,000 | 6.1 | 1.3 | 0.9 | 86.0 | 0.9 |
| HW1 | 361,000 | 5.1 | 1.3 | 0.3 | 61.3 | 0.8 |
| HW2 | 44,000 | 5.4 | 2.0 | 0.1 | 82.3 | 0.0 |
| **Total** | **1,910,000** | **5.9** | **1.3** | **0.8** | **81.2** | **0.9** |
| **TOTAL** | | | | | | |
| Main | 1,796,000 | 6.1 | 1.3 | 0.9 | 84.4 | 0.9 |
| HW1 | 361,000 | 5.1 | 1.2 | 0.3 | 61.3 | 0.8 |
| HW2 | 44,000 | 5.4 | 2.0 | 0.1 | 82.3 | 0.0 |
| **Total** | **2,201,000** | **6.0** | **1.3** | **0.8** | **80.6** | **0.9** |

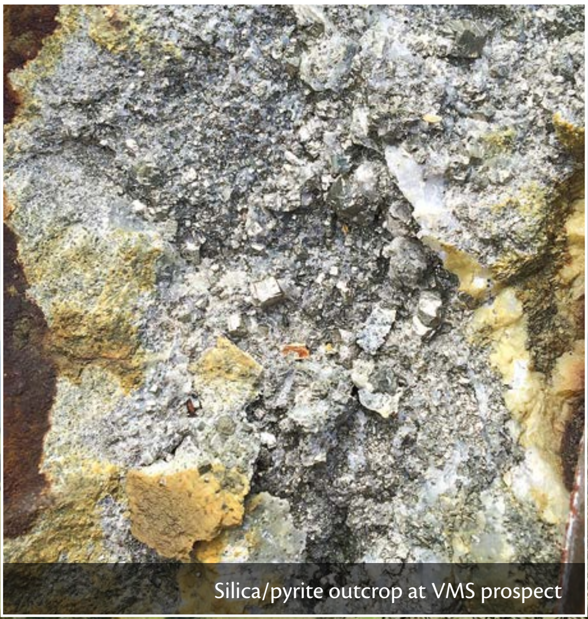
***Note:*** *Mineral Resource is based on a zinc cut-off of 8.0% Zn Eq. Calculations have been rounded to the nearest 1000 t, 0.1 % zinc, lead and copper grade, 0.1 g/t gold and silver grade.*

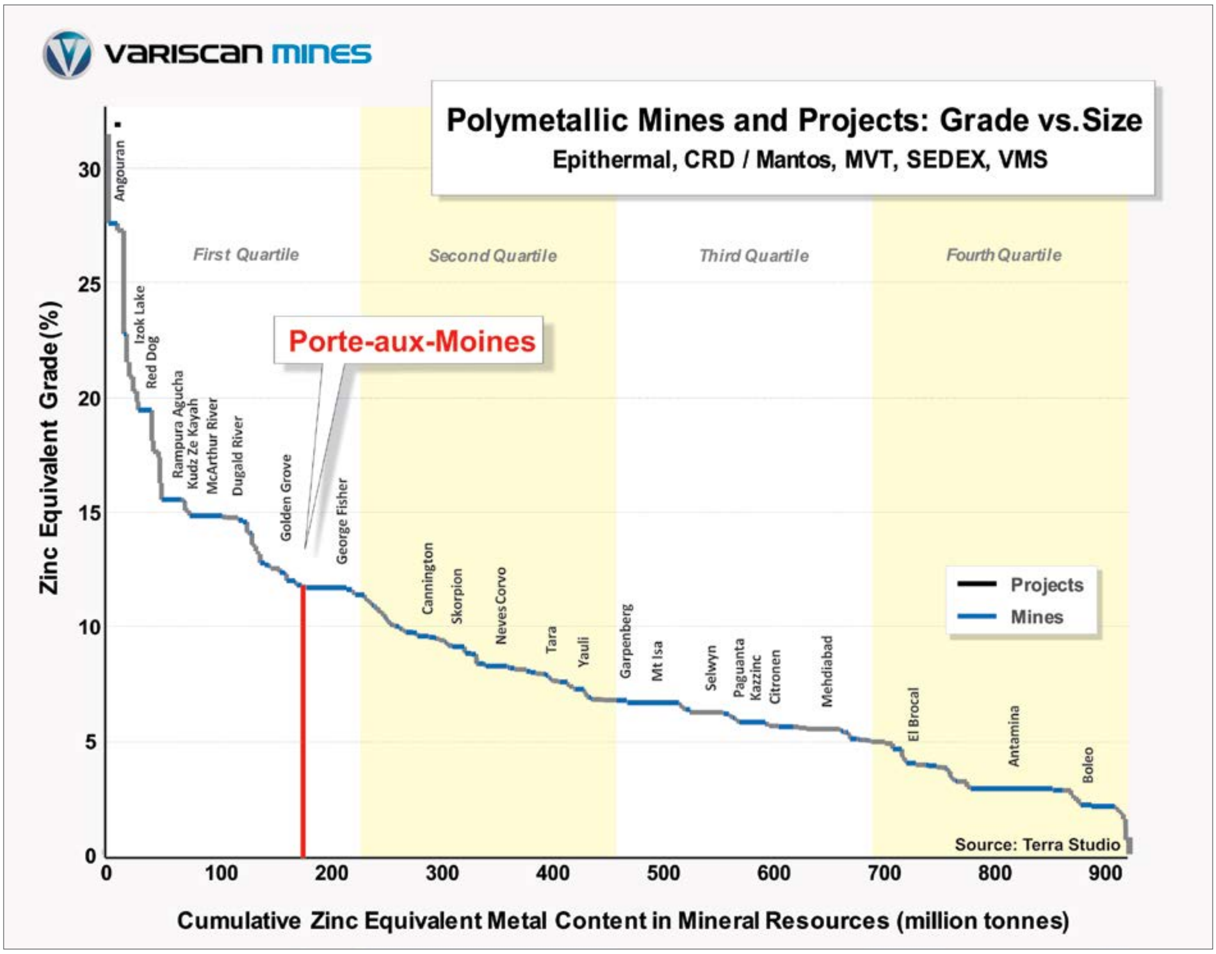
The Mineral Resource estimate was completed by QG Australia Pty Ltd, an independent consultancy group that specialises in resource estimation for deposits like PAM, from mineralisation domains and wireframes supplied by Variscan geologists.

Further drilling is required to confirm the geological interpretation, increase the tonnage of Indicated Mineral Resource and provide additional samples for confirmatory density measurements and gold assays. In the short term, deeper drilling is planned to test the thickened Main Zone and deeper parts of the HW1 zone.

In addition, later drilling may also infill the thinner, but shallower section of the Main Zone close to the surface, which has had little exploration in the past. There is good potential in this area to expand the Indicated Resource above the level of the former underground development.

Modelling work by Variscan indicates that approximately 3.5+ million tonnes of resource will be required at PAM to justify initiation of mine feasibility studies. Growing the size and enhancing the classification levels of the current 2.2 million tonne resource base to a level sufficient to allow the company to move into feasibility studies is a key priority.


Silica/pyrite outcrop at VMS prospect




Global ranking of projects and mines by grade and size compared to the mineral resources of about 300 zinc and polymetallic mines and projects worldwide. The zinc equivalent grade calculation represents the value for each metal – Zn (US$1,800 per tonne), Pb (US$1,800 per tonne), Cu (US$5,600 per tonne), Ag (US$15 per ounce) and Au (US$1,150 per ounce) – multiplied by the grade and estimated metal recoveries (Zn–90%, Pb–85%, Cu–80%, Ag–60%, Au–70%), summed and expressed in equivalent zinc percent per tonne. The zinc equivalent calculation is intended as an indicative value only. Source: Terra Studio

## Regional Exploration

The regional potential within the licence for additional VMS deposits is considered excellent.

PAM is hosted within a sequence of vitric tuffs and pyritic black shales (the mine sequence) which can be traced for approximately 80 kilometres along strike and within structurally repeated blocks in the Merléac licence. Within these rock units, outcropping gossanous zones containing highly anomalous base and precious metal values have been defined, interpreted to represent the oxidised expressions of underlying sulphides. Some of these gossans were previously mined by shallow open pits for iron up until the 19th century and generally have not been explored below the iron oxide cap aside from shallow BRGM drilling in some locations.

In September 2015, Variscan completed modelling of a large Versatile Time Domain Electromagnetic (VTEM) survey completed to test key mineralised areas in and around PAM and within the broader Merléac licence. The survey covered approximately 160 square kilometres of the southern section of Merléac, testing about 50 strike kilometres of the PAM mine sequence.

The survey successfully identified 14 high priority ‘Tier 1’ targets with moderate to strong, early to late time electromagnetic responses, in many cases similar to those generated at PAM and which are possibly caused by sulphide-rich bedrock sources. In addition, the survey identified approximately 50 other conductors possibly due to sulphide zones, but close to buildings, power lines or other ‘conductive’ infrastructure, requiring field checks to confirm the source of the anomalism.


Gossanous rock samples from Merléac

Follow-up of the VTEM and geochemical targets as well as review of previous exploration work has provided strong evidence that additional new VMS deposits will be discovered within the mine sequence. Two main trends over a total strike length of 22 kilometres hosting seven centres of base metal mineralisation have been defined, with highly geochemically anomalous rock chip/grab results recorded in recent sampling. At some prospects these assays are in proximity to strong VTEM anomalies, interpreted to be possible buried VMS deposits.

## PAM – Gausson Trend

This extensive east-west striking zone is the most important defined to date and stretches approximately 15 kilometres from PAM to the Gausson prospect in the east. Five main areas of VMS mineralisation have been defined within sediments and volcanics along the general PAM VMS deposition horizon.

### La Pris Mallard Prospect

This prospect also includes a Tier 1 VTEM anomaly located about 5 kilometres east of PAM. Previous BRGM work included shallow percussion and core drilling which recorded base metal sulphides and strong sericite-quartz-pyrite altered volcanics just west-south-west of the strong VTEM anomaly.

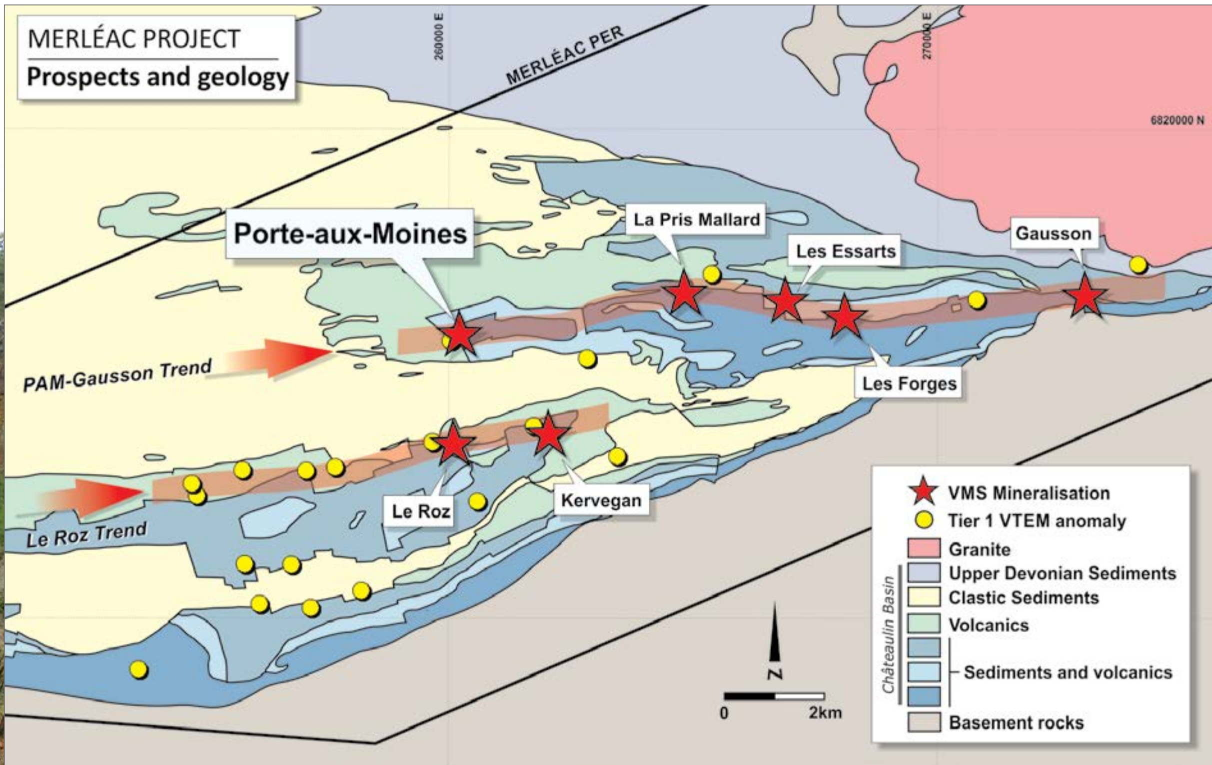
Rock chip/grab samples by Variscan of gossanous material representing oxidised semi-massive and massive sulphide and stockwork sulphide-veined material recorded individual assays of up to 6.1% lead, 800ppm zinc and 1840ppm copper, confirming this as a likely centre of VMS mineralisation.

### Les Essarts Prospect

This advanced prospect is approximately 700 metres in strike length and was drilled to a shallow depth by the BRGM during the 1970s. The drilling recorded a number of zinc-lead-copper intersections of stratiform VMS mineralisation including:

- 1.25 metres @ 7.0% zinc, 3.04% lead, 0.22% copper from 80 metres in LSS2; and
- 1.0 metre @ 5.49% zinc, 2.72% lead and 0.26% copper from 66 metres in LSS3.

The BRGM work has clearly identified another centre of VMS mineralisation broadly analogous to PAM.



Key VMS prospects within the Le Roz and PAM-Gausson mineralised trends. Summary of BRGM geology

## Les Forges Prospect

The prospect lies approximately 1.2 kilometres east of Les Essarts. Previous work by Variscan included sampling of a group of old iron workings that mined gossanous material displaying box-work textures after base metal sulphides.

Highly elevated results up to 1986ppm zinc, 318ppm lead, 638ppm copper and 260ppb gold were recorded over a strike length of about 700 metres, again believed located within the same rock package that hosts PAM.

## Gausson Prospect

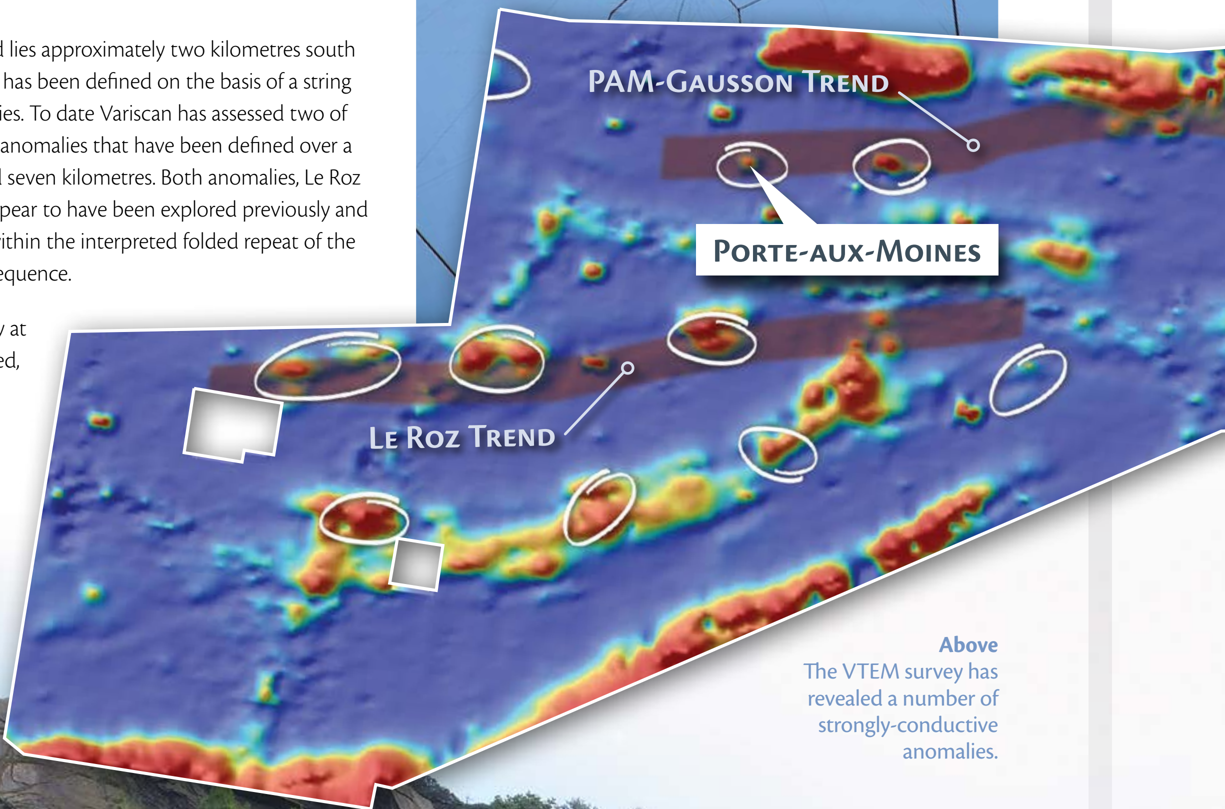
Former work by the BRGM included shallow drilling to the southwest of a strong VTEM anomaly, intersecting low grade stockwork copper mineralisation.

Recent Variscan rock chip and float sampling (including the VTEM target) returned elevated surface values, believed associated with VMS mineralisation, up to 875ppm zinc, 1991ppm lead, 917ppm copper and 90ppb gold.

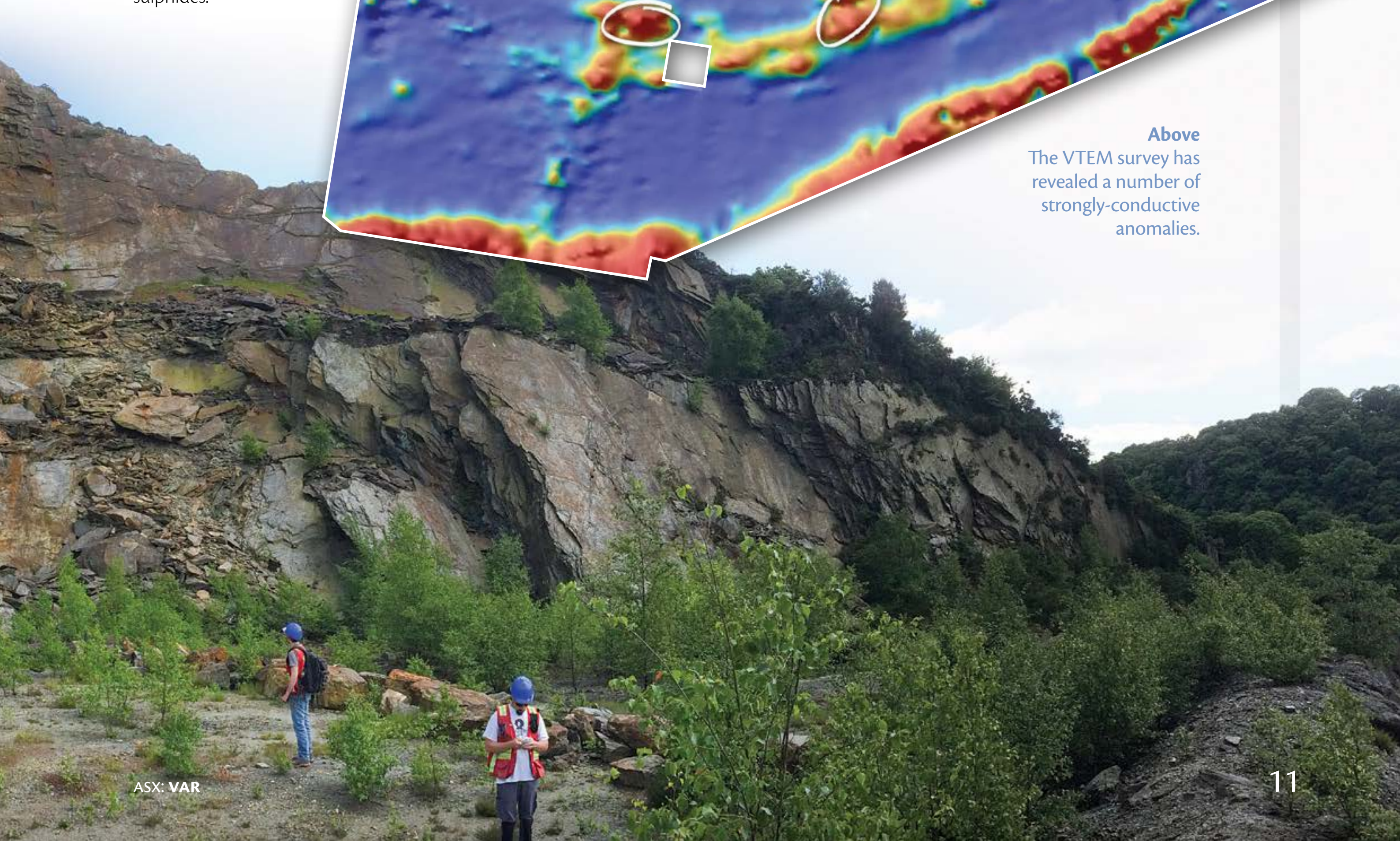
## Le Roz Trend

This newly defined trend lies approximately two kilometres south of the PAM deposit and has been defined on the basis of a string of strong VTEM anomalies. To date Variscan has assessed two of the seven 'Tier 1' VTEM anomalies that have been defined over a strike distance of around seven kilometres. Both anomalies, Le Roz and Kervegan do not appear to have been explored previously and are favourably located within the interpreted folded repeat of the PAM mineralised rock sequence.

Base metal geochemistry at both prospects is elevated, particularly at Le Roz, indicating the possible presence of base metal sulphides.




**Above**
The VTEM survey has revealed a number of strongly-conductive anomalies.



Soil sampling at St Pierre

## St Pierre Gold Project

The St Pierre PER covers the La Bellière gold mine believed to be the third largest gold producer in France. Until 1952 the mine produced about 338,000 ounces of gold from veins grading 12g/t gold, hosted within an east-west oriented shear zone.

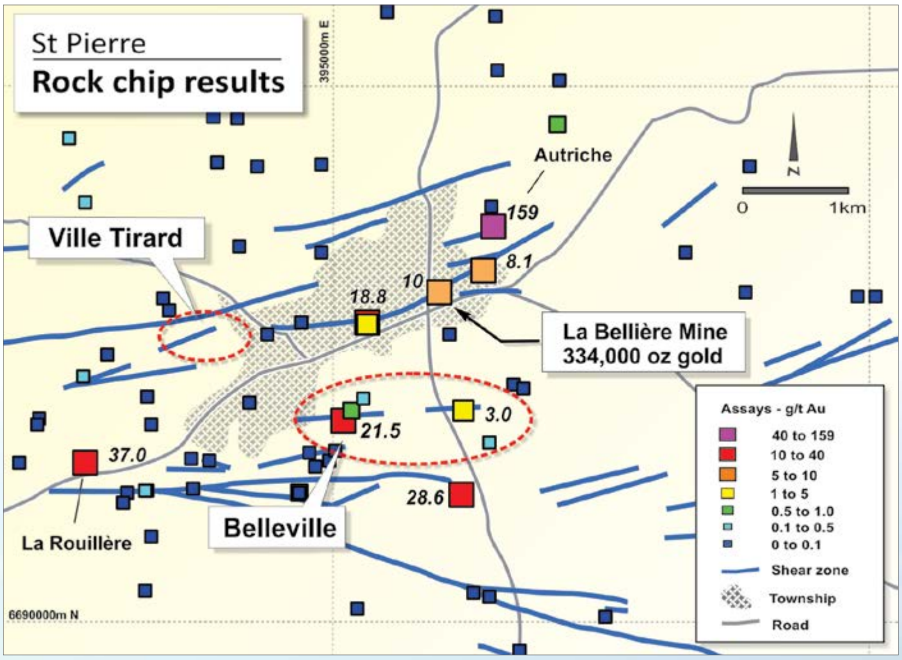
Variscan exploration within the licence has included a broad programme of rock chip and float sampling which generated a number of high grade results up to 159g/t gold across five main areas of interest. Follow-up detailed soil sampling has been completed at selected prospects, with additional analysis of historical mine and exploration work.

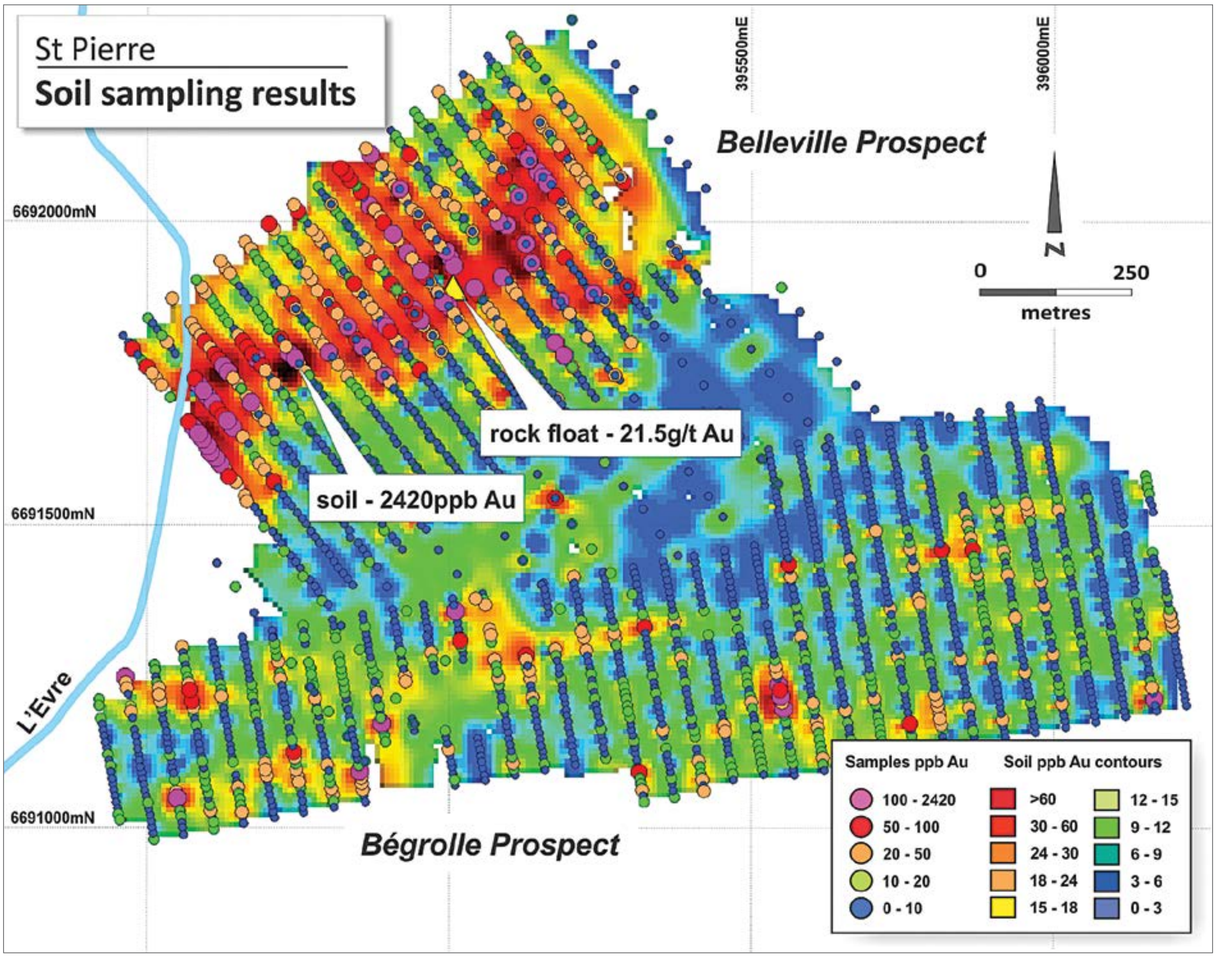
Two areas for drilling have been defined at Ville Tirard and Belleville to the west and south of the St Pierre township where a proposed combination of shallow traverse RC and core diamond drilling will test these high quality targets later in 2016.

### Belleville

Initial work by Variscan at the Belleville prospect included prospect scale rock chip and grab sampling which generated high-grade samples up to 21.5g/t gold from quartz-rich float in the centre of the prospect.

Rock chip / float sampling results, mapped shear zones and key prospect locations




Belleville / Bégrolle gold prospects at St Pierre showing soil sampling completed to date and strong anomalism defined

Detailed follow-up sampling in two programmes defined a 900 x 400 metre zone of strongly anomalous gold values up to 2.4g/t gold (or 2420ppb gold) in soils displaying a similar gross orientation to the gold bearing shear structure at the La Bellière Mine.

Former BRGM exploration in this area included shallow percussion drilling (generally around 40–50 metres deep) which, from available data, appears to have only tested the northern section of the anomaly, intersecting gold-bearing zones.

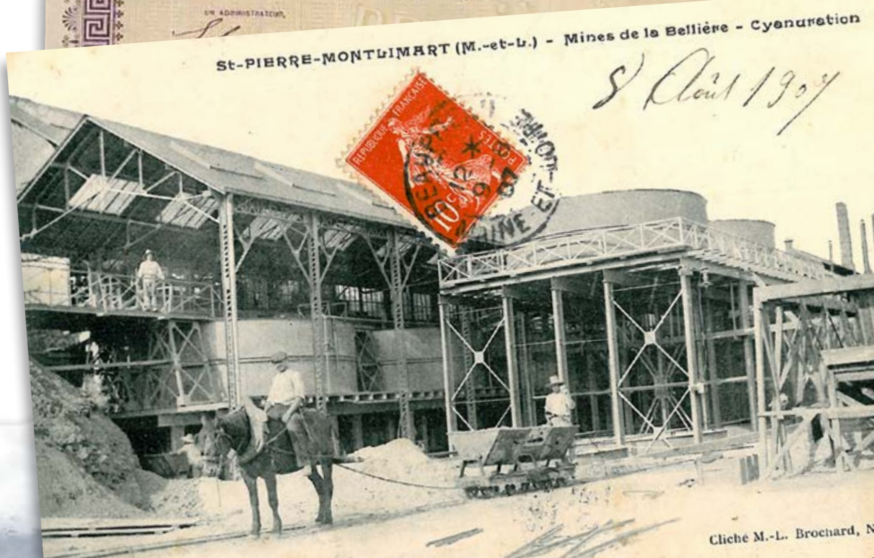
Two traverses of inclined shallow RC drilling have been planned to test the anomaly across the interpreted east-north-east striking shear zone. This will commence once access agreements are signed, final local approvals are gained and a rig mobilised to site.

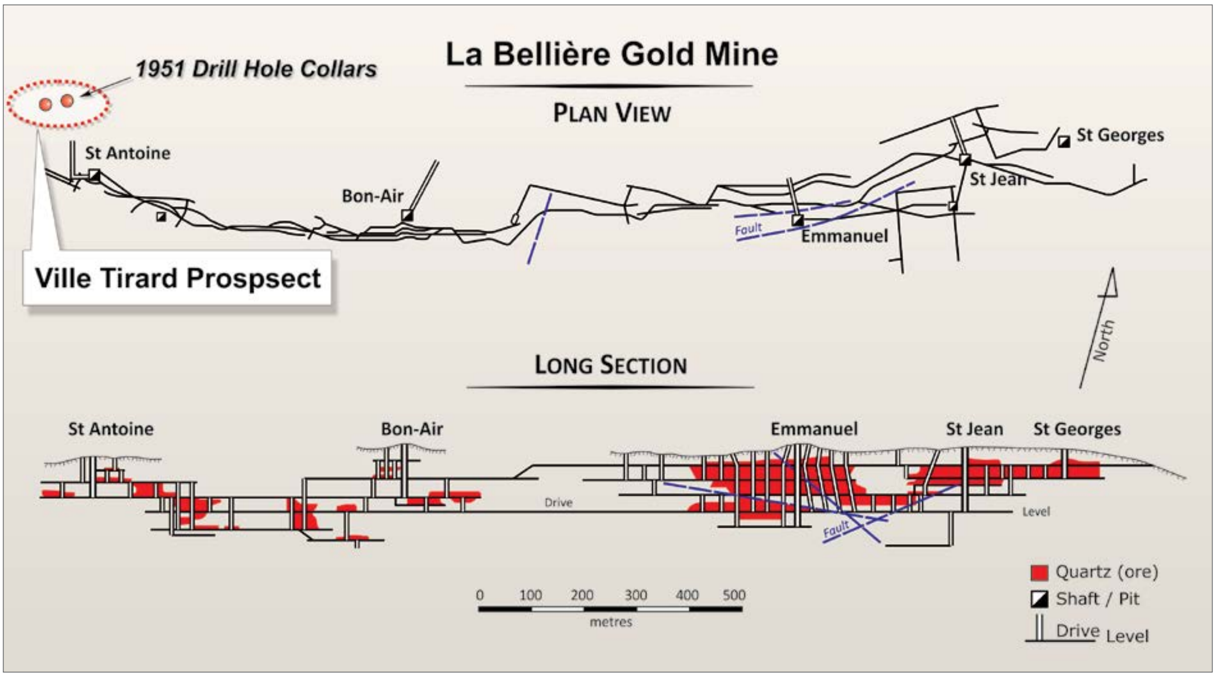
## Ville Tirard

During the final years of mining in the St Pierre region, two inclined drill holes (circa 1952) approximately 40 and 60 metres deep are recorded to have been drilled below outcropping mineralisation at the western end of the main La Bellière shear system approximately 200 metres north of the old St Antoine gold mine.

In reports held by the BRGM both holes are recorded to have intersected broad zones (estimated >15–20 metres true width) of gold mineralisation with individual assays between 0.5 to 33g/t gold, averaging in the range of 3–4 g/t Au.

Given the age of the drilling, the precise position of the collars is uncertain, so the Company plans to drill two shallowly inclined core holes, each about 150 metres, to cross the projected position of the shear and to attempt to intersect the mineralisation.




Approximate location of Ville Tirard prospect and drill collars from 1952 drilling projected onto the plan view of La Bellière gold mine workings

## Other Projects

During 2016 two further licences were granted, Silfiac and Loc Envel, and work commenced on the Beaulieu tin project.

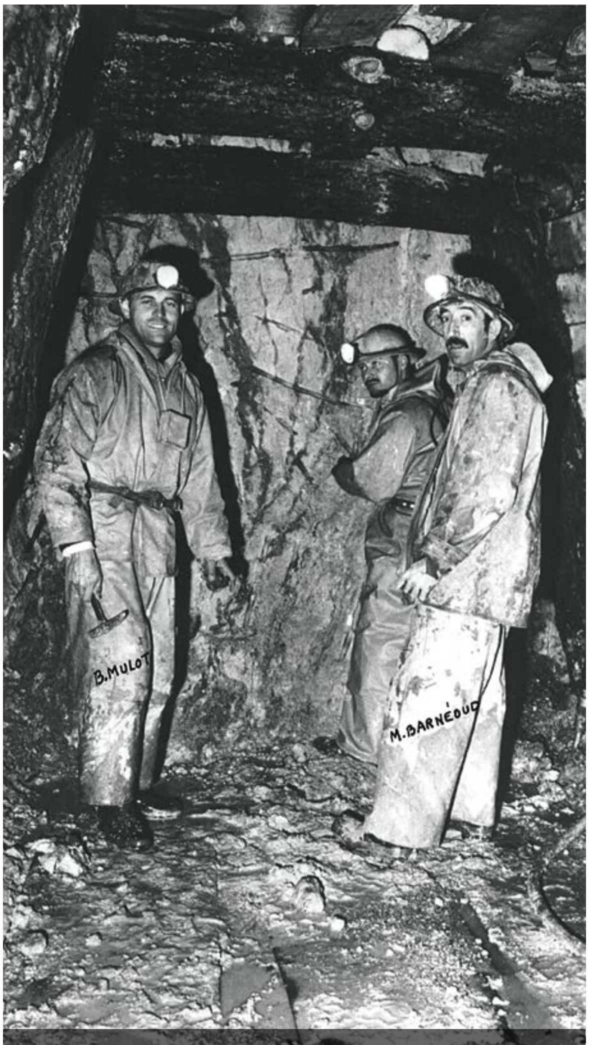
## Silfiac Project

The Silfiac licence covers a region where high grade, zinc-lead-silver-germanium vein systems had previously been discovered and described by the BRGM. The licence covers 173 square kilometres over a set of north-north-west oriented shears which host the veins within metamorphosed sediments and an intrusive granodiorite complex.

These veins are considered attractive exploration targets as they:

1. display close geological similarities to the Saint Salvy deposit, southern France, which produced a total of 2.8Mt at 11.7% zinc, 150 g/t germanium and 38 g/t silver; and
2. lie within a short trucking radius (approx. 25 kilometres) of the Porte-aux-Moines VMS deposit.

The most important deposit defined to date is the high-grade Plélauff zinc-lead-silver-germanium deposit believed to have been mined around the 8th Century. From 1961 to 1963 the BRGM completed substantial underground mine development on Plélauff, sinking a shaft and developing two main levels at 80 and 130 metres below the surface, strike driving the lode and systematically channel sampling and mapping the deposit.

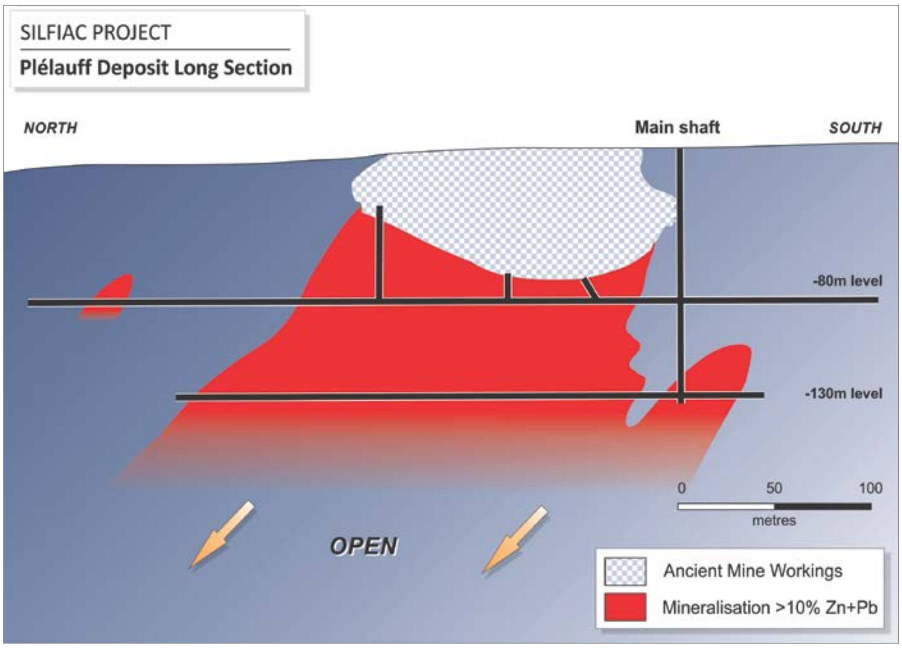



Underground crew on the 130m level at Plélauff

This work successfully defined continuous, high grade zinc-lead-silver-germanium (>10% zinc + lead) mineralisation averaging between 2.5 to 4 metres thick over a strike length of 230 metres on the lower level and indicated that mineralisation is possibly increasing in strike length at depth.

The potential to expand the deposit is excellent. No drilling has been completed at Plélauff and it remains open at depth.

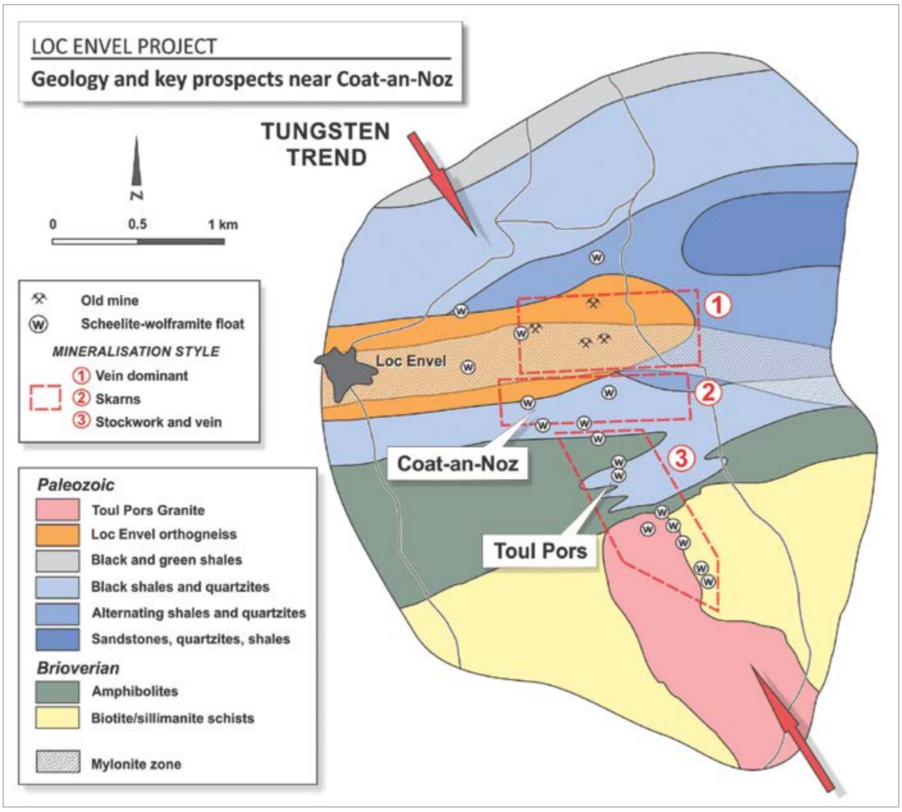
Elsewhere within the Plélauff shear, additional mineralised dilational jogs can be expected and the scope for the discovery of unexplored and blind ore shoots within the Plélauff structure is considered high.




**Top**
Surface infrastructure of main shaft at Plélauff.

**Inset**
Mine development at Plélauff.

**Left**
Long section of the Plélauff zinc-lead-silver-germanium deposit as defined in underground development by the BRGM.



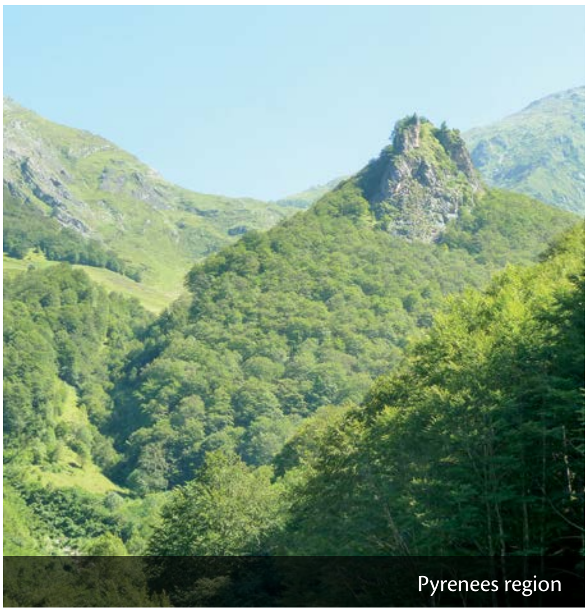

Geology and main prospect areas near Coat-an-Noz (map courtesy of Prof Eric Marcoux, University of Orleans)

## Loc Envel Tungsten Project

The Loc Envel licence covers an area of 336 square kilometres in northwest Brittany over a region believed to have good potential for high grade tungsten-copper deposits.

Work by Variscan has identified several potentially commercial styles of deposits closely associated with several trondhjemite intrusives. The most important is the high grade Coat-an-Noz scheelite + chalcopyrite skarn which has been defined in exploration carried out from 1960 to 1977 by the BRGM and SNEAP (Société National Elf Aquitaine Petroliers).

Although data from this exploration is yet to be accessed and evaluated, diamond drilling from the Coat-an-Noz prospect is reported to have generated high grade tungsten (>1% WO3+copper) intercepts within the laterally continuous skarn system and enabled SNEAP to calculate a non-JORC mineral resource.



Pyrenees region

## Beaulieu Tin Project

The Beaulieu exploration licence covers 278 square kilometres over a tin-rich region 40 kilometres north of the port city of Nantes. Tin is believed to have been mined from the region since 1200BC and during the modern era significant production was derived from the Abbaretz mine. Following the closure of the mine, the BRGM conducted significant exploration in the region during the 1960s and 1970s, defining non-JORC resource estimates at the Beaulieu and Chenaie prospects.

The Company considers the exploration potential for economic tin deposits within the licence to be very good and has commenced work including soil sampling around the main areas of mineralisation to help define the extent of the tin bearing zones as a precursor to drilling.

## Future Projects

Variscan has other exploration licence applications within the approvals process, covering prospects with good potential for short term resource generation and/or major new discoveries.

## AUSTRALIA

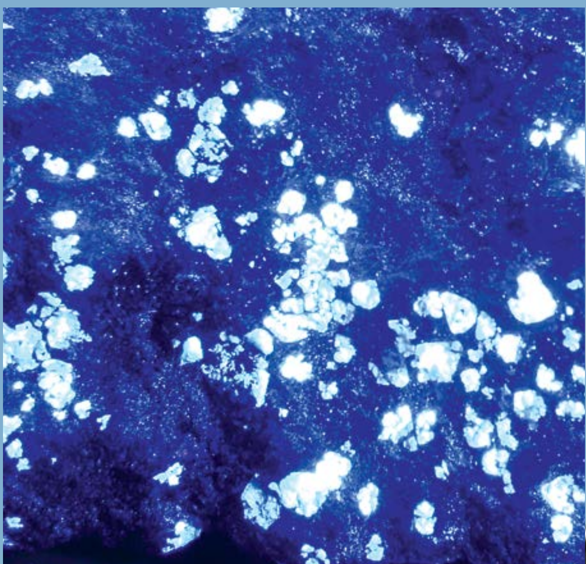
During the year exploration of Variscan's current joint venture properties was relatively subdued in line with the quiet markets where availability of risk capital was restricted. A total of A$0.38 million was spent by Variscan's joint venture partners in comparison to A$0.17 million from the previous year.

# Investments

Variscan maintains a diversified portfolio of investments within a number of ASX-listed resource companies. The companies within the portfolio are:

- ▲ **Eastern Iron** – Advanced iron project and potential for VMS copper-gold mineralisation in Victoria
- ▲ **Silver City Minerals** – Exploration interests at Broken Hill, NSW; and
- ▲ **Thomson Resources** – Large landholdings for copper, gold and tin within the Thomson and Lachlan Fold Belts, NSW.

The value of the Variscan shareholdings in these companies at the end of the year stood at approximately A$1.58 million.



Tungsten-rich rock sample under UV light from a project area under PER application. The intensely fluorescent mineral is scheelite.

## Competent Persons Statements

*The information in this report that relates to all Exploration Results, and the Geology, Data, Mineralisation Interpretation and Wireframes of the Porte-aux-Moines Mineral Resource estimate is based on information compiled by Greg Jones, BSc who is a member of the Australasian Institute of Mining and Metallurgy. Mr Jones is a Director of Variscan Mines Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jones consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this report that relates to the Block Modelling and Mineral Resource estimate at the Porte-aux-Moines VMS deposit is based on information compiled by Michael Job , BSc and MSc, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Job is a Senior Principal Consultant at QG Australia Pty Ltd and 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Job consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

# Tenement Schedule

As at 13 September 2016

| Tenement | Tenement No. | Interest | Joint Venture Details |
|---|---|---|---|
| **New South Wales** | | | |
| ***Broken Hill*** | | | |
| Yalcowinna | EL 8078 | 0% | Note 1 |
| Mundi Plains JV | EL 6404 | 15.9% | Teck 84.1%, Iluka earning |
| Willyama | EL 8075 | 0% | Note 1 |
| Hillston | EL 6363 | 39.2% | Perilya can earn 80%, Eaglehawk 9.8% |
| Native Dog | EL 8236 | 0% | Note 1 |
| ***Lachlan Fold Belt*** | | | |
| Woodlawn South | ELs 7257 and 7469 | 0% | Royalty interest only |
| Achilles and Chiron | ELs 7746 and 7931 | 25% | Kidman 51% can earn 80%, Thomson 24% |
| **South Australia** | | | |
| Junction Dam | EL 5682 | 12.7% | Teck 84.1%, Eaglehawk 3.2%, Iluka earning,<br>Marmota 100% in uranium rights only, Note 2 |
| Callabonna | EL 5360 | 100% | Red Metal can earn 70% |
| **France** | | | |
| Tennie | PER | 100% | |
| St Pierre | PER | 100% | |
| Merleac | PER | 100% | |
| Beaulieu | PER | 100% | |
| Loc Enrel | PER | 100% | |
| Silfiac | PER | 100% | |

EL: Exploration Licence

PER: Permis Exclusif de Recherche (France)

Note 1: These tenements are subject to agreements with Silver City Minerals Limited whereby Silver City Minerals Limited must meet expenditure commitments within various time frames. Under an agreement with Silver City Minerals Limited, Broken Hill Operations and Eaglehawk Geological Consulting Pty Ltd, Variscan has converted its interest in parts of these tenements to a Net Smelter Return (NSR).

Note 2: Marmota has earned 100% of the uranium rights only in EL 4509. Variscan has retained a 3.75% net profits royalty on production from a uranium mine. These interests are calculated at 30 June 2016.

# Summary of Joint Ventures

As at 13 September 2016

## Achilles and Chiron

*ELs 7764 and 7931, NSW*

Variscan 100%. Kidman Resources Limited can earn an 80% interest in these tenements by completing expenditure of $210,000 over a three year period. To date Kidman has earned a 51% interest with Variscan holding 25% and Thomson 24%. When Kidman has earned 80% Variscan and Thomson hold 10% each. At this stage any party may contribute according to their interest or dilute. Variscan and Thomson may then elect to revert to a free carried 5% interest.

## Callabonna

*EL 5360, SA*

Variscan 100%. Red Metal can earn a 51% interest by spending $1 million and a 70% interest by spending $3 million. Variscan then can contribute with 30% or reduce to a 15% interest, carried to completion of a BFS and repayable from Variscan's share of net proceeds of mine production.

## Hillston

*EL 6363, NSW*

Variscan 39.2% and Eaglehawk 9.8%, Perilya 51%. Perilya can earn an 80% interest in this tenement by completing expenditure of $1.5 million. Variscan and Eaglehawk can then each participate with their respective interests of 16% and 4% or convert to a 10% and 2.5% free-carried interest to completion of a BFS. On completion of a BFS, Variscan and Eaglehawk can participate or convert their interests to a NSR royalty.

## Junction Dam

*EL 4509, SA*

Variscan 12.7%, Teck 84.1% and Eaglehawk 3.2% in base and precious metal rights. Variscan can elect to participate with at its interest rate that is current at the time of election or dilute to a NSR royalty.

Marmota Energy Limited has earned a 100% interest in the uranium rights only. Marmota is sole funding exploration and Variscan, Teck and Eaglehawk are entitled to receive a combined royalty of 5% Net Profits on production from a uranium mine on the tenement.

## Mundi Plains

*EL 6404, NSW*

Variscan 5.9%, Teck Australia 84.1%. Both parties to contribute to approved programs or dilute their interest. If Variscan's interest falls below 8% it may elect to revert to a 2% NSR interest.

## Woodlawn South

*ELs 7257 and 7469, NSW*

Variscan holds a NSR royalty interest.

## Willyama, Yalcowinna and Native Dog

*ELs 8075, EL 8078 and 8236, NSW*

Under various agreements with Silver City Minerals Limited, Variscan holds a NSR royalty interest.

# Directors' Report

Your directors submit their report for the year ended 30 June 2016.

## DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

**Patrick Elliott,** BCom, MBA, CPA
*Chairman*

Patrick was appointed a Director of the Company on 22 December 2008 and is a company director specialising in the resources sector with over 40 years' experience in investment and corporate management. His early career was at Consolidated Gold Fields Australia Limited and covered investment analysis and management, minerals marketing (copper, tin, rutile and zircon). In 1979 he went into investment banking and became Head of Corporate Finance for Morgan Grenfell Australia Limited in 1982. Patrick subsequently became Managing Director of Natcorp Investments Ltd in 1986 which owned a number of manufacturing businesses. After its takeover he became an active early stage venture capital investor with an emphasis on resources.

Patrick is Chairman of Argonaut Resources NL and Chairman of Cap-XX Limited (Australian company listed on AIM) and Tamboran Resources Limited (unlisted public company). He is also a director of a number of privately owned companies.

During the past three years Patrick has also served as a director of the following other listed companies:

- Argonaut Resources NL – appointed June 2003
- Global Geoscience Limited – appointed April 2003
- Cuesta Coal Limited – appointed October 2011, resigned November 2014

**Gregory Jones,** BSc (Hons), MAusIMM, MAIG
*Managing director*

Greg was appointed Managing Director on 20 April 2009. Greg is a geologist with over 30 years of exploration and operational experience gained in a broad range of metalliferous commodities within Australia and overseas. Greg has held senior positions in a number of resource companies including Western Mining Corporation and Sino Gold Mining Limited. His experience spans the spectrum of exploration activity from grass-roots exploration through to resource definition and new project generation, as well as mine geology, ore resource/reserve generation and new mine development.

Greg was awarded the Institute Medal for academic excellence whilst at university and is credited with several economic discoveries including the Blair nickel and the Orion gold deposits in Western Australia. He is a director of Eastern Iron Limited, Silver City Minerals Limited, Thomson Resources Ltd and Moly Mines Limited.

During the past three years Gregory has also served as a director of the following other listed companies:

- Eastern Iron Limited – appointed April 2009
- Silver City Minerals Limited – appointed April 2009
- Thomson Resources Ltd – appointed July 2009
- Moly Mines Limited – appointed August 2014

**Kwan Chee Seng**
*Non-executive director*

Chee Seng was appointed a Director of the Company on 17 February 2009. Chee Seng has investments in the renewable sustainable energy, base metal resources and the biotechnology businesses. He has extensive experience in senior management and in business.

In March 2009, Chee Seng launched his fund management business with the incorporation of Luminor Capital Pte Ltd and Luminor Pacific Fund 1 Ltd (Fund 1). Recently he has launched Luminor Pacific Fund 2 Ltd (Fund 2). The Fund 1 and Fund 2 have been approved by the Economic Development Board of Singapore under the Global Investor Program.

In December 2012, Chee Seng acquired a major shareholder stake in Singapore listed GRP Limited, and in March 2013 he was appointed Executive Director of GRP. He has previously served as Non-Executive Director of Singapore listed companies Van der Horst Energy Limited (from March 2008 to November 2011) and Viking Offshore and Marine Ltd (from mid-2009 to end 2010).

During the past three years Mr Kwan has not served as a director of any other ASX listed company.

**Dr Foo Fatt Kah,** MB, BCh, BAO, MBA
*Non-executive director*

Dr Foo was appointed a Director of the Company on 7 October 2009. Dr Foo is the Managing Director and co-founder of Luminor Capital, a private equity fund management company based in Singapore. He has over 20 years' experience in the investment banking, fund management and advisory businesses spanning Europe and Asia. He was previously Head of Asian Equities for SG Securities Asia (the Asian Investment Banking business for Societe Generale) covering 10 Asian countries ex-Japan. Since 2004 Dr Foo has been active as an investor, overseeing investments in Resources, Energy and Healthcare.

Dr Foo is qualified in Medicine (MB, B Ch, BAO) and Business Administration (M.B.A.) from the Queen's University, United Kingdom, with further continuing education qualifications from Insead on Economic Value Added (EVA) and International Project Management. He has experience with listed companies in Singapore, being previously Executive Director of CyberVillage Holdings Ltd and currently Lead Independent Director of PEC Ltd.

During the past three years Dr Foo has not served as a director of any other ASX listed company.

**Michael Moore** BEng (Hons), MAusIMM, MAICD
*Non-executive director* (appointed 4 August 2015)

Mike is a mining engineer from the Camborne School of Mines with over 15 years operational and executive management experience across a diverse range of commodities in Australia, West Africa and France. He has previously held senior and executive management roles with a number of companies including Rock Australia Mining & Civil Pty Ltd, Carnegie Minerals PLC and, more recently, with ASX listed Montezuma Mining Company Ltd where he was CEO. Mike's experience includes mine feasibility studies and mine operations, important in supporting Variscan's strategy to successfully advance its French projects towards production.

Mike has previously been a director of Carnegie Minerals Gambia Ltd and Cordier Mines SAS (France).

Mike was appointed a Non-Executive Director on 4 August 2015.

During the past three years Mike has not served as a director any other ASX listed company.

**Dr Jack Testard**
*Executive director*

Jack was appointed a Director of the Company on 14 May 2014. Jack is a French geologist with over 40 years of experience in Europe, Africa, CIS countries, Turkey, Saudi Arabia and Guyana. Jack was formerly Head of the Minerals Resources Division of the BRGM (Bureau de Recherches Géologiques et Minières – the French Geological Survey), President of GIP GEODERIS and Manager of the Ovacik gold mine in Turkey under Normandy La Source. Dr Testard is President of Variscan Mines SAS, the wholly owned French subsidiary of Variscan Mines Limited, based out of Orleans, France.

Jack is currently President of the French Chamber of Mines, Treasurer of the Federation of Minerals and Non Ferrous Metals (FEDEM) and a Director of the Société de l'Industrie Minérale (SIM).

During the past three years Jack has not served as a director of any other ASX listed company.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at the date of this report, the interests of the Directors in the shares and options of Variscan Mines Limited were:

| Directors | Shares directly and indirectly held | Options directly and indirectly held |
|---|---|---|
| P Elliott | 7,365,786 | 5,136,460 |
| G Jones | 9,353,219 | 10,139,999 |
| C S Kwan | 154,080,846 | 72,535,368 |
| F K Foo | 19,930,911 | 11,118,348 |
| M Moore | – | 1,000,000 |
| J Testard | 200,000 | 3,400,000 |

## COMPANY SECRETARY

**Ivo Polovineo,** FIPA
Ivo Polovineo was appointed Company Secretary of the Company on 31 December 2010. Ivo has over 30 years' experience in corporate accounting, finance and company secretarial work for a diverse range of companies. He has spent the past 20 years in senior management roles in the resources sector including seven years as Company Secretary (and five years as CFO) of Sino Gold Mining Limited (a former ASX 100 company) until December 2009.

Ivo is currently also Company Secretary of Thomson Resources Ltd, Silver City Minerals Limited and Lynas Corporation Ltd.

## PRINCIPAL ACTIVITIES

The principal continuing activity of the consolidated entity is the exploration for economic base and precious metals, tin and tungsten deposits.

## RESULTS

The net result of operations of the consolidated entity after applicable income tax was a loss of $1,360,558 (2015: loss $1,929,515) which includes the write-off of exploration expenditure during the year of $31,845 (2015: $198,419).

## DIVIDENDS

No dividends were paid or proposed during the year.

## REVIEW OF OPERATIONS

The most significant developments in the Company's operations and financing activities were:

## EXPLORATION

### France

#### Overview

Variscan Mines has targeted France for mineral deposits due to the country's favourable geology, good mineral endowment, excellent infrastructure, skilled workforce and strong government support. In the past year Variscan was granted two additional exploration licences, the Loc Envel tungsten and Silfiac lead-zinc-silver PERs in Brittany, western France. Variscan now holds six licences in which it considers there is good potential for short term resource generation and/or major new discoveries.

During the financial year the bulk of Variscan's exploration work focussed on its Merléac and St Pierre projects.

## Merléac Project

The Merléac licence covers the eastern end of the Châteaulin Basin, a sequence of felsic volcanics and clastic sedimentary rocks containing a number of base and precious metal deposits. One of these is the high grade Porte-aux-Moines (PAM) volcanogenic massive sulphide (VMS) zinc-lead-copper-silver-gold deposit which lies near the centre of the licence about 125 kilometres west of Rennes, Brittany.

Following its discovery in 1975, the BRGM (Bureau de Recherches Géologiques et Minières – the French geological survey) completed considerable exploration on PAM, including about 9.5 kilometres of drilling and two kilometres of underground decline development. The work outlined zones of high grade lead-zinc-copper-silver-gold mineralisation up to 20 metres thick from surface to a depth of about 300 metres over a strike length in excess of 250 metres.

In 2015 the Company accessed three remaining surface core holes from the BRGM exploration of PAM stored at the BRGM Orleans core farm. Resampling of mineralised intervals was completed and samples sent to ALS Geochemistry for confirmatory reassay. Results from this work confirmed the high grade nature of the deposit with strong, zinc dominant, polymetallic intersections recorded in all holes.

The ALS assays were, on average, slightly higher grade than the original BRGM assays, confirming the general overall accuracy and the high quality of the BRGM work. This provides high confidence in the veracity of the BRGM assays for the remaining drilling and underground development.

### Porte-aux-Moines Mineral Resource

In June 2016 the company published a maiden Mineral Resource reported to JORC 2012. The Mineral Resource for PAM is 2.2 million tonnes grading 6.0% zinc, 1.3% lead, 0.8% copper, 80.6 g/t silver and 0.9 g/t gold. This places the deposit within the first grade quartile for zinc-rich deposits worldwide, indicating good potential for economic extraction provided sufficient tonnage can be defined.

Further drilling is required to confirm the geological interpretation, increase the tonnage of Indicated Mineral Resource and provide additional samples for confirmatory density measurements and gold assays. In the short term, deeper drilling is planned to test the thickened Main Zone and deeper parts of the HW1 zone.

In addition, later drilling may also infill the thinner, but shallower section of the Main Zone close to the surface, which has had little exploration in the past. There is good potential in this area to expand the Indicated Resource above the level of the former underground development.

Modelling work by Variscan indicates that approximately 3.5+ million tonnes of resource will be required at PAM to justify initiation of mine feasibility studies. Growing the size and enhancing the classification levels of the current 2.2 million tonne resource base to a level sufficient to allow the company to move into feasibility studies is a key priority.

### Regional Exploration

The regional potential within the licence for additional VMS deposits is considered excellent. PAM is hosted within a sequence of vitric tuffs and pyritic black shales (the mine sequence) which can be traced for approximately 80 kilometres along strike and within structurally repeated blocks in the Merléac licence. Within these rock units, outcropping gossanous zones containing highly anomalous base and precious metal values have been defined, interpreted to represent the oxidised expressions of underlying sulphides. Some of these gossans were previously mined by shallow open pits for iron up until the 19th century and generally have not been explored below the iron oxide cap aside from shallow BRGM drilling in some locations.

In September 2015, Variscan completed modelling of a large Versatile Time Domain Electromagnetic (VTEM) survey completed to test key mineralised areas in and around PAM and within the broader Merléac licence. The survey covered approximately 160 square kilometres of the southern section of Merléac, testing about 50 strike kilometres of the PAM mine sequence.

The survey successfully identified 14 high priority 'Tier 1' targets with moderate to strong, early to late time electromagnetic responses, in many cases similar to those generated at PAM and which are possibly caused by sulphide-rich bedrock sources. In addition, the survey identified approximately 50 other conductors possibly due to sulphide zones, but close to buildings, power lines or other 'conductive' infrastructure, requiring field checks to confirm the source of the anomalism.

Follow-up of the VTEM and geochemical targets as well as review of previous exploration work has provided strong evidence that additional new VMS deposits will be discovered within the mine sequence. Two main trends over a total strike length of 22 kilometres hosting seven centres of base metal mineralisation have been defined, with highly geochemically anomalous rock chip/grab results recorded in recent sampling. At some prospects these assays are in proximity to strong VTEM anomalies, interpreted to be possible buried VMS deposits.

#### PAM – Gausson Trend

This extensive east-west striking zone is the most important defined to date and stretches approximately 15 kilometres from PAM to the Gausson prospect in the east. Five main areas of VMS mineralisation have been defined within sediments and volcanics along the general PAM VMS deposition horizon.

- **La Pris Mallard Prospect**

  This prospect also includes a Tier 1 VTEM anomaly located about 5 kilometres east of PAM. Previous BRGM work included shallow percussion and core drilling which recorded base metal sulphides and strong sericite-quartz-pyrite altered volcanics just west-south-west of the strong VTEM anomaly.

  Rock chip/grab samples by Variscan of gossanous material representing oxidised semi–massive and massive sulphide and stockwork sulphide-veined material recorded individual assays of up to 6.1% lead, 800ppm zinc and 1840ppm copper, confirming this as a likely centre of VMS mineralisation.

- **Les Essarts Prospect**
  This advanced prospect is approximately 700 metres in strike length and was drilled to a shallow depth by the BRGM during the 1970's. The drilling recorded a number of zinc-lead-copper intersections of stratiform VMS mineralisation including:
  - 1.25 metres @ 7.0% zinc, 3.04% lead, 0.22% copper from 80 metres in LSS2, and
  - 1.0 metre @ 5.49% zinc, 2.72% lead and 0.26% copper from 66 metres in LSS3.

  The BRGM work has clearly identified another centre of VMS mineralisation broadly analogous to PAM.

- **Les Forges Prospect**
  The prospect lies approximately 1.2 kilometres east of Les Essarts. Previous work by Variscan included sampling of a group of old iron workings that mined gossanous material displaying box-work textures after base metal sulphides.

  Highly elevated results up to 1986ppm zinc, 318ppm lead, 638ppm copper and 260ppb gold were recorded over a strike length of about 700 metres, again believed located within the same rock package that hosts PAM.

- **Gausson Prospect**
  Former work by the BRGM included shallow drilling to the southwest of a strong VTEM anomaly, intersecting low grade stockwork copper mineralisation.

  Recent Variscan rock chip and float sampling (including the VTEM target) returned elevated surface values, believed associated with VMS mineralisation, up to 875ppm zinc, 1991ppm lead, 917ppm copper and 90ppb gold.

### Le Roz Trend

This newly defined trend lies approximately two kilometres south of the PAM deposit and has been defined on the basis of a string of strong VTEM anomalies. To date Variscan has assessed two of the seven 'Tier 1' VTEM anomalies that have been defined over a strike distance of around seven kilometres. Both anomalies, Le Roz and Kervegan do not appear to have been explored previously and are favourably located within the interpreted folded repeat of the PAM mineralised rock sequence.

Base metal geochemistry at both prospects is elevated, particularly at Le Roz, indicating the possible presence of base metal sulphides.

## St Pierre Gold Project

The St Pierre PER covers the La Bellière gold mine believed to be the third largest gold producer in France. Until 1952 the mine produced about 338,000 ounces of gold from veins grading 12g/t gold, hosted within an east-west oriented shear zone.

Variscan exploration within the licence has included a broad programme of rock chip and float sampling which generated a number of high grade results up to 159g/t gold across five main areas of interest. Follow-up detailed soil sampling has been completed at selected prospects, with additional analysis of historical mine and exploration work.

Two areas for drilling have been defined at Ville Tirard and Belleville to the west and south of the St Pierre township where a proposed combination of shallow traverse RC and core diamond drilling will test these high quality targets later in 2016.

- **Belleville**
  Initial work by Variscan at the Belleville prospect included prospect scale rock chip and grab sampling which generated high grade samples up to 21.5g/t gold from quartz-rich float in the centre of the prospect.

  Detailed follow-up sampling in two programmes defined an 900 x 400 metre zone of strongly anomalous gold values up to 2.4g/t gold (or 2420ppb gold) in soils displaying a similar gross orientation to the gold bearing shear structure at the La Bellière Mine.

  Former BRGM exploration in this area included shallow percussion drilling (generally around 40–50 metres deep) which, from available data, appears to have only tested the northern section of the anomaly, intersecting gold-bearing zones.

  Two traverses of inclined shallow RC drilling have been planned to test the anomaly across the interpreted east-north-east striking shear zone. This will commence once access agreements are signed, final local approvals are gained and a rig mobilised to site.

- **Ville Tirard**
  During the final years of mining in the St Pierre region, two inclined drill holes (circa 1952) approximately 40 and 60 metres deep are recorded to have been drilled below outcropping mineralisation at the western end of the main La Bellière shear system approximately 200 metres north of the old St Antoine gold mine.

  In reports held by the BRGM both holes are recorded to have intersected broad zones (estimated >15–20 metres true width) of gold mineralisation with individual assays between 0.5 to 33g/t gold, averaging in the range of 3–4 g/t Au.

  Given the age of the drilling, the precise position of the collars is uncertain, so the Company plans to drill two shallowly inclined core holes, each about 150 metres, to cross the projected position of the shear and to attempt to intersect the mineralisation.

## Other Projects

During 2016 two further licences were granted, Silfiac and Loc Envel, and work commenced on the Beaulieu tin project.

## Silfiac Project

The Silfiac licence covers a region where high grade, zinc-lead-silver-germanium vein systems had previously been discovered and described by the BRGM. The licence covers 173 square kilometres over a set of north-north-west oriented shears which host the veins within metamorphosed sediments and an intrusive granodiorite complex.

These veins are considered attractive exploration targets as they:

- Display close geological similarities to the Saint Salvy deposit, southern France, which produced a total of 2.8Mt at 11.7% zinc, 150 g/t germanium and 38 g/t silver, and
- Lie within a short trucking radius (approx. 25 kilometres) of the Porte-aux-Moines VMS deposit.

The most important deposit defined to date is the high grade Plélauff zinc-lead-silver-germanium deposit believed to have been mined around the 8th Century. From 1961 to 1963 the BRGM completed substantial underground mine development on Plélauff, sinking a shaft and developing two main levels at 80 and 130 metres below the surface, strike driving the lode and systematically channel sampling and mapping the deposit.

This work successfully defined continuous, high grade zinc-lead-silver-germanium (>10% zinc + lead) mineralisation averaging between 2.5 to 4 metres thick over a strike length of 230 metres on the lower level and indicated that mineralisation is possibly increasing in strike length at depth. The potential to expand the deposit is excellent. No drilling has been completed at Plélauff and it remains open at depth.

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The Loc Envel licence covers an area of 336 square kilometres in northwest Brittany over a region believed to have good potential for high grade tungsten-copper deposits.

Work by Variscan has identified several potentially commercial styles of deposits closely associated with several trondhjemite intrusives. The most important is the high grade Coat-an-Noz scheelite + chalcopyrite skarn which has been defined in exploration carried out from 1960 to 1977 by the BRGM and SNEAP (Société National Elf Aquitaine Petroliers).

Although data from this exploration is yet to be accessed and evaluated, diamond drilling from the Coat-an-Noz prospect is reported to have generated high grade tungsten (>1% WO3+copper) intercepts within the laterally continuous skarn system and enabled SNEAP to calculate a non-JORC mineral resource.

### Beaulieu Tin Project

The Beaulieu exploration licence covers 278 square kilometres over a tin-rich region 40 kilometres north of the port city of Nantes. Tin is believed to have been mined from the region since 1200BC and during the modern era significant production was derived from the Abbaretz mine. Following the closure of the mine, the BRGM conducted significant exploration in the region during the 1960s and 1970s, defining non-JORC resource estimates at the Beaulieu and Chenaie prospects.

The Company considers the exploration potential for economic tin deposits within the licence to be very good and has commenced work including soil sampling around the main areas of mineralisation to help define the extent of the tin bearing zones as a precursor to drilling.

### Future Projects

Variscan has two other exploration licence applications within the approvals process, each of them over projects with good potential for short term resource generation and/or major new discoveries.

## Australia

During the year exploration of Variscan's current joint venture properties was relatively subdued in line with the quite markets where availability of risk capital was restricted. A total of A$0.38 million was spent by Variscan's joint venture partners in comparison to A$0.17 million from the previous year.

## INVESTMENTS

Variscan maintains a diversified portfolio of investments within a number of ASX-listed resource companies. The companies within the portfolio are:

- Eastern Iron – Advanced iron project and potential for VMS copper-gold mineralisation in Victoria
- Silver City Minerals – Exploration interests at Broken Hill, NSW
- Thomson Resources – Large landholdings for copper, gold and tin within the Thomson and Lachlan Fold Belts, NSW

The value of the Variscan shareholdings in these companies at the end of the year stood at approximately A$1.5 million.

## Competent Persons Statements

*The information in this report that relates to all Exploration Results, and the Geology, Data, Mineralisation Interpretation and Wireframes of the Porte-aux-Moines Mineral Resource estimate is based on information compiled by Greg Jones, BSc who is a member of the Australasian Institute of Mining and Metallurgy. Mr Jones is a Director of Variscan Mines Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jones consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this report that relates to the Block Modelling and Mineral Resource estimate at the Porte-aux-Moines VMS deposit is based on information compiled by Michael Job , BSc and MSc, who is a member of the Australasian Institute of Mining and Metallurgy. Mr Job is a Senior Principal Consultant at QG Australia Pty Ltd and 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Job consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Directors are not aware of any significant changes in the state of affairs of the Group occurring during the financial period, other than as disclosed in this report.

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There were, at the date of this report, no matters or circumstances which have arisen since 30 June 2016 that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has not, during or since the end of the financial period, in respect of any person who is or has been an officer of the Company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

### Insurance premiums

During the financial period the Company has paid premiums to insure each of the directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The premiums paid are not disclosed as such disclosure is prohibited under the terms of the contract.

## ENVIRONMENTAL PERFORMANCE

Variscan holds exploration licences issued by New South Wales Department of Industry – Resources and Energy and the South Australian Department of State Development which specify guidelines for environmental impacts in relation to exploration activities. The licence conditions provide for the full rehabilitation of the areas of exploration in accordance with the Departments' guidelines and standards. There have been no significant known breaches of the licence conditions.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

As the Company's areas of interest are at an early stage of exploration, it is not possible to postulate likely developments and any expected results. The Company is hoping to identify other precious, base metal and tin / tungsten exploration and evaluation targets within France and western Europe.

## SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

Details of unissued shares or interests under option for Variscan Mines Limited as at the date of this report are:

| No. shares under option | Class of share | Exercise price of option | Expiry date of options |
|---|---|---|---|
| 129,849,228 | Ord | $0.015 | 4 May 2017 |
| 15,650,000 | Ord | $0.07 | 4 Dec 2017 |
| 29,347,830 | Ord | $0.05 | 29 Jan 2018 |
| 12,450,000 | Ord | $0.05 | 3 Dec 2018 |
| 187,297,058 | | | |

The holders of these options do not have the right, by virtue of the option, to participate in any share issue of the Company or of any other body corporate or registered scheme.

There were 805,910 shares issued during or since the end of the financial year as a result of exercise of listed options expiring 4 May 2017 at $0.015 per share.

Refer to the Remuneration Report, Note 14 & 15 for further details of the options outstanding.

## REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2016 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

### Details of key management personnel

Details of KMP including the top five remunerated executives of the Parent and Group are set out below.

| Directors | |
|---|---|
| Patrick Elliott | Chairman (Non-Executive) |
| Gregory Jones | Managing Director |
| Kwan Chee Seng | Non-Executive Director |
| Dr Foo Fatt Kah | Non-Executive Director |
| Mike Moore | Non-Executive Director (appointed 4 August 2015) |
| Dr Jack Testard | Executive Director, President of Subsidiary – Variscan Mines SAS |

| Executives | |
|---|---|
| Ivo Polovineo | Company Secretary |
| Wendy Corbett | Managing Geologist |
| Michelle Lilley | Financial Controller |
| Michel Bonnemaison | CEO of Subsidiary – Variscan Mines SAS |

### Remuneration philosophy

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board believes that executive remuneration satisfies the following key criteria:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of executive compensation
- Transparency
- Capital management

These criteria result in a framework which can be used to provide a mix of fixed and variable remuneration, and a blend of short and long term incentives in line with the Company's limited financial resources.

Fees and payments to the Company's Non-Executive Directors and Senior Executives reflect the demands which are made on, and the responsibilities of, the Directors and the senior management. Such fees and payments are reviewed annually by the Board. The Company's Executive and Non-Executive Directors, Senior Executives and Officers are entitled to receive options under the Company's Employee Share Option Plan (ESOP).

## Non-executive directors remuneration arrangements

Directors are entitled to remuneration out of the funds of the Company but the remuneration of the Non-Executive Directors (NED) may not exceed in any year the amount fixed by the Company in general meeting for that purpose. The aggregate remuneration of the NEDs has been fixed at a maximum of $250,000 per annum to be apportioned among the NEDs in such a manner as the Board determines. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as Directors.

The Chairman's fee is set at $50,000 p.a. and NED fees at $36,000 p.a. which are consistent with industry average fees. At present, no Committee fees are paid to Directors.

## Service agreements

Remuneration and other terms of employment for key management personnel are formalised in employment contracts and contractor agreements. Details of these arrangements are set out below:

### Managing Director – Greg Jones

- Contract term: No fixed term. Either party may terminate the letter of employment with one months' notice.
- Remuneration: $281,284 p.a. (2015: $281,284) as at 30 June 2016 to be reviewed annually.
- Termination payments: A 3 month severance pay with an additional 3 months after more than five years.

### Non-executive Director – Mike Moore

- Contract term: No contract or fixed term. Consulting fees paid as and when required.
- Remuneration: $1,200 per day plus statutory super (2015: Nil) as at 30 June 2016.
- Termination payments: Nil.

### Executive Director – Jack Testard

- Contract term: No fixed term.
- Remuneration: Annual salary equivalent to Euro 63,084 (2015: 65,532) as at 30 June 2016, to be reviewed annually.
- Termination payments: Nil.

### Company Secretary – Ivo Polovineo

- Contract term: 12 month rolling contract. Either party may terminate the contract with one month's notice.
- Remuneration: $1,300 (2015: $1,125) per day plus GST as at 30 June 2016.
- Termination payments: Nil.

### Managing Geologist – Wendy Corbett

- Contract term: Rolling contract. Either party may terminate the agreement with one month's notice.
- Remuneration: $108.16 per hour (2015: $108.16) plus GST for consultancy services as at 30 June 2016.
- Termination payments: Nil.

### Financial Controller – Michelle Lilley

- Contract term: No fixed term. Either party may terminate the agreement with one month's notice.
- Remuneration: $92.98 per hour (2015: $92.98) as at 30 June 2016.
- Termination payments: A 1 month severance pay with an additional 2 months after more than five years.

### CEO (Variscan Mines) – Michel Bonnemaison

- Contract term: No fixed term.
- Remuneration: Annual salary equivalent to Euro 160,188 (2015: 162,462) as at 30 June 2016, to be reviewed annually.
- Termination payments: In the case of redundancy one month payment for each year of service.

## Directors and KMP remuneration (consolidated) for the year ended 30 June 2016

| | Short-term benefits | | Post employment | Share-based payments | | |
|---|---|---|---|---|---|---|
| | Cash salary and fees $ | Consulting fees $ | Super-annuation $ | Options $ | Total $ | Consisting of options % |
| **Directors** | | | | | | |
| P Elliott | 50,000 | – | – | 9,900 | 59,900 | 17% |
| G Jones | 256,881 | – | 24,403 | 27,720 | 309,004 | 9% |
| C S Kwan | 36,000 | – | – | 14,850 | 50,850 | 29% |
| F K Foo | 36,000 | – | – | 9,900 | 45,900 | 22% |
| M Moore | 30,275 | 33,600 | 6,068 | 9,900 | 79,843 | 12% |
| J Testard | 96,188 | – | – | 13,860 | 110,048 | 13% |
| Total Directors | **505,344** | **33,600** | **30,471** | **86,130** | **655,545** | |
| **Other key management personnel** | | | | | | |
| I Polovineo | 62,400 | – | – | 9,900 | 72,300 | 14% |
| W Corbett | – | 8,247 | – | 2,475 | 10,722 | 23% |
| M Lilley | 96,859 | – | 9,202 | 6,435 | 112,496 | 6% |
| M Bonnemaison | 244,249 | – | – | 13,860 | 258,109 | 5% |
| Other KMP | **403,508** | **8,247** | **9,202** | **32,670** | **453,627** | |
| Totals | **908,852** | **41,847** | **39,673** | **118,800** | **1,109,172** | |

## Directors and KMP remuneration (consolidated) for the year ended 30 June 2015

| | Short-term benefits | | Post employment | Share-based payments | | |
|---|---|---|---|---|---|---|
| | Cash salary and fees $ | Consulting fees $ | Super-annuation $ | Options $ | Total $ | Consisting of options % |
| **Directors** | | | | | | |
| P Elliott | 50,000 | – | – | 9,100 | 59,100 | 15% |
| G Jones | 256,881 | – | 24,404 | 36,400 | 317,685 | 11% |
| C S Kwan | 36,000 | – | – | 9,100 | 45,100 | 20% |
| F K Foo | 36,000 | – | – | 9,100 | 45,100 | 20% |
| A Breen | 33,024 | – | 3,137 | 9,100 | 45,261 | 20% |
| J Testard | 90,671 | – | – | 18,200 | 108,871 | 17% |
| Total Directors | **502,576** | **–** | **27,541** | **91,000** | **621,117** | |
| **Other key management personnel** | | | | | | |
| I Polovineo | 58,200 | – | – | 15,925 | 74,125 | 21% |
| W Corbett | – | 8,977 | – | 3,185 | 12,162 | 26% |
| M Lilley | 111,032 | – | 10,548 | 2,275 | 123,855 | 2% |
| M Bonnemaison | 230,238 | – | – | 18,200 | 248,438 | 7% |
| Other KMP | **399,470** | **8,977** | **10,548** | **39,585** | **458,580** | |
| Totals | **902,046** | **8,977** | **38,089** | **130,585** | **1,079,697** | |

## Compensation options: granted and vested during the year (parent entity)

The following options were granted during the financial year.

### Share-based payments awarded during the year to directors and key management personnel

| 2016 | Grant date | Granted no. | Vested no. | Vested % | Value of options granted at the grant date (Note 18) $ | Options exercised no. | Value of options exercised at the exercise date $ | Value of options lapsed during the year $ |
|---|---|---|---|---|---|---|---|---|
| P Elliott | 25 Nov 2015 | 1,000,000 | 1,000,000 | 100 | 9,900 | – | – | 30,000 |
| G Jones | 25 Nov 2015 | 2,800,000 | 2,800,000 | 100 | 27,720 | – | – | 115,000 |
| C S Kwan | 25 Nov 2015 | 1,500,000 | 1,500,000 | 100 | 14,850 | – | – | 100,000 |
| F K Foo | 25 Nov 2015 | 1,000,000 | 1,000,000 | 100 | 9,900 | – | – | 30,000 |
| M Moore | 25 Nov 2015 | 1,000,000 | 1,000,000 | 100 | 9,900 | – | – | – |
| J Testard | 25 Nov 2015 | 1,400,000 | 1,400,000 | 100 | 13,860 | – | – | 11,250 |
| I Polovineo | 1 Dec 2015 | 1,000,000 | 1,000,000 | 100 | 9,900 | – | – | 48,555 |
| W Corbett | 1 Dec 2015 | 250,000 | 250,000 | 100 | 2,475 | – | – | 27,375 |
| M Lilley | 1 Dec 2015 | 650,000 | 650,000 | 100 | 6,435 | – | – | 39,000 |
| M Bonnemaison | 1 Dec 2015 | 1,400,000 | 1,400,000 | 100 | 13,860 | – | – | 11,250 |

The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.

For details on the valuation of the options, including models and assumptions used, please refer to Note 15.

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

The Company has established an ESOP for the benefit of Directors, officers, senior executives and consultants.

### Directors' Benefits, Emoluments and Share Options

During its annual budget review the Board reviews the Directors' Emoluments. Remuneration levels, including participation in the Company's ESOP, are set to provide reasonable compensation in line with the Company's limited financial resources. During the year no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in Note 18 of the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Due to the difficulty in the measurement of performance using quantitative indicators in the mineral exploration industry, there is no formal link between financial performance of the group and remuneration levels.

There is no retirement scheme for Non-Executive Directors.

End of Audited Remuneration report.

## MEETINGS OF DIRECTORS

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director.

| | Board of directors | | Remuneration committee | | Audit committee | |
|---|---|---|---|---|---|---|
| **Directors** | Held | Attended | Held | Attended | Held | Attended |
| P Elliott | 3 | 2 | 1 | 1 | 2 | 2 |
| G Jones | 3 | 3 | 1 | 1 | 2 | 2 |
| C S Kwan | 3 | 3 | 1 | 1 | – | – |
| F K Foo | 3 | 3 | – | – | 2 | 2 |
| M Moore | 3 | 3 | – | – | – | – |
| J Testard | 3 | 2 | – | – | – | – |

# Auditor's Independence Declaration

**HLB Mann Judd**

Accountants | Business and Financial Advisers

As lead auditor for the audit of the consolidated financial report of Variscan Mines Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Variscan Mines Limited and the entities it controlled during the year..

**Sydney, NSW**
**29 September 2016**

**M D Muller**
**Partner**

**HLB Mann Judd (NSW Partnership) ABN 34 482 821 289**
Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190
Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au
Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (NSW Partnership) is a member of HLB International. A world-wide network of independent accounting firms and business advisers.

## NON-AUDIT SERVICES

The Company's primary auditor, HLB Mann Judd provided no non-audit services during the year ended 30 June 2016 (2015: nil). The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditor's imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Signed at Sydney this 29th day of September 2016 in accordance with a resolution of the Directors.

Greg Jones
*Managing Director*

# Consolidated Statement of Comprehensive Income

## For the year ended 30 June 2016

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|
| **Revenue and other income** | 3 | 2,230,228 | 3,318,020 |
| ASX and ASIC fees | | (53,715) | (22,109) |
| Auditors' remuneration | 5 | (56,570) | (59,535) |
| Contract admin/geological services | | (90,656) | (96,277) |
| Depreciation expense | 10 | (108,231) | (80,864) |
| Directors' fees | | (152,275) | (155,024) |
| Exploration expenditure written-off | 11 | (31,845) | (198,419) |
| Impairment of investment | | (574,111) | (1,702,562) |
| Insurance | | (36,327) | (38,361) |
| Loss on options – mark to market | | – | (955) |
| Operating lease rental expense | | (101,706) | (97,124) |
| Operating costs of subsidiary | | (49,221) | (79,587) |
| Marketing and media costs | | (93,170) | (14,425) |
| Employee costs net of on-costs recharged to exploration projects | | (1,179,507) | (1,185,099) |
| Motor vehicle expenses | | (49,466) | (50,681) |
| Share of net losses of associate accounted for by the equity method | 9 | (89,607) | (128,971) |
| Share based payments | | (123,255) | (142,415) |
| Travel and accommodation | | (37,392) | (69,077) |
| Other expenses | | (337,789) | (165,599) |
| **(Loss) before income tax expense** | | (934,615) | (969,064) |
| Income tax (expense) | 4 | (425,943) | (960,451) |
| **(Loss) after tax** | | **(1,360,558)** | **(1,929,515)** |
| **Other comprehensive income/(loss)** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Net fair value gains/(losses) on available-for-sale financial assets | | 205,093 | 141,000 |
| Income tax on items of other comprehensive income/(loss) | | (61,528) | (42,300) |
| Amounts transferred from reserves to income on sale | | (141,000) | (2,912,092) |
| Income tax on items of other comprehensive income/(loss) | | 42,300 | 873,627 |
| **Other comprehensive income/(loss) for the period, net of tax** | | 44,865 | (1,939,765) |
| **Total comprehensive (loss) for the period** | | **(1,315,693)** | **(3,869,280)** |
| | | | |
| **(Loss) per share** | | | |
| Basic (loss) per share (cents per share) | 17 | (0.38) | (0.98) |
| Diluted (loss) per share (cents per share) | 17 | (0.38) | (0.98) |

*The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes*

# Consolidated Statement of Financial Position

## As at 30 June 2016

| | Note | 2016 $ | 2015 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | 2,452,774 | 1,714,414 |
| Receivables | 7 | 596,161 | 321,619 |
| **Total current assets** | | **3,048,935** | **2,036,033** |
| **Non-current assets** | | | |
| Investments – available for sale | 8 | 1,487,237 | 478,729 |
| Investment in associates | 9 | – | 687,143 |
| Receivables | 7 | 26,813 | 23,740 |
| Property, plant and equipment | 10 | 200,408 | 232,272 |
| Deferred exploration and evaluation expenditure | 11 | 3,973,293 | 2,272,301 |
| Deferred tax asset | 4 | 411,149 | 732,050 |
| **Total non-current assets** | | **6,098,900** | **4,426,235** |
| **Total assets** | | **9,147,835** | **6,462,268** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12 | 454,325 | 499,340 |
| Provisions | 13 | 135,962 | 125,392 |
| **Total current liabilities** | | **590,287** | **624,732** |
| **Non-current liabilities** | | | |
| Provisions | 13 | 56,226 | 50,091 |
| **Total non-current liabilities** | | **56,226** | **50,091** |
| **Total liabilities** | | **646,513** | **674,823** |
| **Net assets** | | **8,501,322** | **5,787,445** |
| **Equity** | | | |
| Contributed equity | 14 | 20,294,953 | 16,413,561 |
| Reserves | 16 | 723,199 | 1,056,991 |
| Accumulated losses | | (12,516,830) | (11,683,107) |
| **Total equity** | | **8,501,322** | **5,787,445** |

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

# Consolidated Statement of Cash Flows

## For the year ended 30 June 2016

| | Note | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payment to suppliers and employees | | (2,193,848) | (2,108,610) |
| Consultancy fees and rental income received | | 195,100 | 250,908 |
| R&D tax offset | | – | 270,189 |
| Interest received | | 14,154 | 45,954 |
| Net cash flows used in operating activities | 23 | (1,984,594) | (1,541,559) |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipment | | (70,255) | (60,301) |
| Expenditure on mining interests (exploration) | | (1,871,943) | (1,381,256) |
| Purchase of equity investments | | (5,000) | – |
| Sale of equity investments | | 851,355 | 379,866 |
| Tenement security deposits & bank guarantees (paid)/recovered | | (2,741) | 49,709 |
| Net cash flows used in investing activities | | (1,098,584) | (1,011,982) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares and options | | 4,171,355 | 1,960,655 |
| Payment of share issue costs | | (332,470) | (105,515) |
| Net cash flows from financing activities | | 3,838,885 | 1,855,140 |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **755,707** | **(698,401)** |
| Net foreign exchange differences | | (17,347) | 3,822 |
| Cash and cash equivalents at beginning of period | | 1,714,414 | 2,408,993 |
| **Cash and cash equivalents at end of period** | 23 | **2,452,774** | **1,714,414** |

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

# Consolidated Statement of Changes in Equity

## For the year ended 30 June 2016

| | | CONSOLIDATED | | | |
|---|---|---|---|---|---|
| | | Contributed equity | Accumulated losses | Reserves | Total equity |
| | Note | $ | $ | $ | $ |
| **At 1 July 2014** | | **14,526,115** | **(10,449,634)** | **3,547,839** | **7,624,320** |
| (Loss) for the period | | – | (1,929,515) | – | (1,929,515) |
| Other comprehensive income/(loss) | | – | – | (1,939,765) | (1,939,765) |
| **Total comprehensive (loss) for the period** | | **–** | **(1,929,515)** | **(1,939,765)** | **(3,869,280)** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of share capital (net of share issue costs) | | 816,262 | – | – | 816,262 |
| Option issue consideration | | 1,071,184 | – | – | 1,071,184 |
| Transfer expired options to Retained Earnings | 16 | – | 696,042 | (696,042) | – |
| Share-based payments | 16 | – | – | 142,415 | 142,415 |
| Foreign currency translation | 16 | – | – | 2,544 | 2,544 |
| **At 30 June 2015** | | **16,413,561** | **(11,683,107)** | **1,056,991** | **5,787,445** |
| **At 1 July 2015** | | **16,413,561** | **(11,683,107)** | **1,056,991** | **5,787,445** |
| (Loss) for the period | | – | (1,360,558) | – | (1,360,558) |
| Other comprehensive income/(loss) | | – | – | 44,865 | 44,865 |
| **Total comprehensive (loss) for the period** | | **–** | **(1,360,558)** | **44,865** | **(1,315,693)** |
| **Transactions with owners in their capacity as owners:** | | | | | |
| Issue of share capital (net of share issue costs) | | 3,818,073 | – | – | 3,818,073 |
| Option issue consideration | | 63,319 | – | – | 63,319 |
| Transfer expired options to Retained Earnings | 16 | – | 526,835 | (526,835) | – |
| Share-based payments | 16 | – | – | 123,255 | 123,255 |
| Foreign currency translation | 16 | – | – | 24,923 | 24,923 |
| **At 30 June 2016** | | **20,294,953** | **(12,516,830)** | **723,199** | **8,501,322** |

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

# Consolidated Notes to the Financial Statements

For the year ended 30 June 2016

## 1. CORPORATE INFORMATION

The financial report of Variscan Mines Limited (Variscan or the Company) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 29 September 2016.

Variscan Mines Limited (the parent) is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange under ASX Code VAR.

The consolidated financial statements comprise the financial statements of Variscan Mines Limited and its subsidiaries (the Group or Consolidated Entity).

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. It has been prepared on a historical cost basis except for investments in listed shares and derivative financial instruments, which are measured at fair value.

### Statement of compliance

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

### Basis of consolidation

The consolidated financial statements comprise the financial statements of Variscan Mines Limited (Variscan or the Company) and its subsidiaries (collectively, the Group) as at 30 June each year.

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

All intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Non-controlling interests are allocated their share of profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributable to the non-controlling interest even if that results in a deficit balance.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. At this date, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate.

### Going Concern

The financial report has been prepared on the going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The Directors believe that the Group will have sufficient working capital to meet its minimum project development and administrative expenses in the next twelve months following the date of signing of the financial report. The Directors are investigating options to raise additional funds to allow the Group to pursue its project opportunities and reduce its working capital requirements with the intent that the consolidated group continues as a going concern.

If all of these options are unsuccessful, this may indicate there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

### Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value of at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

## Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if any.

## Trade and other receivables

Trade receivables, which generally have a 30 day term, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

## Exploration, evaluation, development and restoration costs

### Exploration and evaluation

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

Exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current are brought to account in the year in which they are incurred and carried forward provided that:

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

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated within costs of development.

### Exploration and evaluation – impairment

The Group assesses at each reporting date whether there is an indication that an asset has been impaired and for exploration and evaluation costs whether the above carry forward criteria are met.

Accumulated costs in respect of areas of interest are written off or a provision made in the Statement of Comprehensive Income when the above criteria do not apply or when the Directors assess that the carrying value may exceed the recoverable amount. The costs of productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

Provisions are made where farm-in partners are sought and there is a possibility that carried-forward expenditures may have to be written off in the future if a farm-in partner is not found. In the event that farm-in agreements are reached or the Company undertakes further exploration in its own right on those properties, the provisions would be reviewed and if appropriate, written back.

### Development

Development expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure having a specific connection with the development property.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until a decision has been made to commence mining. After this decision, the costs are amortised over the life of the area of interest to which such costs relate on a production output basis.

### Restoration

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

If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

## Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, or available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

### Recognition and derecognition

All purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred.

### Financial assets at fair value through profit or loss

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

### Loans and receivables

Loans and receivables including loan notes and loans to KMP are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

### Available for sale securities

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

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

### Investments in associates

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in the associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's Statement of Comprehensive Income, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payment on behalf of the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

## Interest in jointly controlled operations – joint ventures

The Group has an interest in exploration joint ventures that are jointly controlled. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of any income that it earns from the sale of goods or services by the jointly controlled operations.

## Plant and equipment

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

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, namely motor vehicles and plant and equipment – depreciated over 2–5 years (2015: 2–10 years).

### Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

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

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

## Leases

In determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

## Trade and other payables and provisions

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

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

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

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

## Employee entitlements

### Wages, salaries, annual leave, and long service leave

Liabilities for wages and salaries are recognised and are measured as an amount unpaid at the reporting date at current pay rates in respect of employee's services up to that date.

### Superannuation

The Company contributes to defined contribution superannuation funds for its employees. The cost of these contributions is expensed as incurred. A liability in respect of superannuation at the current superannuation guarantee rate has been accrued at the reporting date.

## Share-based payment transactions

In addition to salaries, the Group provides benefits to certain employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Option Plan in place to provide these benefits.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of the options is determined by using the binomial option pricing model.

In valuing transactions settled by way of issue of options, no account is taken of any vesting limits or hurdles, or the fact that the options are not transferable.

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

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

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

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share except where such dilution would serve to reduce a loss per share.

## Revenue recognition

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

### Rendering of services

Revenue from consulting services are recognised when provided.

### Interest

Revenue is recognised as interest accrues using the effective interest method.

### Royalties

Royalties are recognised in accordance with substance of the relevant agreement.

### Contract exploration

Contract exploration revenue (consulting fees) earned from third parties is recognised when rights to receive the revenue are assured.

## Income tax

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

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

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

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

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

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

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

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

## Other taxes

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

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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

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

## Currency

### Functional currency translation

The functional and presentation currency for the parent company is Australian dollars ($). The functional currency of overseas subsidiaries is the local currency.

### Transactions and balances

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

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

### Translation of Group Companies' functional currency to presentation currency

The results of the French subsidiary are translated into Australian Dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

## Impairment of assets

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

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

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

## Contributed equity

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

## Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use.

## Significant accounting judgements, estimates and assumptions

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

### Share-based payment transactions

The Company measures the cost of equity-settled share-based payments at fair value at the grant date using the Binomial formula taking into account the terms and conditions upon which the instruments were granted, and estimates of volatility as detailed in Note 15.

### Capitalisation and write-off of capitalised exploration costs

The determination of when to capitalise and write-off exploration expenditure requires the exercise of judgement based on assessments of results, various assumptions and other factors such as historical experience, current and expected economic conditions.

## Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Group, adjusted to exclude any costs of servicing equity divided by the weighted average number of ordinary shares.

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

- Costs of servicing equity;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses;
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## Segment reporting

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

## Accounting standards issued but not yet effective

Australian Accounting Standards and interpretations that have been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the year ended 30 June 2016. The Consolidated Entity plans to adopt the following standards which are considered relevant, at their application dates as detailed below.

***AASB 9 Financial Instruments (Application date 1 January 2018)***

AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.

(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.

(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

It is anticipated that the application of this standard will not have a material effect on the Group's results or financial reports in future periods.

***AASB 16 Leases***

AASB 16 Leases was released in February 2016 and is mandatory for periods beginning on or after 1 January 2019. The new standard introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- Right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis; and
- Lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

Although the directors anticipate that the adoption of AASB 16 may have an impact on Variscan Mines' accounting for operating leases, it is impracticable at this stage to provide a reasonable estimate of such impact.

| | 2016 $ | 2015 $ |
|---|---|---|

## 3. REVENUE AND OTHER INCOME

| | 2016 $ | 2015 $ |
|---|---|---|
| **Revenue** | | |
| Interest received – other persons/corporations | 11,851 | 28,482 |
| Consulting fees | 127,434 | 173,673 |
| Rental income | 66,780 | 65,380 |
| **Other Income** | | |
| Gain on sale of investments | 679,811 | 2,865,236 |
| Gain on deemed disposal relating to an associate | 900,000 | – |
| Gain on associate investments | 195,321 | – |
| R&D tax concession offset / research tax credit | 248,675 | 185,249 |
| Unrealised gain on foreign currency | 345 | – |
| Other | 11 | – |
| | **2,230,228** | **3,318,020** |

## 4. INCOME TAX

### Income tax expense

| | 2016 $ | 2015 $ |
|---|---|---|
| **The major components of income tax expense are:** | | |
| *Current income tax* | – | – |
| **Current income tax benefit** | | |
| *Deferred income tax* | – | – |
| Relating to origination and reversal of temporary differences | 425,943 | 960,451 |
| Recognition of previously unrecognised losses | – | – |
| **Income tax (benefit)/expense reported in the Statement of Comprehensive Income** | **425,943** | **960,451** |

### Amounts charged or credited directly to equity

| | 2016 $ | 2015 $ |
|---|---|---|
| **Deferred income tax related to items charged directly to equity** | | |
| Realised (gain)/loss on available for sale investments | (84,646) | 859,571 |
| Unrealised (gain)/loss on available for sale investments | 65,418 | (28,244) |
| **Income tax benefit/(expense) reported in equity** | **(19,228)** | **831,327** |

### Reconciliation

| | 2016 $ | 2015 $ |
|---|---|---|
| Prima facie income tax benefit on operating loss at 30% | (280,386) | (290,719) |
| Non-deductible expenses | 38,001 | 45,248 |
| Non-assessable income | (270,000) | – |
| Tax losses of subsidiaries not previously recognised | (282,487) | (200,887) |
| Recognition / de-recognition of tax losses and other temporary differences | 1,220,815 | 1,406,809 |
| **Income tax expense** | **425,943** | **960,451** |
| **Recognised deferred tax assets and liabilities** | | |
| Opening deferred tax balance | (732,050) | (828,869) |
| Charged to income tax expense | 425,943 | 960,451 |
| Charged to equity (credit) | 19,228 | (831,327) |
| Charged to share issue costs | (124,270) | (32,305) |
| Closing balance | **(411,149)** | **(732,050)** |
| **Amounts recognised in the Statement of Financial Position** | | |
| Deferred tax asset | 499,088 | 800,250 |
| Deferred tax liability | (87,939) | (68,200) |
| Net deferred tax balance | **411,149** | **732,050** |

| | 2016 $ | 2015 $ |
|---|---|---|
| **4. INCOME TAX continued** | | |
| Deferred income tax at 30 June relates to the following: | | |
| (i) Deferred tax liabilities | | |
| Available for sale investments | 61,528 | 42,300 |
| Capitalised exploration | 26,411 | 25,900 |
| **Gross deferred tax liabilities** | **87,939** | **68,200** |
| (ii) Deferred tax assets | | |
| Carry-forward tax losses | 87,939 | 68,200 |
| Equity accounted investment | – | 403,286 |
| Provisions | 39,977 | 44,906 |
| Share issuance costs | 254,575 | 130,305 |
| Available for sale investments | 116,597 | 153,553 |
| **Gross deferred tax assets** | **499,088** | **800,250** |
| **Net deferred tax assets** | **411,149** | **732,050** |

Franking credits of $2,810,116 (2015: $2,810,116) are available for subsequent years.

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- Franking credits that will arise from the payment of the amount of the provision for income tax,
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

## Tax consolidation

Variscan Mines Limited and its 100% owned subsidiaries (Bluestone 23) formed a tax consolidated group with effect from 1 November 2007. Variscan Mines Limited is the head entity of the tax consolidated group. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

There are Nil (2015: Nil) unrecognised tax losses attributable to Variscan Mines SAS which is not tax consolidated with the parent company.

## 5. AUDITORS' REMUNERATION

Amounts received or due and receivable by:

| | 2016 $ | 2015 $ |
|---|---|---|
| **HLB Mann Judd,** for: | | |
| Audit and review of the financial report of Variscan Mines Limited | 46,000 | 48,000 |
| Amounts received or due and receivable **SEFAC,** for: | | |
| Audit and review of the financial report of Variscan Mines SAS | 10,570 | 11,535 |
| Total Auditors' Remuneration for the Group | **56,570** | **59,535** |

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| **6. CASH AND CASH EQUIVALENTS** | | |
| Cash at bank and in hand | 231,424 | 332,574 |
| Short-term deposits | 2,221,350 | 1,381,840 |
| Refer Note 23 | **2,452,774** | **1,714,414** |

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amount of cash and cash equivalents represents fair value.

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

## 7. RECEIVABLES

| | | |
|---|---|---|
| **Current** | | |
| Trade Debtors | 15,866 | – |
| R&D tax concession offset and other tax refunds | 443,559 | 195,226 |
| GST receivables | 58,317 | 35,511 |
| Interest receivable | 1,822 | 4,126 |
| Prepayments | 71,596 | 64,658 |
| Other debtors | 5,001 | 22,098 |
| | **596,161** | **321,619** |
| **Non-current** | | |
| Rental bonds | **26,813** | **23,740** |

Receivables are non-interest bearing and generally 30 day terms and trading terms are being followed by debtors and there are no overdue amounts. An allowance for impairment loss is recognised when there is objective evidence that it is impaired. No allowance for impairment loss is required. The amounts not past due have been assessed to be not impaired.

## 8. INVESTMENTS

| | | |
|---|---|---|
| Investment – available for sale – EFE (a) | 475,714 | – |
| Investment – available for sale – AGR (b) | – | 188,000 |
| Investment – available for sale SCI (c) | 341,823 | 290,729 |
| Investment – available for sale TMZ (d) | 669,700 | – |
| | **1,487,237** | **478,729** |

(a) The market value on ASX of the Group's 52,857,142 shares in Eastern Iron Limited (EFE) at 30 June 2016 was $475,714 ($0.009 per share) and on 20 September 2016 it was $898,571 ($0.017 per share).

(b) The Group sold its 1,175,000 shares in Aguia Resources Limited (AGR) during the period.

(c) The market value on ASX of the Group's 6,836,449 shares in Silver City Minerals Limited (SCI) at 30 June 2016 was $341,823 ($0.05 per share) and on 20 September 2016 it was $218,766 ($0.032 per share).

(d) The market value on ASX of the Group's 18,100,000 shares in Thomson Resources Ltd (TMZ) at 30 June 2016 was $669,700 ($0.037 per share) and on 20 September 2016 it was $724,000 ($0.04 per share).

## 9. INVESTMENT IN ASSOCIATES

The Group's interest in the below investments in associates have been brought to account using the equity method in accordance with Australian Accounting Standard AASB 128 Investments in Associates as the Directors consider that significant influence exists. The Company's share in any retained profits or reserves of the associated company are not available to Variscan until such time as those profits and reserves are distributed by the associated company.

| | Thomson Resources Ltd | | Eastern Iron Limited | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Interest in associates** | % | % | % | % |
| Ownership interest | (a) | 21.39 | (a) | 34.77 |
| | $ | $ | $ | $ |
| Carrying amount | – | – | – | 1,850,000 |
| **Share of associate's losses** | – | – | (89,607) | (128,971) |
| **Carrying amount of investment in associate** | | | | |
| Balance at beginning of financial period | – | – | 687,143 | 1,850,000 |
| – opening value of associate | – | – | – | – |
| – share purchase | – | – | – | – |
| – share of associate's net losses for the financial period | – | – | (89,607) | (128,971) |
| – impairment of investment | – | – | – | (1,033,886) |
| – an available for sale investment (a) | – | – | (597,536) | – |
| Carrying amount of investment in associate at the end of the financial period | **–** | **–** | **–** | **687,143** |
| **Summarised Balance Sheet** | | | | |
| Total current assets | – | 334,777 | – | 379,237 |
| Total non-current assets | – | 2,186,911 | – | 6,407,053 |
| Total current liabilities | – | (109,824) | – | (68,036) |
| Total non-current liabilities | – | – | – | – |
| **Net assets** | **–** | **2,411,864** | **–** | **6,718,254** |
| **Reconciliation to carrying amounts:** | | | | |
| Opening net assets 1 July | – | 3,398,271 | – | 6,743,414 |
| Increase in share capital | – | 200,103 | – | 341,688 |
| Share based payments | – | 53,505 | – | 4,052 |
| (Loss) for the period | – | (1,240,015) | – | (370,900) |
| **Closing net assets** | **–** | **2,411,864** | **–** | **6,718,254** |
| **Group's share in %** | (a) | 21.39 | (a) | 34.77 |
| **Group's share in $** | – | 515,898 | – | 2,335,937 |
| **Summarised statement of comprehensive income** | | | | |
| Revenue | 56,907 | 285,792 | 499 | 284,263 |
| (Loss) for the period | (330,482) | (1,240,015) | (259,044) | (370,900) |
| Other comprehensive income | – | – | – | – |
| **Total comprehensive income** | **(330,482)** | **(1,240,015)** | **(259,044)** | **(370,900)** |

(a) On 24 November 2015 (Thomson Resources Ltd) and 14 January 2016 (Eastern Iron Limited) the Group's share of associate investments dropped below 20%. The investments are now accounted for as available for sale investments (see Note 8).

| | Motor vehicle $ | Plant and equipment $ | Total $ |
|---|---|---|---|
| **10. PROPERTY, PLANT AND EQUIPMENT** | | | |
| **Year ended 30 June 2015** | | | |
| Opening net book amount | 36,407 | 166,758 | 203,165 |
| Additions | – | 118,172 | 118,172 |
| Disposals | – | (10,098) | (10,098) |
| Depreciation expense | (8,430) | (72,434) | (80,864) |
| Foreign exchange differences | 191 | 1,706 | 1,897 |
| Closing net book amount | 28,168 | 204,104 | 232,272 |
| **At 30 June 2015** | | | |
| Cost | 42,805 | 525,568 | 568,373 |
| Accumulated depreciation | (14,637) | (321,464) | (336,101) |
| **Net book amount** | **28,168** | **204,104** | **232,272** |
| **Year ended 30 June 2016** | | | |
| Opening net book amount | 28,168 | 204,104 | 232,272 |
| Additions | – | 69,175 | 69,175 |
| Depreciation expense | (8,979) | (99,252) | (108,231) |
| Foreign exchange differences | 864 | 6,328 | 7,192 |
| Closing net book amount | 20,053 | 180,355 | 200,408 |
| **At 30 June 2016** | | | |
| Cost | 43,779 | 587,657* | 631,436 |
| Accumulated depreciation | (23,726) | (407,302)* | (431,028) |
| **Net book amount** | **20,053** | **180,355** | **200,408** |

* *Note: An amount of $52,219 was written off for obsolete plant and equipment with a written down value of Nil at 30 June 2016.*

| | 2016 $ | 2015 $ |
|---|---|---|
| **11. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE** | | |
| Costs brought forward | 2,272,301 | 918,297 |
| Costs incurred during the year | 1,732,837 | 1,552,423 |
| Expenditure written off during the year | (31,845) | (198,419) |
| Costs carried forward | **3,973,293** | **2,272,301** |
| Exploration expenditure costs carried forward are made up of: | | |
| Expenditure on joint venture areas | 88,036 | 86,332 |
| Expenditure on non joint venture areas | 3,885,257 | 2,185,969 |
| Costs carried forward | **3,973,293** | **2,272,301** |

The above amounts represent costs of areas of interest carried forward as an asset in accordance with the accounting policy set out in Note 2. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

In accordance with Note 2, the Directors write off exploration expenditure where they assess that the asset is impaired. Exploration expenditure is written off either by a reassessment by the Group that has reduced the interpreted potential of the licence for mineral deposits and, or a joint venture partner has withdrawn from a project.

| | 2016 $ | 2015 $ |
|---|---|---|
| **12. CURRENT LIABILITIES – PAYABLES** | | |
| Trade creditors* | 147,265 | 239,902 |
| Accrued expenses | 100,827 | 55,377 |
| GST payable | 1,576 | 1,636 |
| Accrued payroll and payroll deductions | 204,657 | 202,425 |
| | **454,325** | **499,340** |

* *Trade creditors are non-interest bearing and are generally settled on 30 day terms.*

| | 2016 $ | 2015 $ |
|---|---|---|
| **13. LIABILITIES – PROVISIONS** | | |
| **Current** | | |
| Annual Leave | **135,962** | **125,392** |
| **Non-current** | | |
| Long Service Leave | **56,226** | **50,091** |

Annual leave is accrued for all permanent eligible employees and provided for based on current salaries. Long service leave is accrued for all permanent eligible employees with greater than two years' service and provided for based on current salaries.

## 14. CONTRIBUTED EQUITY

| | 2016 $ | 2015 $ |
|---|---|---|
| **Share capital** | | |
| 518,922,788 (2015: 306,447,930) ordinary shares fully paid | 19,754,457 | 15,646,422 |
| **Option issue consideration** | | |
| 129,849,228 (2015: 130,655,138) listed options on issue | 1,059,096 | 1,071,184 |
| 29,347,830 (2015: Nil) unlisted options on issue * | 75,408 | – |
| **Share issue costs** | (594,008) | (304,045) |
| | **20,294,953** | **16,413,561** |

**A further 28,100,000 (Director and employee) unlisted options are included under Share-based payments Note 15.*

| Movements in ordinary shares on issue | | Number | $ |
|---|---|---|---|
| **At 1 July 2014** | | 175,737,592 | 14,756,951 |
| Shares issued | (i) | 130,682,738 | 888,643 |
| Shares issued | (ii) | 27,600 | 414 |
| Transfer value from options issue consideration reserve | (iii) | – | 414 |
| **At 30 June 2015** | | **306,447,930** | **15,646,422** |
| Shares issued | (iv) | 58,695,652 | 1,274,592 |
| Shares issued | (v) | 10,606,050 | 245,000 |
| Shares issued | (vi) | 324,675 | 7,500 |
| Shares issued | (vii) | 55,555,556 | 1,000,000 |
| Shares issued | (viii) | 805,910 | 12,089 |
| Transfer value from options issue consideration reserve | (ix) | – | 12,089 |
| Shares issued | (x) | 86,487,015 | 1,556,765 |
| **At 30 June 2016** | | **518,922,788** | **19,754,457** |

*(i) The Company issued 130,682,738 shares at $0.015 per share in May 2015 under a pro-rata renounceable Entitlement Offer. The shares were issued with a one for one attaching listed option. These options were valued at a total of $1,071,598 leaving a value of $888,643 to be allocated to the share capital value.*

*(ii) A total of 27,600 shares were issued on exercise of $0.015 listed options. The options were granted as per the Entitlement Offer mentioned in (i) above.*

*(iii) Transfer the value of the options exercised in (ii) from the options issue consideration reserve to share capital.*

*(iv) The Company issued 58,695,652 shares at $0.023 per share in December 2015 in a placement. One attaching unlisted option was issued for every two shares purchased. These options were valued at $75,408 leaving a value of $1,274,592 to be allocated to the share capital value.*

*(v) The Company issued 10,606,050 shares at $0.0231 per share in December 2015 under a Share Purchase Plan announced on 25 November 2015.*

*(vi) The Company issued 324,675 shares at $0.0231 per share in January 2016 in a placement.*

*(vii) The Company issued 55,555,556 shares at $0.018 per share in May 2016 in a placement.*

*(viii) A total of 805,910 shares were issued on exercise of $0.015 listed options. The options were granted as per the Entitlement Offer mentioned in (i) above.*

*(ix) Transfer the value of the options exercised in (viii) from the options issue consideration reserve to share capital.*

*(x) The Company issued 86,487,015 shares at $0.018 per share in June 2016 under a pro-rata renounceable Entitlement Offer.*

| | | Number | $ |
|---|---|---|---|
| **14. CONTRIBUTED EQUITY continued** | | | |
| **Movements in listed options on issue** | | | |
| **At 1 July 2014** | | – | – |
| Listed options granted | (i) | 130,682,738 | 1,071,598 |
| Exercise of listed options | (ii) | (27,600) | (414) |
| **At 30 June 2015** | | **130,655,138** | **1,071,184** |
| Exercise of listed options | (iii) | (805,910) | (12,088) |
| Unlisted options granted | (iv) | 29,347,830 | 75,408 |
| **At 30 June 2016** | | **159,197,058** | **1,134,504** |

(i) *The Company granted 130,682,738 listed options in May 2015 with an exercise price of $0.015 per share and expiry date of 4 May 2017. The one for one options were granted for every share issued under a pro-rata renounceable Entitlement Offer. These options were valued at a total of $1,071,598 using a Black, Scholes, Merton methodology with a binomial variation with an expected volatility of 66.46% and risk free rate of 2.52%, which led to an estimated fair value of $0.0082 per option.*

(ii) *A total of 27,600 listed options were exercise at $0.015 during the year ended 30 June 2015.*

(iii) *A total of 805,910 listed options were exercise at $0.015 during the year ended 30 June 2016.*

(iv) *The Company granted 29,347,830 unlisted options in January 2016 with an exercise price of $0.05 per share and expiry date of 29 January 2018. One option was granted for every two shares issued under a placement done in December 2015. These options were valued at $75,408 using a Black Scholes methodology with an expected volatility of 66.46% and a risk free rate of 1.93%, which led to an estimated value of $0.0026 per option.*

An additional 28,100,000 options are on issue under Share-based payments Note 15.

## Terms and conditions of contributed equity

### Ordinary shares

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

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

### Options

Options do not carry voting rights or rights to dividends until options are exercised.

# 15. SHARE-BASED PAYMENTS

## Types of share-based payment plans

### Share-based payments

An Employee Share Option Plan (ESOP) has been established where selected officers, employees and consultants of the Company can be issued with options over ordinary shares in Variscan Mines Limited. The options, issued for nil consideration, will be issued in accordance with a performance review by the Directors.The options cannot be transferred and will not be quoted on the ASX. Options expire if not exercised 90 days after a participant resigns from the Company.

There have been no cancellations or modifications to any of the plans during 2016 and 2015.

## Summary of options granted by the parent entity

| | 2016<br>no. | 2015<br>no. |
|---|---|---|
| Outstanding at the beginning of the year | 28,850,000 | 25,290,000 |
| Granted during the year | 12,450,000 | 15,650,000 |
| Expired during the year | (13,200,000) | (12,090,000) |
| Outstanding at the end of the year | **28,100,000** | **28,850,000** |

The outstanding balance as at 30 June 2016 is represented by:

- 15,650,000 which expire on 4 December 2017 exercisable at $0.07 per share
- 12,450,000 which expire on 3 December 2018 exercisable at $0.05 per share

## 15. SHARE-BASED PAYMENTS continued

There are an additional 159,197,058 options under Contributed Equity Note 14 which is represented by:

- 129,849,228 which expire on 4 May 2017 exercisable at $0.015 per share
- 29,347,830 which expire on 29 January 2018 exercisable at $0.05 per share

### Weighted Average disclosures for options granted by the parent entity

| | 2016 | 2015 |
|---|---|---|
| Weighted average exercise price of options at 1 July | $0.16 | $0.23 |
| Weighted average exercise price of options granted during period | $0.05 | $0.07 |
| Weighted average exercise price of options outstanding at 30 June | $0.06 | $0.16 |
| Weighted average exercise price of options exercisable at 30 June | $0.06 | $0.16 |
| Weighted average contractual life | 1.87 | 1.50 |
| Range of exercise price | $0.05–$0.07 | $0.07–$0.30 |

### Option pricing model and terms of options

The following table lists the inputs to the options model and the terms of options granted in **Variscan Mines Limited:**

| Issue date | Number of options issued | Exercise price | Expiry date | Expected volatility | Risk-free rate | Expected life years | Estimated fair value | Model used | |
|---|---|---|---|---|---|---|---|---|---|
| Nov 14 | 15,650,000 | $0.07 | 4 Dec 17 | 60.16% | 2.52% | 3.0 | $0.0091 | Binomial | (a) |
| Nov 15 | 12,450,000 | $0.05 | 3 Dec 18 | 66.46% | 1.93% | 3.0 | $0.0099 | Black-Scholes | (b) |
| | **28,100,000** | | | | | | | | |

(a) *10,000,000 options were issued to Directors of the Company and approved by shareholders at the Company's AGM held on 27 November 2014. 5,650,000 options were issued to employees/consultants under the Company's ESOP. The options vested immediately and were expensed in the statement of comprehensive income.*

(b) *8,700,000 options were issued to Directors of the Company and approved by shareholders at the Company's AGM held on 25 November 2015. 3,750,000 options were issued to employees/consultants under the Company's ESOP. The options vested immediately and were expensed in the statement of comprehensive income.*

## 16. RESERVES

| | | 2016 $ | 2015 $ |
|---|---|---|---|
| Share-based compensation reserve | | 265,670 | 669,250 |
| Investment revaluation reserve | | 143,565 | 98,700 |
| Foreign currency translation reserve | | 313,964 | 289,041 |
| | | **723,199** | **1,056,991** |
| Share-based compensation reserve | (i) | | |
| Balance at the beginning of financial year | | 669,250 | 1,222,877 |
| Share-based payment expense | | 123,255 | 142,415 |
| Transfer expired options to Retained Earnings | | (526,835) | (696,042) |
| Balance at end of financial year | | **265,670** | **669,250** |

***(i) Share-based compensation reserve***
*The share-based compensation reserve is used to recognise the fair value of unlisted options issued but not exercised as described in Note 2 and referred to in Note 15.*

| | | 2016 $ | 2015 $ |
|---|---|---|---|
| **16. RESERVES continued** | | | |
| Investment revaluation reserve | (ii) | | |
| Balance at the beginning of financial year | | 98,700 | 2,038,465 |
| Change in fair value of investments available for sale | | 143,565 | 98,700 |
| Investment revaluation reserve adjustment on sale of investment | | (98,700) | (2,038,465) |
| Balance at end of financial year | | **143,565** | **98,700** |
| Foreign currency translation reserve | (iii) | | |
| Balance at the beginning of financial year | | 289,041 | 286,497 |
| Effect of exchange rate fluctuation | | 24,923 | 2,544 |
| Balance at end of financial year | | **313,964** | **289,041** |

***(ii) Investment revaluation reserve***
*The investment revaluation reserve arises in connection with the accounting for investments as per Note 8.*

***(iii) Foreign currency translation reserve***
*The foreign currency translation reserve arises from the translation of foreign currency subsidiaries.*

## 17. (LOSS) PER SHARE

| | 2016 | 2015 |
|---|---|---|
| (Loss) used in calculating basic and diluted (loss) per share | (1,360,558) | (1,929,515) |
| | Number | Number |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | 355,577,175 | 196,505,804 |
| | Cents per share | Cents per share |
| Basic (loss) per share | (0.38) | (0.98) |
| Diluted (loss) per share | (0.38) | (0.98) |

The number of potential ordinary shares that are dilutive and included in determining diluted EPS are nil (2015: nil) relating to share options issued. There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for all of the periods presented.

Conversion, call, subscription or issue after 30 June 2016: Since the end of the financial year there have been no other conversions to, call of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of these financial statements.

## 18. KEY MANAGEMENT PERSONNEL

### Key management personnel (KMP) remuneration, shares and options

| | 2016 $ | 2015 $ |
|---|---|---|
| Compensation for key management personnel | | |
| Short-term employee benefits | 950,699 | 911,023 |
| Post-employment benefits | 39,673 | 38,089 |
| Share-based payments | 118,800 | 130,585 |
| Total compensation | **1,109,172** | **1,079,697** |

## 18. KEY MANAGEMENT PERSONNEL continued

### Shareholdings of key management personnel

Fully paid ordinary shares held in Variscan Mines Limited

| | Balance at 1 July no. | Granted as remuneration no. | Received on exercise of options no. | Net change other* no. | Balance at 30 June no. |
|---|---|---|---|---|---|
| **2016** | | | | | |
| P Elliott | 5,488,805 | – | – | 1,876,981 | 7,365,786 |
| G Jones | 7,145,000 | – | – | 2,208,219 | 9,353,219 |
| C S Kwan | 122,561,894 | – | – | 31,518,952 | 154,080,846 |
| F K Foo | 12,606,999 | – | – | 7,323,912 | 19,930,911 |
| I Polovineo | 413,333 | – | – | 472,276 | 885,609 |
| J Testard | 200,000 | – | – | – | 200,000 |
| M Bonnemaison | 219,629 | – | – | – | 219,629 |
| Total | 148,635,660 | – | – | 43,400,340 | 192,036,000 |
| **2015** | | | | | |
| P Elliott | 2,352,345 | – | – | 3,136,460 | 5,488,805 |
| G Jones | 2,505,000 | – | – | 4,640,000 | 7,145,000 |
| C S Kwan | 52,396,526 | – | – | 70,165,368 | 122,561,894 |
| F K Foo | 1,403,000 | – | – | 11,203,999 | 12,606,999 |
| I Polovineo | 70,000 | – | – | 343,333 | 413,333 |
| J Testard | 200,000 | – | – | – | 200,000 |
| M Bonnemaison | 219,629 | – | – | – | 219,629 |
| Total | 59,146,500 | – | – | 89,489,160 | 148,635,660 |

* *Net change other consists of shares purchased by KMP on market during the period and shares issued under the Entitlement Offer in June 2016 (2015: Shares purchased and sold by KMP on market and shares issued under the SPP in May 2015).*

## 18. KEY MANAGEMENT PERSONNEL continued

### Option holdings of key management personnel

Share options held in Variscan Mines Limited

| | Balance at 1 July<br>no. | Granted as remuneration<br>no. | Options exercised<br>no. | Net change other*<br>no. | Balance at 30 June<br>no. | Balance vested at 30 June<br>no. | Vested and exercisable<br>no. |
|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | |
| P Elliott | 4,736,460 | 1,000,000 | – | (600,000) | 5,136,460 | 5,136,460 | 5,136,460 |
| G Jones | 9,639,999 | 2,800,000 | – | (2,300,000) | 10,139,999 | 10,139,999 | 10,139,999 |
| C S Kwan | 72,035,368 | 1,500,000 | – | (1,000,000) | 72,535,368 | 72,535,368 | 72,535,368 |
| F K Foo | 8,803,999 | 1,000,000 | – | 1,314,349 | 11,118,348 | 11,118,348 | 11,118,348 |
| M Moore (a) | – | 1,000,000 | – | – | 1,000,000 | 1,000,000 | 1,000,000 |
| I Polovineo | 3,093,333 | 1,000,000 | – | (1,250,000) | 2,843,333 | 2,843,333 | 2,843,333 |
| W Corbett | 1,000,000 | 250,000 | – | (650,000) | 600,000 | 600,000 | 600,000 |
| M Lilley | 900,000 | 650,000 | – | (650,000) | 900,000 | 900,000 | 900,000 |
| J Testard | 3,500,000 | 1,400,000 | – | (1,500,000) | 3,400,000 | 3,400,000 | 3,400,000 |
| M Bonnemaison | 3,500,000 | 1,400,000 | – | (1,500,000) | 3,400,000 | 3,400,000 | 3,400,000 |
| Total | 107,209,159 | 12,000,000 | – | (8,135,651) | 111,073,508 | 111,073,508 | 111,073,508 |
| **2015** | | | | | | | |
| P Elliott | 1,600,000 | 1,000,000 | – | 2,136,460 | 4,736,460 | 4,736,460 | 4,736,460 |
| G Jones | 5,550,000 | 4,000,000 | – | 89,999 | 9,639,999 | 9,639,999 | 9,639,999 |
| C S Kwan | 2,000,000 | 1,000,000 | – | 69,035,368 | 72,035,368 | 72,035,368 | 72,035,368 |
| F K Foo | 1,600,000 | 1,000,000 | – | 6,203,999 | 8,803,999 | 8,803,999 | 8,803,999 |
| A Breen (b) | 1,000,000 | 1,000,000 | – | (1,000,000) | 1,000,000 | 1,000,000 | 1,000,000 |
| I Polovineo | 1,250,000 | 1,750,000 | – | 93,333 | 3,093,333 | 3,093,333 | 3,093,333 |
| W Corbett | 1,000,000 | 350,000 | – | (350,000) | 1,000,000 | 1,000,000 | 1,000,000 |
| M Lilley | 900,000 | 250,000 | – | (250,000) | 900,000 | 900,000 | 900,000 |
| J Testard | 1,500,000 | 2,000,000 | – | – | 3,500,000 | 3,500,000 | 3,500,000 |
| M Bonnemaison | 1,500,000 | 2,000,000 | – | – | 3,500,000 | 3,500,000 | 3,500,000 |
| Total | 17,900,000 | 14,350,000 | – | 75,959,159 | 108,209,159 | 108,209,159 | 108,209,159 |

(a) *M Moore was appointed as a Director on 4 August 2015.*

(b) *A Breen resigned as a Director on 30 June 2015.*

* *Net change other consists of options purchased by KMP on market less options expired during the period. (2015: Options granted as part of SPP in May 2015 less options expired during the period).*

No shares were issued as a result of the exercise of compensation options to KMP.

Options held by Directors may be exercised at any time. Shares and options held by Directors include those held by the Directors and their Director-related entities, including the spouses of such Directors and relatives of such Directors. All shares and options, excluding those held under the Employee Share Option Plan, were issued or granted on terms no more favourable than to other shareholders or option holders.

## 19. RELATED PARTY DISCLOSURES

### Subsidiaries

The consolidated financial statements include the financial statements of Variscan Mines Limited (the Parent Entity) and the following subsidiaries:

| Name | Country of incorporation | % Equity interest 2016 | % Equity interest 2015 | $ Investment 2016 | $ Investment 2015 |
|---|---|---|---|---|---|
| Bluestone 23 Pty Ltd | Australia | 100 | 100 | 5,000 | 5,000 |
| PlatSearch Australia Limited | Australia | 100 | 100 | 5 | 5 |
| Variscan Mines SAS | France | 100 | 100 | 2,461,379 | 2,461,379 |

### Transactions with directors and key management personnel

The Company has an agreement with Luminor Capital Pte Ltd which is entitled to a cash fee of 6% of equity funds raised by Luminor Capital and other parties. Mr Kwan and Dr Foo, Directors of Variscan, have an interest in and are directors of Luminor Capital. No fees have been paid to date.

Variscan Mines SAS signed an agreement in January 2013 with E-Mines of which Michel Bonnemaison is a Director. The agreement is for E-Mines to provide geological services, sample preparation, analytical services and geological software to Variscan Mines SAS. A total of $574,543 was paid to E-Mines during the year ended 30 June 2016 (2015: $511,978).

Consulting services are provided by Director Michael Moore at $1,200 per day plus statutory superannuation (2015: Nil). A total of $36,792 was paid to Michael Moore for consulting fees during the year ended 30 June 2016 (2015: Nil).

Services provided by Directors and Key Management Personnel related entities were under normal commercial terms and conditions. There are no long term service agreements and hence no liabilities will arise from termination of such agreements. No other benefits have been received or are receivable by Directors, other than those already disclosed in the notes to the accounts.

### Transactions with associated companies

During the year the Company provided technical and administrative support services to its associated company Thomson Resources Ltd (TMZ) (associated company until 24 November 2015) and Eastern Iron Limited (EFE) (associated company until 14 January 2016). Services provided to TMZ amounted to $73,445 (2015: $76,772) and EFE $22,272 (2015: $63,370) consisting of payments received for consulting, use of office space and office services.

## 20. JOINT VENTURES

The Company is a party to a number of exploration joint venture agreements to explore for copper, gold, zinc, lead and uranium. Under the terms of the agreements the Company may be required to contribute towards the exploration and other costs if it wishes to maintain or increase its percentage holdings. The joint ventures are not separate legal entities. There are contractual arrangements between the participants for sharing costs and future revenues in the event of exploration success. There are no assets and liabilities attributable to Variscan at reporting date resulting from these joint ventures, other than exploration expenditure costs carried forward as detailed in Note 11. Costs are accounted for in accordance with the terms of joint venture agreements and in accordance with Note 2. Percentage equity interests in joint ventures at 30 June 2016 were as follows:

| Variscan Mines Limited | % interest 2016 | % interest 2015 |
|---|---|---|
| **New South Wales – gold, base metals and iron** | | |
| Hillston – diluting to 16% | 39.2% | 39.2% |
| Mundi Plains | 15.9% | 20% |
| Achilles and Chiron | 49% | 49% |

## 20. JOINT VENTURES continued

| Variscan Mines Limited | % interest 2016 | % interest 2015 |
|---|---|---|
| **South Australia – base metals and gold** | | |
| Quinyambie* – diluting to 15% | – | 52.6% |
| Callabonna – diluting to 30% | 100% | 100% |
| Junction Dam –base and precious metals rights | 12.7% | 13.4% |
| Junction Dam – uranium rights** | 0% | 0% |

* *Quinyambie was allowed to expire on 28 July 2015.*

** *Junction Dam – uranium rights. Variscan has retained a 3.75% net profits royalty on production from a uranium mine.*

## 21. SEGMENT INFORMATION

The operating segments identified by management are as follows:

1. Exploration projects funded directly by Variscan ('Exploration') operating in France and Australia and;
2. Investments in other companies ('Investing').

Regarding the Exploration segment, the Chief Operating Decision Maker (the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in Note 11 of this financial report. No segment revenues are disclosed as each exploration tenement is not at a stage where revenues have been earned. Furthermore, no segment costs are disclosed as all segment expenditure is capitalised, with the exception of expenditure written off which is disclosed in Note 11.

Regarding the Investing segment, the Chief Operating Decision Maker reviews the value of investments held in other exploration companies. The changes in the value of investments are disclosed in Notes 8 and 9 of this financial report. Segment revenues are disclosed in the statement of comprehensive income. Financial information about each of these tenements is reported to the Managing Director on an ongoing basis.

Corporate office activities are not allocated to operating segments as they are not considered part of the core operations of any segment and comprise of the following:

- Interest revenue
- Corporate costs
- Depreciation and amortisation of non-project specific property, plant and equipment.

The Group's accounting policy for reporting segments is consistent with that disclosed in Note 2.

The Group's geographical segments are determined based on the location of the Group's assets.

| | GEOGRAPHICAL SEGMENTS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Australia | | France | | Eliminations | | Consolidated | |
| | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 | 2016 $'000 | 2015 $'000 |
| **Revenue** | | | | | | | | |
| Revenue from outside the group | 1,981 | 3,133 | 249 | 185 | – | – | 2,230 | 3,318 |
| **Results** | | | | | | | | |
| Segment results before income tax | (1,874) | (1,631) | 939 | 662 | – | – | (935) | (969) |
| Income tax expense | | | | | | | (426) | (961) |
| Profit/(loss) after income tax expense | | | | | | | (1,361) | (1,930) |
| **Assets** | | | | | | | | |
| Segment assets | 9,162 | 7,385 | 4,684 | 2,892 | (4,698) | (3,815) | 9,148 | 6,462 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | 437 | 499 | 1,366 | 562 | (1,156) | (386) | 647 | 675 |
| **Other segment information** | | | | | | | | |
| Plant and equipment | 3 | 5 | 197 | 227 | – | – | 200 | 232 |
| Other non-current assets | 5,562 | 5,470 | 3,906 | 2,203 | (3,569) | (3,479) | 5,899 | 4,194 |
| Depreciation | 2 | 5 | 106 | 76 | – | – | 108 | 81 |

## 22. COMMITMENTS

### Lease commitments

The Company has obligations under the terms of an operating lease agreement for its office premises as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Payable not later than one year | 26,543 | 79,629 |
| Payable later than one year and not later than five years | – | 26,543 |
| | **26,543** | **106,172** |

The Company's lease of its office premises is for a two year period expiring on 31 October 2016. The lease will roll forward from a month by month basis after 31 October 2016 until the lease is renewed again.

### Exploration licence expenditure requirements

In order to maintain the Group's tenements in good standing with the various mines departments, the Group may be required to incur exploration expenditure under the terms of each licence. These expenditure requirements will diminish as the Group joint ventures projects to third parties. It is the Group's exploration strategy to farm-out to larger companies to fund the more expensive phases of exploration such as drilling programmes.

There are nil exploration licence commitments at year end (2015: nil).

## 23. CASH FLOW STATEMENT

| | | |
|---|---|---|
| **Reconciliation of net cash outflow from operating activities to operating profit after income tax** | | |
| Operating loss after income tax | (1,360,558) | (1,929,515) |
| Depreciation | 108,231 | 80,864 |
| Exploration expenditure written-off | 31,845 | 198,419 |
| Share of associate's net losses | 89,607 | 128,971 |
| Share-based payment expense | 123,255 | 142,415 |
| Gain on deemed disposal relating to an associate | (900,000) | – |
| Gain on associate investments | (195,321) | – |
| Impairment of investments | 574,111 | 1,702,562 |
| Non cash movements in derivatives | – | 955 |
| Provisions for annual leave and long service leave | 12,118 | 23,677 |
| Tax expense/(benefit) | 425,943 | 86,824 |
| Foreign exchange variances | 162,866 | (72,225) |
| Exploration adjustments and differences in closing creditors/accruals | (81,321) | (148,477) |
| Non cash gain on sale of investment | (961,965) | – |
| Non cash movements from sale of investments | 289,291 | – |
| Non cash movements in reserves | – | (1,991,609) |
| Other | 603 | 10,098 |
| **Change in assets and liabilities:** | | |
| (Increase)/decrease in receivables | (239,434) | 97,481 |
| (Decrease)/increase in trade and other creditors | (63,865) | 128,001 |
| **Net cash outflow from operating activities** | **(1,984,594)** | **(1,541,559)** |

For the purpose of the Statement of Cash Flows, cash includes cash on hand, at bank, deposits and bank bills used as part of the cash management function. The Group does not have any unused credit facilities.

## 23. CASH FLOW STATEMENT continued

| | 2016 $ | 2015 $ |
|---|---|---|
| The balance at 30 June comprised: | | |
| Cash and cash equivalents | 231,424 | 332,574 |
| Money market securities – bank deposits (Note 6) | 2,221,350 | 1,381,840 |
| Cash on hand | **2,452,774** | **1,714,414** |

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's Board considers the Company's overall risk management framework and policies, including quarterly review by the Board of the Company's financial position and financial forecasts and maintaining adequate insurances.

AASB 7 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

### Capital management

The Group considers its capital to comprise its ordinary share capital and its retained earnings, net of accumulated losses.

In managing its capital, the Group's primary objective as an explorer is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. The Group has no debt hence has a nil gearing ratio.

In making decisions to adjust its capital structure to achieve these aims, either through altering its new share issues, or consideration of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

### Financial instrument risk exposure and management

As is common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. These main risks, arising from the group's financial instruments are interest rate risk, liquidity risk, share market risk and credit risk. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

### General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives quarterly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

### Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

### Interest rate risk

At reporting date, the Group is exposed to floating weighted average interest rates at 30 June 2016 for financial assets as follows:

| | 2016<br>$ | 2015<br>$ |
|---|---|---|
| Weighted average rate of **cash** balances | 0.04% | 0.02% |
| Cash balances | $231,424 | $332,574 |
| Weighted average rate of **term deposits** | 2.52% | 2.28% |
| Term deposits | $2,221,350 | $1,381,840 |

All other financial assets and liabilities are non-interest bearing.

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the following tables:

| Risk exposure and responses | PRE TAX LOSS | | EQUITY | |
|---|---|---|---|---|
| Judgements of reasonably possible movements: | Lower/(higher) | | Lower/(higher) | |
| Consolidated | 2016<br>$ | 2015<br>$ | 2016<br>$ | 2015<br>$ |
| +1% (100 basis points) | 22,214 | 13,818 | 22,214 | 13,818 |
| –1% (100 basis points) | (22,214) | (13,818) | (22,214) | (13,818) |

### Share market risk

The Company relies greatly on equity markets to raise capital for its exploration activities and is thus exposed to equity market volatility. When market conditions require, for prudent capital management, in consultation with its professional advisers the Group looks to alternative sources of funding, including the sale of assets and royalties.

### Credit risk

Credit risk arises principally from the Group's cash, cash equivalents, receivables and tenement security deposits.

The Group's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

### Foreign currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the Australian dollar. The Group does not enter into derivative financial instruments to hedge such transactions denominated in a foreign currency. At 30 June 2016 the Group had no material exposure to foreign currencies and therefore no sensitivity analysis has been performed.

### Other receivables

Other receivables comprise GST. Credit worthiness of debtors is undertaken when appropriate.

### Equity price risk

Price risk arises from investments in equity securities. All significant equity investments held by Variscan are publicly traded on the ASX. The price risk for listed securities is material in terms of the possible impact on profit and loss or total equity and as such a sensitivity analysis is completed below. The capacity of the Company to raise capital from time to time may be influenced by either or both market conditions and the price of Variscan's quoted shares at that time.

## 24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

At balance date, the Group is exposed to a stock exchange risk on its investments (Note 8). The Group's exposure to share price movement is set out in the following tables:

| Risk exposure and responses | PRE TAX LOSS | | EQUITY | |
|---|---|---|---|---|
| Judgements of reasonably possible movements in share prices: | Lower/(higher) | | Lower/(higher) | |
| Consolidated | 2016 $ | 2015 $ | 2016 $ | 2015 $ |
| +20% | – | – | 297,447 | 95,746 |
| −20% | – | – | (297,447) | (95,746) |

## Accounting policies

Accounting policies in relation to financial assets and liabilities and share capital are contained in Note 2.

## Fair value of financial assets and liabilities

The fair value of all monetary financial assets and financial liabilities of the Variscan Group approximate their carrying value.

There are no off-balance sheet financial asset and liabilities at year-end.

All financial assets and liabilities are denominated in Australian dollars, except for a bank account held by Variscan SAS, the French subsidiary and a Euro bank account held by the parent entity.

## Fair value risk

The group uses three different methods in estimating the fair value of a financial investment. The methods comprise:

- **Level 1 –** the fair value is calculated using quoted prices in active markets; and
- **Level 2 –** the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- **Level 3 –** the fair value is estimated using inputs other than quoted prices.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the tables below.

| | Quoted market price (Level 1) $ | Valuation technique – market observable inputs (Level 2) $ | Valuation technique – non market observable inputs (Level 3) $ | Total $ |
|---|---|---|---|---|
| **2016** | | | | |
| **Financial assets** | | | | |
| Investments available for sale | 1,487,237 | – | – | 1,487,237 |
| Total financial assets | 1,487,237 | – | – | 1,487,237 |
| **2015** | | | | |
| **Financial assets** | | | | |
| Investments available for sale | 478,729 | – | – | 478,729 |
| Total financial assets | 478,729 | – | – | 478,729 |

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

The fair value of derivatives that do not have an active market are based on valuation techniques. Level 2 derivatives include market observable inputs whilst level 3 derivatives do not include market observable inputs.

## Transfer between categories

There were no transfers between levels during the year.

## 25. PARENT ENTITY INFORMATION

| Information relating to the parent entity Variscan Mines Limited: | 2016 AUD$'000 | 2015 AUD$'000 |
|---|---|---|
| Current assets | 3,554 | 1,908 |
| Total assets | 8,162 | 5,986 |
| Current liabilities | 249 | 149 |
| Total liabilities | 305 | 199 |
| Issued capital | 20,295 | 16,414 |
| Accumulated losses | (12,778) | (11,296) |
| Investment revaluation reserve | 74 | – |
| Share based payment reserve | 266 | 669 |
| Total shareholders' equity | 7,857 | 5,787 |
| Profit/(loss) of the parent entity | (2,546) | (2,629) |
| Total comprehensive income/(loss) of the parent entity | (2,473) | (4,667) |
| | (5,019) | (7,296) |

### Contractual commitments by the parent entity

The parent entity has lease commitments as stated in Note 22. The parent entity holds the lease commitment for its subsidiaries.

## 26. EVENTS AFTER THE REPORTING DATE

There were, at the date of this report, no matters or circumstances which have arisen since 30 June 2016 that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

# Directors' Declaration

In accordance with a resolution of the directors of Variscan Mines Limited, I state that:

In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) Giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date.

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

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.

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

(d) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2016.

On behalf of the Board,

**Greg Jones**
*Managing Director*
Sydney, 29 September 2016

# Independent Auditor's Report

HLB Mann Judd

Accountants | Business and Financial Advisers

**VARISCAN MINES LIMITED**
**ABN 16 003 254 395**
**INDEPENDENT AUDITOR'S REPORT**

To the members of Variscan Mines Limited

We have audited the accompanying financial report of Variscan Mines Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration, for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

## Directors' Responsibility for the Financial Report

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

In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements* that the consolidated financial statements comply with International Financial Reporting Standards.

## Auditor's Responsibility

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

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

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

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

## Independence

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

## Opinion

In our opinion:

(a) the financial report of Variscan Mines 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 2016 and 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 2.

# REPORT ON THE REMUNERATION REPORT

We have audited the Remuneration Report included in pages 25 to 28 of the directors' report for the year ended 30 June 2016. 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 Variscan Mines Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

# GOING CONCERN

Without modifying our opinion, we draw attention to the Going Concern Note included in Note 2 in the financial report, which indicates that the company's ability to continue as a going concern is dependent on it generating further equity funding. This condition, along with other matters as set forth in this note, indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

HLB Mann Judd

M. Muller

**HLB Mann Judd**
**Chartered Accountants**

**M D Muller**
**Partner**

**Sydney, NSW**
**29 September 2016**

**HLB Mann Judd (NSW Partnership) ABN 34 482 821 289**
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Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

# Additional Information

## SHAREHOLDER INFORMATION

Information relating to shareholders at 12 September 2016.

### Ordinary fully paid shares

There were a total of 518,922,788 fully paid ordinary shares on issue.

### Options

There were a total of 129,849,228 listed options and 57,447,830 of unlisted options on issue.

| Substantial shareholders | Shareholding |
|---|---|
| Kwan Chee Seng | 154,080,846 |

At the prevailing market price of $0.019 per share, there were 803 shareholders with less than a marketable parcel of $500.

| Top 20 shareholders of ordinary shares | Number | % |
|---|---|---|
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 157,636,560 | 30.38 |
| RHB SECURITIES SINGAPORE PTE LTD <CLIENTS A/C> | 25,249,913 | 4.87 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 23,718,512 | 4.57 |
| MR CHRIS CARR & MRS BETSY CARR | 21,000,000 | 4.05 |
| J P MORGAN NOMINEES AUSTRALIA LIMITED | 19,980,750 | 3.85 |
| CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C> | 17,560,346 | 3.38 |
| CRESCENT NOMINEES LIMITED | 11,460,712 | 2.21 |
| CITICORP NOMINEES PTY LIMITED | 9,169,739 | 1.77 |
| SYRACUSE CAPITAL PTY LTD <THE TENACITY A/C> | 9,000,000 | 1.73 |
| NATIONAL NOMINEES LIMITED | 7,584,775 | 1.46 |
| PANSTYN INVESTMENTS PTY LTD | 7,365,786 | 1.42 |
| MR ALLAN EDWARD WATTS <WATTS FAMILY A/C> | 7,282,692 | 1.40 |
| MR XIANGJUN ZHANG | 6,642,000 | 1.28 |
| MR RICHARD THOMAS HAYWARD DALY & MRS SARAH KAY DALY <DALY FAMILY S/F A/C> | 5,701,796 | 1.10 |
| WILDGLADE PTY LTD <THE RALSTON FAMILY A/C> | 5,698,069 | 1.10 |
| MR GREGORY FRANCIS PATRICK JONES <JONES SUPER FUND A/C> | 5,494,921 | 1.06 |
| IBT HOLDINGS PTY LTD <IBT HOLDINGS PTY LTD FAM A/C> | 5,000,000 | 0.96 |
| DR FATT KAH FOO | 3,928,399 | 0.76 |
| MR RHYS WILLIAMS | 3,856,419 | 0.74 |
| TATTERSFIELD SECURITIES LIMITED | 3,440,000 | 0.66 |
| **Total of top 20 holdings** | **356,771,389** | **68.75** |
| Other holdings | 162,151,399 | 31.25 |
| **Total fully paid shares issued** | **518,922,788** | **100.00** |

Distribution of shareholders

| Range | No of shareholders | Ordinary shares |
|---|---|---|
| 1 – 1,000 | 333 | 130,638 |
| 1,001 – 5,000 | 180 | 478,731 |
| 5,001 – 10,000 | 140 | 1,143,592 |
| 10,001 – 100,000 | 378 | 15,065,402 |
| 100,001 – and over | 245 | 502,104,425 |
| | 1,276 | 518,922,788 |

## Voting rights

There are no restrictions on voting rights. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Optionholders have no voting rights until the options are exercised.

| Top 20 holders of listed options | Number | % |
|---|---|---|
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 73,543,502 | 56.64 |
| RHB SECURITIES SINGAPORE PTE LTD <CLIENTS A/C> | 13,588,790 | 10.47 |
| MR CHRIS CARR & MRS BETSY CARR | 10,000,000 | 7.70 |
| BNP PARIBAS NOMS PTY LTD <DRP> | 5,633,926 | 4.34 |
| PANSTYN INVESTMENTS PTY LTD | 3,136,460 | 2.42 |
| MR GREGORY FRANCIS PATRICK JONES <JONES SUPER FUND A/C> | 2,616,629 | 2.02 |
| MR ALLAN EDWARD WATTS <WATTS FAMILY A/C> | 2,533,334 | 1.95 |
| DR FATT KAH FOO | 1,870,666 | 1.44 |
| MR TREVOR HYLTON SCHLOSS | 1,488,667 | 1.15 |
| MACKAY CONSULTING PTY LIMITED <MACKAY CONSULTING P/L SF A/C> | 1,333,333 | 1.03 |
| CITICORP NOMINEES PTY LIMITED | 1,257,212 | 0.97 |
| LIM & TAN SECURITIES PTE LTD <LIM & TAN CLIENT A/C> | 1,145,907 | 0.88 |
| MR GRAHAME JOHN MCKENZIE | 1,000,000 | 0.77 |
| MR PETER FABIAN HELLINGS & MRS JACQUELINE KIM GUN HELLINGS <BOX SUPER FUND A/C> | 950,000 | 0.73 |
| MR PETER FABIAN HELLINGS | 800,000 | 0.62 |
| MR GRAHAM JOHN MCKENZIE & MRS SHIRLEY JANE MCKENZIE <KINTAIL SUPER A/C> | 575,000 | 0.44 |
| JETOSEA PTY LTD | 530,000 | 0.41 |
| TANNACHY PTY LTD <IG PATTISON SUPER FUND A/C> | 500,000 | 0.39 |
| CURRACLOE PTY LTD <ROTHERY SUPER FUND A/C> | 500,000 | 0.39 |
| MR GREGORY JONES <THE JONES FAMILY ACCOUNT> | 406,666 | 0.31 |
| **Total of top 20 holdings** | **123,410,092** | **95.04** |
| Other holdings | 6,439,136 | 4.96% |
| **Total fully paid shares issued** | **129,849,228** | **100.00** |

Distribution of holders of listed options

| Range | Number of optionholders | Options |
|---|---|---|
| 1 – 1,000 | 5 | 3,673 |
| 1,001 – 5,000 | 12 | 27,591 |
| 5,001 – 10,000 | 15 | 111,084 |
| 10,001 – 100,000 | 48 | 1,962,580 |
| 100,001 – and over | 41 | 127,744,300 |
| | **121** | **129,849,228** |

Distribution of holders of unlisted options

| Range | Number of optionholders | Options |
|---|---|---|
| 1 – 1,000 | 0 | 0 |
| 1,001 – 5,000 | 0 | 0 |
| 5,001 – 10,000 | 0 | 0 |
| 10,001 – 100,000 | 5 | 425,000 |
| 100,001 – and over | 41 | 57,022,830 |
| | **46** | **57,447,830** |

## Corporate governance

Variscan Mines is committed to ensuring that its policies and practices reflect a high standard of corporate governance. The Board has adopted a comprehensive framework of Corporate Governance Guidelines.

The Group's Corporate Governance Statement can be viewed at:
***www.variscan.com.au/index.php/corporate-information/corporate-governance***

# Corporate Directory

## BOARD OF DIRECTORS

Patrick Elliott
*Chairman*

Greg Jones
*Managing Director*

Kwan Chee Seng
*Non-Executive Director*

Dr Foo Fatt Kah
*Non-Executive Director*

Mike Moore
*Non-Executive Director*

Jack Testard
*Executive Director*

## COMPANY SECRETARY

Ivo Polovineo

## REGISTERED OFFICE

Level 1, 80 Chandos Street
St Leonards, NSW 2065
PO Box 956, Crows Nest
NSW 1585

**Telephone:** (+ 61) 2 9906 5220
**Email:** info@variscan.com.au
**Website:** www.variscan.com.au

## VARISCAN MINES FRANCE

10 rue Léonard de Vinci – CS 40053
45007 Orléans cedex 2 – France

**Telephone:** +33 (0)2 38 51 10 56
**Email:** variscan@variscan.fr

## SHARE REGISTRY

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW 2001

**Telephone:** (+61 2) 9290 9600
**Website:** www. boardroomlimited.com.au

## AUDITORS

HLB Mann Judd
Level 19, 207 Kent Street
Sydney, NSW 2000

## SOLICITORS

Gadens Lawyers
Level 16, 77 Castlereagh Street
Sydney, NSW 2000

## BANKERS

Bankwest
Commonwealth Bank
Macquarie Bank

## SECURITIES EXCHANGE LISTING

Australian Securities Exchange
ASX code: **VAR**

## ACN

**ACN:** 003 254 395

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ASX Code: VAR