

CuDeco Limited

ABN 14 000 317 251

**Financial Report
2014**

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Corporate Directory

| | |
|---|---|
| DIRECTORS | Wayne McCrae Peter Hutchison Paul Keran Gerry Lambert David Taylor Zhijun Ma Hongwei Liu Zhaohui Wu |
| COMPANY SECRETARY | Bruno Bamonte |
| ADMINISTRATION AND REGISTERED OFFICE | Unit 34, Brickworks Annex 19 Brolga Avenue Southport Queensland 4215 Telephone: (617) 5503 1955 Facsimile: (617) 5503 0288 |
| PRINCIPAL PLACE OF BUSINESS | McIllwraith Street Cloncurry Queensland 4824 Telephone: (617) 4742 4800 Facsimile: (617) 4742 4898 Web site: www.cudeco.com.au |
| AUDITOR | KPMG Level 11, Corporate Centre One, Cnr Bundall Road and Slayter Avenue, Bundall Qld 4217 |
| SHARE REGISTRY | Advanced Share Registry Services 110 Stirling Highway Nedlands Western Australia 6009 Telephone: (618) 9389 8033 Facsimile: (618) 9262 3723 |
| STOCK EXCHANGE LISTING | The Company's securities are quoted on the Australian Securities Exchange. ASX Codes CDU - ordinary shares CDUO – Options exercisable at \$2.50 by 31 December 2015 |
| STATE OF INCORPORATION | New South Wales |

Corporate Governance Statement

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

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of additional corporate governance structures will be given further consideration.

The Company's corporate governance practices were in place throughout the financial year ended 30 June 2014 and were compliant, unless otherwise stated, with the ASX Corporate Governance Council ("CGC")'s principles and recommendations, which are noted below. The Board as a whole is involved in matters where larger Boards would ordinarily operate through sub-committees. For these reasons, some of the best practices recommended by CGC are not cost effective for adoption in a smaller company environment. The Board sets out below its "if not, why not" report in relation to those matters of corporate governance where the Company's practices depart from the ASX Best Practice Recommendations ("Recommendations").

- | | |
|--------------|--|
| Principle 1. | Lay solid foundations for management and oversight |
| Principle 2. | Structure the board to add value |
| Principle 3. | Promote ethical and responsible decision making |
| Principle 4. | Safeguard integrity in financial reporting |
| Principle 5. | Make timely and balanced disclosure |
| Principle 6. | Respect the rights of shareholders |
| Principle 7. | Recognise and manage risk |
| Principle 8. | Remunerate fairly and responsibly |

Principle 1 Lay Solid Foundations for Management and Oversight

Principle 1 - Recommendation 1.1

Notification of Departure:

The Company did not comply with ASX Recommendation 1.1 as there was no formalisation and disclosure of separate functions between the Board and management during the reporting period.

Explanation for Departure:

The Board recognises the importance of distinguishing between the respective roles and responsibilities of the Board and senior executives. The Board has established an informal framework for the management of the Company and the roles and responsibilities of the Board and senior executives.

The Board consisted of two executive directors and between five and six non-executive directors. The executive directors were a significant part of the management of the Company. As the Company progresses towards production, the management team is growing and the formalisation of their functions is ongoing and will soon be in the position that the Company will be able to be in compliance with this Principle.

The Board is responsible for the strategic direction of the Company, establishing goals for management and monitoring the achievement of these goals, monitoring the overall corporate governance of the Company, reviewing and monitoring risk and ensuring that shareholder value is increased.

The appointment of non-executive directors is formalised in accordance with the regulatory requirements and the Company's constitution.

Corporate Governance Statement (continued)

Principle 1 - Recommendations 1.2 and 1.3

Due to the small size of the Company the Board do not think that it is necessary to formally document the roles of the Board and management until such time as more senior executives are employed. The Board believes that these roles are being carried out in practice and are clearly understood by all members of the Board and will be clearly communicated to senior managers through their recruitment and their job descriptions. The Board considers that an informal review process is appropriate at this stage.

Principle 2 Structure the Board to Add Value

The Board's primary role is the protection and enhancement of long-term shareholder value. The Board is responsible for setting the strategic direction and establishing the policies of the Company. It is responsible for overseeing the financial position, and for monitoring the business and affairs on behalf of the shareholders, by whom the Directors are elected and to whom they are accountable. The Board also addresses issues relating to internal controls and approaches to risk management. The Board is responsible for the overall Corporate Governance of the Company.

The Board holds scheduled meetings at least once every two months, and strategy meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman and all directors. Standing items include the executive directors' report addressing progress on the Company's projects, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance.

The names, qualifications and relative experience of the directors of the company in office at the date of this Statement are set out in the Directors' Report.

The composition of the Board is determined using the following principles:

- the Board should comprise a minimum of three directors although this number has increased with the growth of the Company. In the future it may increase further where it is felt that additional expertise is required in specific areas, or when an outstanding candidate is identified
- the Board should comprise a majority of non-executive directors
- the Board should comprise directors with a broad range of expertise
- directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors are subject to re-election at least every three years

The composition of the Board is reviewed on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the Board would benefit from the services of a new director with particular skills, a panel of candidates is selected with the appropriate expertise and experience. External advisers may be used to assist in such a process. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. Since the end of the financial year the Board has expanded the terms of reference of the former Remuneration Committee which is now known as the Human Resources, Remuneration and Nominations Committee. This committee will as part of their role assist the board in fulfilling its responsibilities in respect of: -

1. Review strategic human resources and practices;
2. Board appointments, re-elections and performance;
3. Directors' induction programs and continuing development;
4. Succession planning; and
5. Review the suitability of the Board's current levels of skills, knowledge and experience such that they continue to be relevant and effective to the Company's present and future requirements.

Corporate Governance Statement (continued)

Principle 2 Structure the Board to Add Value (continued)

The Financial Statements and the Directors Report disclose details of remuneration paid or payable (broken down by separate constituents of the remuneration package) to each of the directors and to key management personnel.

The Chairman reviews the performance of all directors each year. Directors whose performance is unsatisfactory are asked to retire.

In accordance with the Corporations Act 2001 and the Company's constitution directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the Board believes that a significant conflict exists, the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

Each director has the right of access to all relevant company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of advice received by the director is to be made available to all other members of the Board.

Principle 2 - Recommendations 2.2 and 2.3Notification of departure:

Mr McCrae, the executive chairman, is not independent in accordance with the test of independence as set out in the ASX Corporate Governance Principles and Recommendations.

Explanation for departure:

Mr McCrae has maintained the dual role as the Company's CEO and Chairman. The Board believe that this arrangement is appropriate for the Company due to its small size and because Mr McCrae is the person best qualified to lead the Company's management. The Board considers that the current composition of the Board is adequate for the Company's current size and operations, and includes an appropriate mix of skills and expertise, relevant to the Company's business. The Company considers that each of the directors possess skills and experience suitable for building the Company.

The Board has also appointed a Lead Independent Director to serve in a lead capacity to coordinate the activities of the other Independent Directors and to perform such other duties and responsibilities as the Board of Directors may determine. The Lead Independent Director when acting as such shall have the following specific responsibilities:

- Provide the Chairman with input as to the preparation of the agendas for the Board of Directors' and Board Committee meetings;
- Provide the Chairman with input as to the quality, quantity and timeliness of the information submitted by the Company's management that is necessary or appropriate for the Independent Directors to effectively and responsibly perform their duties;
- Assist the Board of Directors to improve its compliance with Corporate Governance Issues;
- Serve as principal liaison between the Independent Directors and the Chairman on sensitive issues;
- Make recommendations to the Board of Directors on behalf of the Independent Directors; and
- Undertake such further responsibilities that the Independent Directors as a whole may designate to the Lead Independent Director from time to time.

The Board has also appointed a deputy chairman to assist the Chairman. The Deputy Chairman is an independent non-executive director.

Corporate Governance Statement (continued)

Principle 2 - Recommendations 2.4Notification of departure:

The Company has not had a nomination committee for the full year.

Explanation for departure:

On 18 August 2013, the Board resolved to expand the role of the Remuneration Committee and new terms of reference were established for the committee and it became the Human Resources, Remuneration and Nominations Committee. A copy of the terms of reference for this committee is available for inspection of the Company's website. Due to the size of the Board this was considered adequate. As the size of the company and the Board grows the need for a separate Nominations Committee will be monitored.

Principle 2 - Recommendations 2.5Notification of departure:

The Company has not had established a process for evaluating the performance of the Board, its committees and individual directors.

Explanation for departure:

As noted in recommendation 1, due to the small size of the Company the Board do not think that it is necessary to formally document the roles of the Board and management until such time as more senior executives are employed. As the company grows and the roles of the Board and management are formally documented then a process for evaluating the performance of the Board, its committees and individual directors can be established.

The Board considers that an informal evaluation process is appropriate at this stage.

Principle 3 - Recommendation 3.1

The Company has adopted a code of conduct that sets out the principles and core values by which the Company expects to operate its business and interact with its stakeholders. The code stipulates that all personnel, including directors, officers, employees, contractors and consultants are to conduct themselves with the highest ethical standards, and to act with integrity and honesty, whilst striving at all times to enhance the reputation and performance of the company. The code specifically states: -

a. Business dealings

CuDeco will conduct business with honesty and integrity and in an ethical and professional way. The giving or receiving of unacceptable benefits such as bribes, facilitation payments, unethical inducements, secret commissions or secret profits is expressly forbidden.

b. Compliance with Laws

CuDeco will comply with all applicable rules, regulations and practices of each country in which it conducts its business.

c. Conflicts of Interests

CuDeco personnel should at all times avoid placing themselves in situations or entering into arrangements involving actual or potential conflicts between their personal or private interests and those of the Company. They are required to disclose immediately to the Chairman or the Company Secretary any direct or indirect, actual or perceived conflict of interest.

Corporate Governance Statement (continued)

Principle 3 - Recommendation 3.1 (continued)

d. Use of Company Property

At all times CuDeco personnel will respect confidential and proprietary information of the Company, and will not use or disclose such information to anyone except in the proper performance of their duties with the Company, unless the prior written consent of the Company is obtained or unless required by law to disclose the information.

e. Respect for Each Other and the Community

CuDeco personnel will deal professionally, honestly and courteously with all parties. CuDeco is also committed to providing an equal employment opportunity work place.

Any breach of this Code must be immediately reported to the Chairman, or any other Director of the Company. Any person who reports such matters in good faith can do so with the utmost confidence, without fear of victimisation, harassment or discrimination, and in the knowledge that such concerns will be properly received and investigated.

This Code will be reviewed by the Board periodically to ensure it remains relevant to the Company's business operations and its changing business requirements.

A copy of this Code is available on the company's website.

Principle 3 - Recommendation 3.2, and 3.3

Notification of Departure:

The Company has not complied with these recommendations as it has not adopted a separate diversity policy with specific measurable objectives for achieving gender diversity and the Board has not established measurable objectives for achieving gender diversity.

Explanation for Departure:

The Company recognizes the benefits of a diverse workforce and supports diversity throughout its operations. In particular its policies do not discriminate the selection, promotion, and training of employees on the basis of gender or ethnicity. Due to current size of the Company's Board and senior management team, and the size and the location of its operations, the Board considers it impractical to adopt a diversity policy.

As the Company has not formalized a diversity policy, it has not set measurable objectives for achieving gender diversity.

At the date of this report, the proportion of female employees in the Group is 24%. There were no females as part of the Key Management Personnel or on the Board.

Corporate Governance Statement (continued)

Principle 6 - Recommendation 6.1

Notification of Departure:

The Company has not established a formal shareholder communication strategy.

Explanation for Departure:

Even though a formal shareholder communication strategy has not been established the Board of Directors ensure that the shareholders are informed of all major developments affecting the Company. In addition to complying with the continuous disclosure rules of the ASX, information is communicated to the shareholders through:

- The annual report which is distributed to shareholders either electronically or by post;
- The half yearly financial report lodged with the ASX;
- Advising shareholders of the key issues affecting the Company;
- Posting all ASX announcements on the Company's website; and
- Conducting an Annual General Meeting each year that incorporates an address by the Chairman and/or the Executive Directors, and other meetings called to obtain shareholder approval for specific matters.

The Company posts corporate information in the investor section of its Company website. The Company also has a facility for shareholders and investors to make enquiries via the Company website.

The Company's auditors are required to attend the Company's AGM to answer any questions put to them by the shareholders.

Principle 7 – Recognise and Manage risk

The Company is committed to identifying, monitoring and managing risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. The Board is ultimately responsible for overseeing the establishment and implementation of effective risk management systems and the monitoring of internal controls and compliance. The Company's Audit Committee, is also responsible for reviewing and updating the Company's risk profile, and monitoring the effectiveness of the risk management framework.

The Board receives every six months a report from the external auditors regarding their procedures and reporting that the financial records have been properly maintained and the financial statements comply with the Accounting Standards.

The Chairman and the Company Secretary provide half yearly the declarations required by Section 295A of the Corporations Act and confirm that in their opinion the financial statements and accompanying notes comply with Accounting Standards and give a true and fair view and any other matters that are prescribed by the regulations for the purposes of this paragraph in relation to the financial statements and the notes for the financial year are satisfied.

A copy of CuDeco's risk management policy is available on the company's website.

Corporate Governance Statement (continued)

Principle 8 – Remunerate Fairly and Responsibly

The Human Resources, Remuneration and Nominations Committee review the remuneration paid to Directors and Key Management Personnel. This committee consists of D Taylor (Chairman), P Keran and G Lambert. The committee meets at least twice during a financial year. A copy of the charter for this Committee is available on the company's website.

Principle 8 - Recommendation 8.3Notification of Departure:

Non-executive directors have received loan funded shares pursuant to an employee incentive plan as part of their remuneration.

Explanation for Departure:*Non-Executive Directors*

Non-Executive Directors receive fees which are determined by the Board within the aggregate limit set by the shareholders at a General Meeting. All Non-Executive Directors will receive remuneration by way of fees and receive no retirement benefits excluding statutory superannuation, if applicable. External professional advice may be sought to determine the level of Directors fees to ensure they are appropriate. The Board will determine the level of fees with reference to other comparable listed companies determined by size and nature of operations. Directors' fees need to be set at a level to attract suitably qualified individuals to accept the responsibilities of a Directorship. Whilst the ASX Corporate Governance Council states otherwise, the Board considers the issue of shares or options to non-executive directors as an appropriate method of providing sufficient incentive and reward and attracting high calibre directors.

All issues of shares or options to non-executive Directors must be approved by shareholders at a General Meeting.

There was no scheme for retirement benefits, other than statutory superannuation for the non-executive directors, in existence at any time during the year or subsequently. For details of remuneration paid to non-executive Directors and other key management personnel for the financial year please refer to the Remuneration Report included in the Directors' Report in these Financial Statements.

Review of Operations

Review of Operations

During the year to 30 June 2014 CuDeco continued its mine development activities on its 100% owned Rocklands Group Copper Project based in Cloncurry, Queensland, Australia ("Rocklands Project"). In the year the Company increased its investment in the development of the mine by \$59m and in the plant and equipment associated with the project by \$72m.

The key highlights for the year include: -

1. Updated JORC Resource

An updated Resource Estimate reported according to the Joint Ore Reserves Committee (JORC) Code 2012 and Guidelines, was completed in November 2013. The primary focus of the resource update was to upgrade the current 30Mt copper, cobalt, gold and magnetite resource that will sustain mining operations at the Rocklands Project at a production rate of 3m tonnes per annum.

Measured and Indicated Resource (open pitable);

30Mt @ 1.9% CuEq (*1.3 billion pounds CuEq - using 0.80% CuCoAu cut-off*).

The secondary focus of the resource update was to define resources with sufficient confidence that support studies into a planned Stage-2 expanded operation, producing up to 10m tonnes per annum.

Measured and Indicated Resource (open pitable);

181Mt @ 0.8% CuEq (*3.3 billion pounds CuEq - using 0.2% CuCoAu cut-off*)

In addition to the above copper, cobalt, gold and magnetite resources, a new and separate magnetite resource has been defined and will be included in future mine planning.

The new and separate Inferred Magnetite Resources (open pitable);

330Mt @ 14% Magnetite (47m tonnes of magnetite grading 62% Fe* - using 10% magnetite cut-off)

Including;

100Mt @ 20% Magnetite (20m tonnes of magnetite grading 62% Fe* - using 15% magnetite cut-off).

** Fe grades based on average of results from 2013 DTR programme – see full resource notes published to ASX on 29th November 2013, for full details.*

2. Mine Development

The mine development continued with \$131m of capital expenditure and as at 30 June 2014, the company had stockpiled 866,065 tonnes of ore. The stockpiles will allow for the optimization of the blending of the ore once production commences.

Included in the stockpiles the Company has identified high-grade coarse native copper ore that is able to be crushed and sorted and sold as Direct Shipping Ore ("DSO") prior to the commissioning of the process plant. At the end of the financial year the company was waiting for the arrival of an ore sorter on-site to help facilitate the identification and sorting of the DSO ore. At the date of this report the company had shipped 20 tonnes for testing at a Chinese smelter.

Review of Operations

Review of Operations (continued)

Construction of the Process Plant continued. The civil works and installation have been completed, or are near completion for the following items: -

- HPGR unit and infrastructure installed;
- Ball Mill unit and infrastructure installed;
- Scrubber unit and infrastructure installed;
- Jigging Process area unit and infrastructure (screens and pump boxes) installed;
- Tabling Area - unit and infrastructure (tables screens and pump boxes) installed;
- Spirals unit and infrastructure (pump boxes) installed;
- Gravity thickener - unit and infrastructure (pump boxes) installed;
- Flotation Area – tank installation unit and infrastructure installed;
- Concentrate thickeners x3 – installed;
- Concentrate filters - unit and infrastructure installed; and
- Power House – undergoing LV commissioning.

3. Exploration

During the period there was only a limited exploration programme undertaken as the main focus was on mine development. Significant zones of high-grade copper mineralisation were intersected in the infill drilling programme at Rocklands South, results of which were incorporated in the updated resource estimate referred to above.

The Company was granted a new exploration permit, EPM25426 for the area south-west and adjacent to the CuDeco's EPM18054.

4. Corporate

Financing

CuDeco decided that it would fund the balance of the development of the Rocklands Project through a combination of debt and equity. This financial year: -

- a. A \$US100m credit facility was established with the Minsheng Banking Corporation Ltd, China's largest non-China State owned Bank. The first drawdown of the facility occurred after the end of the financial year in July 2014. Of the total facility the bank has earmarked \$US65m for the Rocklands Project and the balance for the development of the consolidated entity's logistical assets, being a multiload facility in Cloncurry and loading facilities at the Port of Townsville.
- b. The Company raised a total of approximately \$56m (before costs) through a partially underwritten rights issue that was announced on 30 October 2013. Pursuant to this rights issue the company issued 22,599,423 ordinary shares and 22,599,423 options exercisable at \$2.50 on or before 31 December 2015.
- c. The Company completed a number of share placements as part consideration for the costs of acquiring plant and equipment. A total of 7,642,543 shares were issued valued at \$24,604,000 for plant and equipment at an average price of \$3.20 per share.

Review of Operations

Review of Operations (continued)

4. Corporate (continued)

Other

- a. CuDeco regained 100% control of the Multi-user Rail Load Facility in Cloncurry after Xstrata (now part of the Glencore Group) and MMG Limited have withdrawn from the joint venture to develop this asset. The Company has received notice that the transfer of Mining Lease Application (MLA) No 90235 to CuDeco has been completed and approved by the Department of Natural Resources and Mines.
- b. CuDeco on 7 February 2014, instituted proceedings for breach of contract regarding the supply and installation of a primary, secondary and tertiary crushing and screening plant. The Claim includes an allowance of \$10,867,295.62 for rectification and damages in addition to an allowance for interest accruing from the delay caused.
- c. Mr T. Wu was appointed as a non-executive Director on 4 July 2013.

Competent Person Statement

Information in this report that relates to Exploration Targets and Exploration Results is based on information compiled by Mr Andrew Day. Mr Day is employed by Geoday Pty Ltd, an entity engaged by Cudeco to provide independent consulting services. Mr Day has a BAppSc (Hons) in geology and is a Member of the Australian Institute of Mining and Metallurgy (Member #303598). Mr Day has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken 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" (JORC Code). Mr Day consents to 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 insofar as it relates to Metallurgical Test Results and Recoveries, is based on information compiled by Mr Peter Hutchison, MRACI Ch Chem, MAusIMM, a full-time executive director of CuDeco Ltd. Mr Hutchison has sufficient experience in hydrometallurgical and metallurgical techniques which is relevant to the results under consideration and to the activity which he is undertaking to qualify as a competent person for the purposes of this report. Mr Hutchison consents to the inclusion in this report of the information, in the form and context in which it appears.

Rocklands style mineralisation

Dominated by dilational brecciated shear zones, throughout varying rock types, hosting coarse splashy to massive primary mineralisation, high-grade supergene chalcocite enrichment and bonanza-grade coarse native copper. Structures hosting mineralisation are sub-parallel, east-south-east striking, and dip steeply within metamorphosed volcano-sedimentary rocks of the eastern fold belt of the Mt Isa Inlier. The observed mineralisation, and alteration, exhibit affinities with Iron Oxide-Copper-Gold (IOCG) classification. Polymetallic copper-cobalt-gold mineralisation, and significant magnetite, persists from the surface, through the oxidation profile, and remains open at depth.

Disclaimer and Forward-looking Statements

This report contains forward-looking statements that are subject to risk factors associated with resources businesses. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including, but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delays or advancements, approvals and cost estimates.

Review of Operations

Competent Person Statement (continued)

| Measured Rocklands Resource November 2013 at various cut-off grades | | | | | | | | | | |
|---|--------|-----------------|-----|------|-----|--------------------|-------|------------------------------|---------|-------|
| cut-off | Tonnes | Estimated Grade | | | | Copper Equivalents | | Contained Metal & Equivalent | | |
| CuCoAu* | | Cu | Co | Au | Mag | CuCoAu* | CuEq* | Cu | CuCoAu* | CuEq* |
| % | Mt | % | ppm | ppm | % | % | % | Mlb | Mlb | Mlb |
| 0.20 | 83 | 0.36 | 273 | 0.09 | 6.4 | 0.74 | 1.0 | 669 | 1,369 | 1,787 |
| 0.40 | 44 | 0.63 | 355 | 0.13 | 5.6 | 1.13 | 1.3 | 614 | 1,108 | 1,300 |
| 0.80 | 19 | 1.23 | 504 | 0.22 | 5.8 | 1.96 | 2.2 | 506 | 809 | 894 |
| Indicated Rocklands Resource November 2013 at various cut-off grades | | | | | | | | | | |
| cut-off | Tonnes | Estimated Grade | | | | Copper Equivalents | | Contained Metal & Equivalent | | |
| CuCoAu* | | Cu | Co | Au | Mag | CuCoAu* | CuEq* | Cu | CuCoAu* | CuEq* |
| % | Mt | % | ppm | ppm | % | % | % | Mlb | Mlb | Mlb |
| 0.20 | 98 | 0.16 | 226 | 0.07 | 6.5 | 0.47 | 0.7 | 339 | 1,021 | 1,518 |
| 0.40 | 40 | 0.32 | 287 | 0.13 | 4.1 | 0.74 | 0.9 | 282 | 652 | 779 |
| 0.80 | 11 | 0.68 | 405 | 0.19 | 3.0 | 1.28 | 1.4 | 170 | 319 | 346 |
| Total Measured and Indicated Rocklands Resource November 2013 at various cut-off grades | | | | | | | | | | |
| cut-off | Tonnes | Estimated Grade | | | | Copper Equivalents | | Contained Metal & Equivalent | | |
| CuCoAu* | | Cu | Co | Au | Mag | CuCoAu* | CuEq* | Cu | CuCoAu* | CuEq* |
| % | Mt | % | ppm | ppm | % | % | % | Mlb | Mlb | Mlb |
| 0.20 | 181 | 0.25 | 248 | 0.08 | 6.5 | 0.60 | 0.8 | 1,008 | 2,390 | 3,306 |
| 0.40 | 84 | 0.48 | 323 | 0.13 | 4.9 | 0.95 | 1.1 | 896 | 1,759 | 2,079 |
| 0.80 | 30 | 1.02 | 467 | 0.21 | 4.8 | 1.71 | 1.9 | 676 | 1,128 | 1,240 |
| Inferred Rocklands Resource November 2013 at various cut-off grades | | | | | | | | | | |
| cut-off | Tonnes | Estimated Grade | | | | Copper Equivalents | | Contained Metal & Equivalent | | |
| CuCoAu* | | Cu | Co | Au | Mag | CuCoAu* | CuEq* | Cu | CuCoAu* | CuEq* |
| % | Mt | % | ppm | ppm | % | % | % | Mlb | Mlb | Mlb |
| 0.20 | 91 | 0.06 | 146 | 0.09 | 4.6 | 0.3 | 0.4 | 117 | 573 | 902 |
| 0.40 | 12 | 0.24 | 200 | 0.10 | 2.6 | 0.5 | 0.6 | 63 | 142 | 166 |
| 0.80 | 0.5 | 0.54 | 413 | 0.12 | 3.2 | 1.1 | 1.2 | 6 | 12 | 13 |
| Total Resource Rocklands Resource November 2013 at various cut-off grades | | | | | | | | | | |
| cut-off | Tonnes | Estimated Grade | | | | Copper Equivalents | | Contained Metal & Equivalent | | |
| CuCoAu* | | Cu | Co | Au | Mag | CuCoAu* | CuEq* | Cu | CuCoAu* | CuEq* |
| % | Mt | % | ppm | ppm | % | % | % | Mlb | Mlb | Mlb |
| 0.20 | 272 | 0.19 | 214 | 0.08 | 5.9 | 0.5 | 0.7 | 1,125 | 2,962 | 4,208 |
| 0.40 | 96 | 0.45 | 308 | 0.13 | 4.6 | 0.9 | 1.1 | 959 | 1,902 | 2,244 |
| 0.80 | 30 | 1.01 | 466 | 0.21 | 4.8 | 1.7 | 1.9 | 681 | 1,140 | 1,253 |

| Additional Magnetite only Inferred Resource Rocklands Resource November 2013 at various cut-off grades | | | | | | |
|--|--------|-----------------|-----|------|------|---------------------|
| cut-off | Tonnes | Estimated Grade | | | | Contained Magnetite |
| Magnetite | | Cu | Co | Au | Mag | |
| % | Mt | % | ppm | ppm | % | Mt |
| 10 | 328 | 0.02 | 70 | 0.01 | 14.3 | 47 |
| 15 | 102 | 0.02 | 78 | 0.01 | 19.5 | 20 |
| 20 | 26 | 0.01 | 77 | 0.00 | 26.6 | 7 |

Note - Figures have been rounded to reflect level of accuracy of the estimates

*Copper equivalent CuCoAu% = Cu % + Co ppm*0.001232 + Au ppm*0.518238

*Copper equivalent CuEq% = Cu % + Co ppm *0.001232 + Au ppm *0.518238 + magnetite %*0.035342

This information is extracted from the report entitled "Rocklands Resource Update 2013" created on 29 November 2013 and is available to view on www.cudeco.com.au. The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

DIRECTORS' REPORT

The Directors present their report together with the financial report of CuDeco Limited (the "Company") and its controlled entities (the "Consolidated Entity") for the year ended 30 June 2014. CuDeco Limited is a listed public company incorporated in and domiciled in Australia.

DIRECTORS

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

Wayne Michael McCrae
Executive Chairman
(Director since 2002)

Wayne McCrae (66 years) has been involved in the mining industry for most of his adult life. Mr McCrae has steered more than 6 mining operations from grass roots exploration through to production and experience includes all facets of mineral processing, mining, metallurgy, geology, underground and open cut mining, and on site and corporate management. He has been involved with exploration for and / or production of gold, copper, silver, lead, zinc, coal and diamonds.

Mr McCrae's successes include the discovery of the Century Zinc Mine in 1990 (at the time the world's largest lead/zinc mine), and the Burton Downs Coking Coal mine (with over 200M tonnes of high grade coking coal) located in the Bowen Basin.

David John Edward Taylor
B.A. LL.B.
Independent, Non-Executive
Deputy Chairman
(Director since 2009)

David Taylor (30 years) is a Solicitor and Mediator who was admitted to practice in the Supreme Court of Queensland and High Court of Australia in 2006. He holds Bachelor degrees in Law and Arts in addition to a Masters of Laws specialising in Legal Practice from Bond University. Mr Taylor has broad experience in the legal profession dealing across areas of law including administrative law, insurance law, workers compensation, industrial relations, media law and environmental law. He is also a nationally accredited mediator by the Queensland Law Society under the Australian National Mediator Standards, and is also Special Counsel at Taylors.

Mr Taylor is the Chairman of the human resources, remuneration and nominations committee.

Peter Robert Hutchison
MRACI Ch Chem
Executive Director
(Director since 2004)

Peter Hutchison (65 years) is a process chemist and hydrometallurgist with over 40 years industry experience involving the chemical, mineral processing and water treatment businesses

He was responsible for the operations and handover of the Mt Norma project and is the Site Senior Executive and responsible for the metallurgical development work and other aspects of the Definitive Feasibility Study, for the Rocklands Project.

Vitie Paul Keran
B.App.Sc., B.E. (Chemical),
Dip. B.A.
Independent, Non-Executive
Director
(Director since 2007)

Paul Keran (71 years) is a chemical engineer with more than 30 years of experience in the resource sector in Australia and internationally, in senior operations management and project development roles in base metals mineral processing, smelting and technology development. He was previously with MIM Holdings as General Manager - Group Metallurgical Development and Metallurgical Works Manager at Mt Isa. He also completed technical assessment and development of the US \$1 billion Alumbrera copper/gold project in Argentina.

DIRECTORS' REPORT (continued)

DIRECTORS (continued)

Gerald Adrian Lambert
ACA MAICD BCom(Hnrs)
Independent, Non-Executive
Director
(Director since 2010)

Gerald (Gerry) Lambert (61 years) has had a 30 year corporate career with expertise and experience in the financial, strategic, systems compliance, management and human resource areas. He has held key financial roles in both listed and unlisted companies in the mining and exploration, property development and construction industries. Mr Lambert is a non-executive Deputy Chairman of Boystown, a national charitable organisation and is also the external Chairman of the Audit and Risk Committee of Villa World Limited, an ASX listed property development and construction company. Mr Lambert has previously been a director/CFO of Villa World Limited and a director of City Resources Limited. Mr Lambert is a Chartered Accountant and has also been a lecturer/tutor at the University of Wollongong. Mr Lambert is the Lead Independent Director and the Chairman of the audit committee.

Zhijun Ma
Independent Non-Executive
Director
(Director since 2011)

Mr Zhijun Ma (43 years) is a graduate from Engineering Management Tianjin University with a bachelor degree. Mr Ma is a specialised professional economist and during his career has been involved in a number of major investment projects covering a wide range of areas including finance, energy and real estate.

Hongwei Liu
Non-Executive Director
(Director since 2012)

Mr Liu (47 years) of is a graduate from Mechanical Design and Manufacturing Dalian Ocean University with a bachelor degree, and a master degree of Management from Massey University New Zealand. He is specialized in professional management and administration and during his career has been involved in a number of major investment projects covering a wide range of areas including finance and energy. Mr. Liu is a director of Oceanwide International Resources Investment Co., Ltd and is responsible for this company's investments for overseas projects especially within the finance, energy and resource sectors. He is also currently the Managing Director of Minsheng Investment Management Holdings Co Limited.

Zhaohui Wu
Non-Executive Director
(Appointed 2 July 2013)

Mr. Wu (47 years) is an executive director of Natsun Australia Pty Ltd and was nominated as a representative of New Apex Asia Investment Pty Ltd. Mr Wu graduated from Xiamen University in China with the degree of Bachelor of Economics. He has worked in the international trading sector since 1989. He was involved in export business during his working at either state owned or private mineral company in China, and kept working on import & export of alumina, aluminium, wool and wine when he moved to Australia in 2002. He also has been involved in acquisition of golf resort & farms and related activities from 2008.

None of the Company's Directors have held office as directors of other public listed companies in the three year period ended 30 June 2014 (except as disclosed above).

COMPANY SECRETARY

Bruno Joseph Bamonte
(Appointed June 2011)

Bruno Bamonte (aged 56 years) is an Australian Chartered Accountant and has more than 18 years of experience in the listed company area in roles ranging from Company Secretary to Finance Director. Mr Bamonte was appointed the chief finance officer of CuDeco in July 2013 on a part time basis.

DIRECTORS' REPORT (continued)

DIRECTORS (continued)

BOARD COMPOSITION

The Board comprises eight Directors, six of whom are considered non-executive and four of whom meet the board's criteria to be considered independent. An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the independent exercise of their judgement. For a director to be considered independent, they must meet all of the following materiality thresholds: -

- is not a substantial shareholder of the company or an officer of or otherwise associated directly with, a substantial shareholder of the Company;
- not benefit, directly or through a related person or entity, from any sales to or purchases from the Company or any of its related entities;
- not derive significant income (more than 10% of the director's total income) either directly or indirectly through a related person or entity from a contract with the Company or any of its related entities.

The Company has an Executive Chairman, which the company believes is appropriate given its size and its stage of development and the invaluable experience the Executive Chairman provides to the company. The Company also has appointed a non-executive Deputy Chairman.

The Company also has a Lead Independent Director to serve in a capacity to coordinate the activities of the other Independent Directors and to perform such other duties and responsibilities as the Board of Directors may determine. The Lead Independent Director when acting as such shall have the following specific responsibilities:

- Provide the Chairman with input as to the preparation of the agendas for the Board of Directors' and Board Committee meetings;
- Provide the Chairman with input as to the quality, quantity and timeliness of the information submitted by the Company's management that is necessary or appropriate for the Independent Directors to effectively and responsibly perform their duties;
- Assist the Board of Directors to improve its compliance with Corporate Governance Issues;
- Serve as principal liaison between the Independent Directors and the Chairman on sensitive issues;
- Make recommendations to the Board of Directors on behalf of the Independent Directors; and
- Undertake such further responsibilities that the Independent Directors as a whole may designate to the Lead Independent Director from time to time.

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the course of the financial year were mineral exploration, evaluation, mine development and construction of the plant and other infrastructure related to the Rocklands Project in Cloncurry, Queensland.

RESULTS AND DIVIDENDS

The loss after tax for the year ended 30 June 2014 was \$4,546,000 (30 June 2013: loss of \$3,993,000). The significant items that contributed to the result were;

- | | |
|------------------------------------|-------------|
| • Interest received | \$ 641,000 |
| • Foreign exchange gain | \$ 921,000 |
| • Employee and consultant expenses | \$4,534,000 |

No dividends were paid during the year and the Directors do not recommend payment of a dividend.

REVIEW OF OPERATIONS

A review of operations of the Consolidated Entity during the year ended 30 June 2014 and the results of those operations is set out on pages 9 to 12 and forms part of this Directors' Report.

DIRECTORS' REPORT (continued)

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the Consolidated Entity occurred during the year:

- a. The Consolidated Entity continued with the development of the Rocklands Project in Cloncurry, North Queensland as its primary focus. This is reflected in a substantial amount invested in: -
 - Plant and equipment of \$72m an increase of 49% over last year; and
 - The Development costs associated with the mine of approximately \$30m an increase of 33% over last year.
- b. The Consolidated Entity decided to reduce its commitment to exploration until production commences. During the year a total of approximately \$2m has been incurred on exploration and evaluation activities. Due to the commencement of mining operations, the costs associated with mining tenements that will form part of the proposed mine (approximately \$24m) have been transferred from Exploration and Evaluation Assets to Development costs.
- c. The company has successfully negotiated a debt facility for \$US65m with the China Minsheng Banking Corporation. The facility was drawdown after the end of the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity, in future financial years other than:

- a. The Company completed the first drawdown of its \$US65m (\$AUD70m) banking facility with the China Minsheng Banking Corporation in July 2014. All documentation for the facility was signed before the end of the financial year but the last condition precedent for the facility being the registration of the mortgages was completed in July 2014 and the first drawdown for \$US45m (\$AUD48m) was completed on 31 July 2014.
- b. In August 2014 the Company issued 305,883 ordinary fully paid shares at \$2.00 per share as payment of \$611,766 for the freight to bring major components of plant and equipment to the Rocklands Project site.

LIKELY DEVELOPMENTS

The Consolidated Entity will continue exploration, evaluation and development of its Rocklands Project. Further commentary on likely developments over the forthcoming year is provided in the "Review of Operations".

DIRECTORS' REPORT (continued)**DIRECTORS' MEETINGS**

The number of meetings of the Company's Directors and the number of meetings attended by each Director during the year ended 30 June 2014 are:

| | Full meetings of directors | | Meetings of committees | | | |
|-------------|----------------------------|---|------------------------|---|--------------|---|
| | A | B | Audit | | Remuneration | |
| | A | B | A | B | A | B |
| W McCrae | 7 | 7 | * | * | * | * |
| P Hutchison | 7 | 7 | * | * | * | * |
| P Keran | 7 | 7 | 4 | 4 | 2 | 2 |
| G Lambert | 7 | 7 | 4 | 4 | 2 | 2 |
| D Taylor | 7 | 7 | 4 | 4 | 2 | 2 |
| Z Ma | 5 | 7 | * | * | * | * |
| H Liu | 5 | 7 | * | * | * | * |
| Z Wu | 6 | 7 | * | * | * | * |

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

* = Not a member of the relevant committee

Mr Z Wu was appointed as a director on 2 July 2013.

In addition to the above Directors' meetings held during the year, matters of board business have also been resolved by circular resolutions of Directors, which are a record of decisions made at a number of informal meetings of the Directors.

The audit committee consists of G Lambert (Chairman), P Keran and D Taylor. The human resources, remuneration and nominations Committee (formerly the remuneration committee) consists of D Taylor (Chairman), P Keran and G Lambert.

DIRECTORS' INTERESTS

The relevant interest of each Director in the shares, options or other instruments issued by the Company, as notified by the Directors to the ASX Ltd in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

| | Held as part of loan funded employee share plan | | | |
|-------------|---|---|----------------------------|---|
| | Fully Paid ordinary shares | Options exercisable at \$2.50 by 31 December 2015 | Fully Paid ordinary shares | Options exercisable at \$2.50 by 31 December 2015 |
| W McCrae | 10,412,659 | 160,000 | 291,666 | 41,666 |
| P Hutchison | 1,075,534 | 40,000 | 291,666 | 41,666 |
| P Keran | 81,666 | 11,666 | 116,666 | 16,666 |
| G Lambert | 23,333 | 3,333 | 116,666 | 16,666 |
| D Taylor | 58,333 | 8,333 | 116,666 | 16,666 |
| Z Ma | - | - | - | - |
| H Liu | 112,000 | - | 100,000 | - |
| Z Wu | - | - | - | - |

DIRECTORS' REPORT (continued)

SHARE OPTIONS**Under the Employee Option Plan**

As at the date of this report, there were 22,599,423 (2013: nil) unissued ordinary shares under option. During or since the end of the financial year: -

- a. The following options expired: -
 - 225,000 employee options exercisable at \$2.50 – expiry date 15 September 2013; and
 - 400,000 consultant options exercisable at \$2.50 – expiry date 15 September 2013.
- b. No options were exercised.
- c. The following new options exercisable at \$2.50 by 31 December 2015 were granted during or since the end of the financial year:-
 - 2,599,423 options were granted on 19 December 2013 pursuant to a Rights Issue by the Company;
 - 20,000,000 options were granted on 6 January 2014 pursuant to the underwriting agreement to Rights Issue by the Company

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

Under The Loan Funded Employee Share Plan

In November 2011 the Company was granted approval for the setting up of Loan Funded Employee Share Plan. For accounting purposes shares allocated to employees pursuant to this plan will be treated and valued as options.

During or since the end of the financial year: -

- a. The Company has issued
 - 150,000 shares to an employee on 10 July 2013;
 - 1,087,500 shares to employees on 30 July 2013;
 - 15,000 shares to an employee on 2 October 2013;
 - 561,081 shares and 561,081 options to take up a further share at \$2.50 before 31 December 2015 were issued as a result of the exercise of rights attaching to the shares held in the Share Plan;
 - 100,000 shares to a Director on 10 December 2013; and
 - 1,203,917 shares to employees on 24 April 2014.
- b. 495,500 shares and 27,500 options have been forfeited by employees due to the termination of their employment with the Company.

DIRECTORS' REPORT (continued)**REMUNERATION REPORT - AUDITED**

This report outlines the remuneration arrangements in place for the following Key Management Personnel ("KMP") of CuDeco Limited during or since the end of the financial year.

Executive Directors

Wayne McCrae - Chief Executive Officer (CEO)
Peter Hutchison – Chief Operating Officer (COO)

Other Senior Management

Robert Brougham - Project Manager
David Wilson – Principal Advisor for exploration, resource and communications
Bruno Bamonte – Company Secretary and Chief Financial Officer (CFO)
Andrew Kehoe – Mining Manager
Wade Freeman - Process Manager

Non-Executive Directors

Paul Keran
Gerald Lambert
David Taylor
Zhijun Ma
Hongwei Liu
Zhaohui Wu

There have been no changes in KMP after the reporting date to the date the financial report was authorised for issue.

Principles of compensation – audited

Remuneration may also be referred to as compensation in this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and the senior executives for the Group that are named in this report.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee obtains independent advice on the appropriateness of compensation packages of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- the Group's performance

Compensation packages include a mix of fixed and variable compensation, and short-term and long-term performance-based incentives. There are no performance conditions associated with the remuneration of KMP.

The table below represents the target remuneration mix for group executives in the current year. The short-term incentive is provided at target levels, and the long-term incentive amount is provided based on the value granted in the current year.

| | Fixed remuneration | At risk | |
|------------------|--------------------|----------------------|---------------------|
| | | Short-term incentive | Long-term incentive |
| CEO | 90% | 0% | 10% |
| CFO, COO | 76% | 7% | 17% |
| Other executives | 76% | 0% | 24% |

DIRECTORS' REPORT (continued)

REMUNERATION REPORT - AUDITED (continued)

Remuneration Policy

The Board is responsible for determining remuneration policies applicable to the key management personnel. The remuneration must be commercially reasonable to attract, retain and motivate these people in order to achieve the Consolidated Entity's objectives. When considered necessary, independent advice on the appropriateness of remuneration packages is obtained. No recommendations were made by independent remuneration consultants during the year.

The remuneration of key management personnel is primarily settled with cash. At times remuneration may be by way of shares or options over shares. Remuneration of this kind helps motivate key management personnel in line with the Consolidated Entity's objectives.

Incentives may be provided to reward key management personnel for achievement of targets aligned with the Consolidated Entity's objectives. These incentives are likely to consist of shares in the Company, options for shares to align their interests with the medium to long term interests of shareholders, or cash bonuses.

Human Resources, Remuneration and Nominations Committee (formerly Remuneration Committee)

The human resources, remuneration and nominations committee ("the Committee") (formerly the remuneration committee) is a formally constituted committee, comprising non-executive independent Directors Mr. Taylor (Chairman), Mr. Lambert and Mr. Keran. The committee's terms of reference include reviewing and as appropriate and making recommendations to the board on:

- the remuneration guidelines for executive Directors, including base salary, bonuses, share options, salary packaging and final contractual agreements;
- non-executive directors fees and costs by seeking external benchmarks;
- the Company's incentive schemes, such as the Employee Share Plan and on the Company's superannuation arrangements;
- strategic human resources and practices;
- board appointments, re-elections and performance;
- directors' induction programs and continuing development;
- succession planning; and
- the suitability of the current levels of skills, knowledge and experience on the board such that they continue to be relevant and effective to the Company's present and future requirements.

Equity components of remuneration for any of the Directors, including the issue of shares and/or options, are required to be approved by shareholders prior to award.

The Committee assesses the appropriateness of the nature and amount of remuneration of key management personnel on a periodical basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and management team.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT - AUDITED (continued)

Directors and Executives Remuneration

Objective

The Consolidated Entity aims to reward the Directors and executives with a level of remuneration commensurate with their position and responsibilities within the Consolidated Entity and so as to:

- align the interests of the Directors and executives with those of shareholders;
- link reward with the strategic goals and performance of the Consolidated Entity; and
- ensure total remuneration is competitive by market standards.

Structure

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable Remuneration

Fixed Remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration of executive Directors and other executives is reviewed annually by the Committee and the process consists of a review of company, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practice. When considered necessary independent advice on the appropriateness of remuneration packages is obtained.

Shareholders have approved a pool of \$400,000 per annum for non-executive directors' fees. After an initial qualifying period the annual remuneration of non-executive Directors is set at \$50,000 adjusted for CPI increases plus superannuation at the statutory guarantee level. Any services provided to the Consolidated Entity outside the scope of their duties as Directors will be entitled to receive fees at a commercial hourly rate.

In addition non-executive Directors who are members of various Board committees receive additional fees.

The Committee reviews the remuneration packages applicable to the non-executive Directors on an annual basis. The Board considers fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Variable Remuneration – Long Term Incentive (LTI)

Objective

The objective of the LTI plan is to reward Directors and executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such LTI grants are only made to Directors and key executives as their performance will influence the generation of shareholder wealth and thus have a direct impact on the Consolidated Entity's performance.

Structure

In prior years LTI grants to Directors and executives were delivered in the form of options. No options were granted to any of the Directors during the year.

DIRECTORS' REPORT (continued)**REMUNERATION REPORT - AUDITED (continued)**

This financial year the company has proposed that LTI take the form of share issues through a loan funded share plan. The issue of equity as part of the remuneration packages of Directors and executives is an established practice of public listed companies and, in the case of the Consolidated Entity, has the benefit of conserving cash whilst properly rewarding each of the Directors and executives.

Employment Contracts – Executive Directors

Formal employment contracts for the executive Directors have been in place since 31 March 2008. Under these contracts the annual base salaries of the executive Directors for the financial year are as follows:

| | Base Salary | Superannuation |
|--------------------|--------------------|-----------------------|
| | \$ | \$ |
| W. McCrae (CEO) | 840,000 | 25,000 |
| P. Hutchison (COO) | 630,000 | 25,000 |

These executive Directors are also entitled to 20 days annual leave and an entitlement to long service leave calculated in accordance with the provisions of the relevant legislation. Employment contracts are unlimited in term however either party may elect to terminate the agreed arrangements by the giving of three (3) months' notice.

In the case of the Consolidated Entity terminating employment, causing redundancy or change in the employees' job content, status or responsibility due to a change in control, the executive employee is entitled to the maximum amount of compensation allowable under the Corporations Act. Current employment contracts do not provide for any other remuneration benefits other than as disclosed herein.

The executive Directors are also entitled to receive bonuses based on their performance during each year. The maximum amount of the bonus payable each year is the equivalent of 50% of their base salary for that year. The Remuneration committee review the performance of the Executive Directors and make recommendations to the Board as to the quantum of the bonuses to be paid. For the year ended 30 June 2014, a bonus paid to P. Hutchison represented 25% of the maximum allowable and the remainder of any maximum allowable bonus was forfeited. W. McCrae declined any bonus for the 2014 year to conserve the cash reserves of the Consolidated Entity until the Company generates sales of ore. The following bonuses were granted in September 2014 in respect of the year ended 30 June 2014:-

| | |
|--------------------|-----------|
| W. McCrae (CEO) | \$ Nil |
| P. Hutchison (COO) | \$ 78,750 |

The share price and profitability of the Consolidated Entity over the past five years is summarised as follows:-

| | 30 June 2014 | 30 June 2013 | 30 June 2011 | 30 June 2010 | 30 June 2009 |
|-------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Share price | \$1.71 | \$2.00 | \$3.20 | \$3.30 | \$4.60 |
| Profit (loss) | \$(4,545,899) | \$(3,993,189) | \$776,899 | (\$3,643,009) | (\$5,138,795) |
| Dividends | - | - | - | - | - |
| Return of capital | - | - | - | - | - |

DIRECTORS' REPORT (continued)

REMUNERATION REPORT - AUDITED (continued)

As the Consolidated Entity is still in the early production stages of its development it is not considered appropriate to link remuneration to, company profitability and shareholder wealth. At this stage of its development the Company is not expected to be profitable. Therefore the performance of the executives was assessed against the milestones needed to advance the company's Rocklands Project to development, after which time the profitability is expected to be significant and the main criteria that the executives will be assessed. Due to the continued progress made by the Consolidated Entity during the year towards production, and the achievement of these key milestones, the cash bonus was paid as outlined above.

Performance Criteria Used to Determine Bonuses

The executive directors have during the year overseen the continued transition of the Company from exploration towards production. During the year major components of Rocklands Project Process Plant have been constructed and installed with the management of costs associated with the CAPEX and mine development the main focus.

Mining operations increased during the year with 866,065 tonnes of ore mined and stockpiled as at the end of the financial year. Key infrastructure for the project has also been completed including the Morris Creek Diversion Channel.

The continued progress made in advancing the project as well as the following factors were considered by the Committee in making their recommendations to the Board regarding the payment of bonuses relating to the 2014 financial year.

In a difficult financial market the main positive achievements were: -

1. The Company secured a bank credit facility from China Minsheng Banking Corporation Ltd for \$US65m (approximately \$70m). The China Minsheng Banking Corporation Ltd has also approved a further credit facility for \$US35m (\$37m) to assist in the development of the Logistical assets of the Consolidated Entity. The effective interest rate of this facility is expected to be less than 7% p.a., this is seen to be highly competitive when compared with local funding and was achieved without the need for a costly bankable feasibility study to be prepared (a substantial cost saving).
2. The Company was able to negotiate an underwriting agreement to ensure the success of its rights issue that raised a total of \$56.5m. The rights issue was priced at a premium to the share price at the time which greatly benefited the company.

The main negative considered was the performance of the share price during the year. The share price as at 30 June 2013 was \$2.00 and the close price at 30 June 2014 was \$1.74. It should be noted that the share price dropped after June 2014 to approx. \$1.50 arising from a major shareholder selling their shareholding of 15% in the market due to their decision to exit the Australian market. The share price at September 2014 was \$1.70.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT - AUDITED (continued)**Employment Contracts – Other Executives**

Robert Brougham is the Project manager and was appointed on 12 June 2014 on a three year contract. His employment contract includes remuneration of \$200,000 per annum, plus statutory superannuation, use of a motor vehicle and accommodation in Cloncurry. The contract is able to be terminated by either party by providing one month's notice. There are no further entitlements to the executive on the termination of his agreement.

David Wilson is the Manager & Principal Advisor for Exploration, Resource, Pit Geology and Corporate. He has been consulting to the Company since November 2006, and became a full-time employee on 19 September 2008. He entered into a new two year employment contract commencing on 22 October 2012 which includes remuneration of \$175,000 per annum, plus statutory superannuation, use of a motor vehicle and accommodation in Cloncurry. There are no further entitlements to the executive on the termination of his agreement.

Bruno Bamonte has been the company secretary of the company since 6 June 2011 and in July 2013 he was appointed Chief Financial Officer. There is no formal employment contract in place at this time and his remuneration for the year was \$145,000. The appointment can be terminated by either party by providing one month's notice. There are no further entitlements to the executive on the termination of his agreement.

Wade Freeman is the Process Manager and he joined the Company on 9 January 2013 and left the Company on 6 December 2013. His employment contract included remuneration of \$180,000 per annum, plus 11.5% superannuation, use of a motor vehicle and accommodation in Cloncurry. The contract was terminated with the payment of one month's salary in lieu of one month's notice. There were no further entitlements to the executive on the termination of his agreement.

Kamlesh Ramdeo was the Commercial Manager and she joined the Company on 9 July 2012 on a three year contract. Her employment contract included remuneration payable of \$170,000 per annum, plus 9% superannuation. She was employed on a six month probationary period, after which the contract was able to be terminated by either party by providing one month's notice. There are no further entitlements to the executive on the termination of her agreement. Kamlesh left the Company on 27 August 2013.

Andrew Kehoe was appointed the mining manager on 3 July 2013 on a three year contract. His employment contract includes remuneration of \$200,000 per annum, plus statutory superannuation, use of a motor vehicle and accommodation in Cloncurry. The contract was terminated on 27 June 2014 with the payment of one month's salary in lieu of one month's notice. There were no further entitlements to the executive on the termination of his agreement.

DIRECTORS' REPORT (continued)**REMUNERATION REPORT - AUDITED (continued)**

The remuneration for the key management personnel, including Directors, of the Company during the year was as follows:

| Director/ Executive | | Salary / Fees | Cash Bonuses | Super- annuation | Value of options ⁽¹⁾ | Increase/ decrease in Long Service Leave Provision | Total | Perfor- mance related | Paid as Options ⁽¹⁾ |
|-------------------------|------|------------------|-----------------|---------------------|------------------------------------|---|-----------|-----------------------------|--------------------------------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| W McCrae | 2014 | 840,000 | - | 24,996 | 97,543 | 16,624 | 979,163 | 0% | 10% |
| | 2013 | 840,000 | 105,000 | 18,747 | 261,354 | (2,355) | 1,222,746 | 9% | 21% |
| P Hutchison | 2014 | 630,000 | 78,750 | 24,996 | 97,543 | 10,010 | 841,299 | 9% | 12% |
| | 2013 | 630,000 | 78,750 | 25,000 | 261,354 | 2,375 | 997,479 | 8% | 26% |
| P Keran | 2014 | 55,000 | - | 5,088 | 39,017 | - | 99,105 | 0% | 39% |
| | 2013 | 55,000 | - | 4,950 | 104,542 | - | 164,492 | 0% | 64% |
| G Lambert | 2014 | 55,000 | - | 5,088 | 39,017 | - | 99,105 | 0% | 39% |
| | 2013 | 55,000 | - | 4,950 | 104,542 | - | 164,492 | 0% | 64% |
| D Taylor | 2014 | 59,514 | - | 5,505 | 39,017 | - | 104,036 | 0% | 38% |
| | 2013 | 55,000 | - | 4,950 | 104,542 | - | 164,492 | 0% | 64% |
| Zhijun Ma | 2014 | 50,000 | - | - | - | - | 50,000 | 0% | 0% |
| | 2013 | 50,000 | - | - | - | - | 50,000 | 0% | 0% |
| H Liu | 2014 | 50,000 | - | - | 33,850 | - | 83,850 | 0% | 40% |
| | 2013 | 50,000 | - | - | - | - | 50,000 | 0% | 0% |
| Z Wu | 2014 | 25,000 | - | 2,891 | - | - | 27,891 | 0% | 0% |
| | 2013 | - | - | - | - | - | - | 0% | 0% |
| R Brougham (note 2) | 2014 | 198,462 | - | 18,348 | 79,597 | - | 296,407 | 0% | 27% |
| | 2013 | 5,692 | - | 512 | - | - | 6,204 | 0% | 0% |
| D Wilson | 2014 | 175,000 | - | 16,179 | 110,127 | - | 301,306 | 0% | 37% |
| | 2013 | 174,519 | - | 15,707 | 191,703 | - | 381,929 | 0% | 50% |
| B Bamonte | 2014 | 145,000 | - | - | 78,539 | - | 223,539 | 0% | 35% |
| | 2013 | 59,100 | - | - | 70,828 | - | 129,928 | 0% | 55% |
| A. Kehoe (note 3) | 2014 | 196,154 | - | 18,144 | - | - | 214,298 | 0% | 0% |
| | 2013 | - | - | - | - | - | - | 0% | 0% |
| W Freeman (note 4) | 2014 | 109,261 | - | 10,234 | - | - | 119,495 | 0% | 0% |
| | 2013 | 163,599 | - | 18,814 | 62,205 | - | 244,618 | 0% | 25% |
| K Ramdeo (note 5) | 2014 | 35,481 | - | 5,103 | - | - | 40,584 | 0% | 0% |
| | 2013 | 162,153 | - | 14,594 | 31,103 | - | 207,850 | 0% | 15% |
| Noel Everon (note 6) | 2014 | - | - | - | - | - | - | 0% | 0% |
| | 2013 | 65,993 | - | 5,939 | - | - | 71,932 | 0% | 0% |
| Ian Carroll (note 7) | 2014 | - | - | - | - | - | - | 0% | 0% |
| | 2013 | 26,063 | - | 2,346 | - | - | 28,409 | 0% | 0% |
| Total | 2014 | 2,623,872 | 78,750 | 136,572 | 614,250 | 26,634 | 3,480,078 | | |
| | 2013 | 2,392,119 | 183,750 | 116,509 | 1,192,173 | 20 | 3,884,571 | | |

DIRECTORS' REPORT (continued)**REMUNERATION REPORT - AUDITED (continued)**

Notes to Remuneration table

- (1) Shares issued pursuant to the loan funded employee share plan are treated as in-substance options.
- (2) R Brougham – appointed 12 June 2013
- (3) A Kehoe - appointed 3 July 2013 and resigned on 27 June 2014
- (4) W Freeman - resigned 6 December 2013
- (5) K Ramdeo - appointed 9 July 2012 and resigned on 27 August 2013
- (6) N Everon - resigned on 29 August 2012
- (7) I Carroll - resigned on 18 July 2012

The board's current policy does not allow Directors and executives to limit their risk exposure in relation to equities or options without the approval of the board.

The non-monetary benefits provided to KMP during the year was \$Nil (2013 \$Nil).

Compensation options exercised during the year

No equity instruments were issued during the year to key management personnel as a result of options exercised that had previously been granted as compensation.

Options (Loan Funded Shares) granted during the year end

Shares were issued pursuant to the Loan Funded Share Plan ("Share Plan"). Under the terms and conditions of the Share Plan the participants are loaned the value of the shares at the date of their allocation and the shares are held in trust until the loan is repaid. The loan is a non-interest bearing loan and any recourse is limited to the value of the shares. The shares are issued at the weighted average of the share price over the five trading days before the shares were allocated. The loan funded shares for accounting purposes are considered to be in-substance options and are treated as such in the accounts.

For the shares issued to H Liu, the non-executive director, during the year, 50% of the shares will vest in 12 months from the date of issue and the balance 18 months thereafter. For the remaining shares issued 50% of the shares will vest three months after the Company goes into production and the balance 18 months later. The recipients of the shares have five years from the date of their issue to repay the loans and can repay the loans and take the shares at any time after they have vested. The plan was introduced to align the interests of key management personnel with those of shareholders.

During the year the Company undertook a rights issue. All KMP with shares under the Loan Funded Share plan at that time agreed for the rights attaching to their shares to be taken up resulting in a corresponding increase in their loan to the Company equivalent to the exercise price of the rights exercised.

The number of shares allocated to KMP is as follows:-

| | No of Shares Allocated | No of Shares vested | Average Exercise price | Weighted Average fair value per share (1) | Total amount of Loan | Expiry date | Vesting dates |
|-------------|---------------------------|---------------------------|------------------------------|--|----------------------------|---------------------------------------|-----------------------|
| W. McCrae | 291,666 | 291,666 | \$3.60 | \$2.25 | \$1,050,321 | 23/12/17 | n/a – fully vested |
| P Hutchison | 291,666 | 291,666 | \$3.60 | \$2.25 | \$945,000 | 23/12/17 | n/a – fully vested |
| P Keran | 116,666 | 116,666 | \$3.60 | \$2.25 | \$378,000 | 23/12/17 | n/a – fully vested |
| G Lambert | 116,666 | 116,666 | \$3.60 | \$2.25 | \$378,000 | 23/12/17 | n/a – fully vested |
| D Taylor | 116,666 | 116,666 | \$3.60 | \$2.25 | \$378,000 | 23/12/17 | n/a – fully vested |
| H Liu | 100,000 | - | \$1.86 | \$1.05 | \$185,564 | 10/12/18 | 10/12/14 and 10/06/15 |
| R Brougham | 175,000 | - | \$1.90 | \$1.08 | \$332,608 | 29/07/18 | 31/3/15 and 30/06/16 |
| D Wilson | 175,000 | 175,000 | \$3.05 | \$1.53 | \$533,067 | 7/06/17 | n/a – fully vested |
| B Bamonte | 116,666 | 51,055 | \$3.33 | \$1.92 | \$388,490 | Between 07/06/17 and 29/07/2018 | 31/3/15 and 30/06/16 |

(1) The weighted average fair value of the shares has been calculated by using the Black-Scholes valuation method

DIRECTORS' REPORT (continued)**REMUNERATION REPORT - AUDITED (continued)**

The movement in the holdings of Shares issued to KMP under the Share Plan are summarised as follows:-

| | Held at 1 July 2012 | Granted as Compen- sation in 2013 | Held at 30 June 2013 | Granted as Compen- sation 2014 | Forfeited | Held at 30 June 2014 | Vested during the year 2014 | Vested and Exercisable at 30 June 2014 |
|-------------|------------------------|--|----------------------------|--------------------------------------|-----------|----------------------------|--------------------------------------|---|
| W. McCrae | 250,000 | - | 250,000 | 41,666 | - | 291,666 | 166,666 | 291,666 |
| P Hutchison | 250,000 | - | 250,000 | 41,666 | - | 291,666 | 166,666 | 291,666 |
| P Keran | 100,000 | - | 100,000 | 16,666 | - | 116,666 | 66,666 | 116,666 |
| G Lambert | 100,000 | - | 100,000 | 16,666 | - | 116,666 | 66,666 | 116,666 |
| D Taylor | 100,000 | - | 100,000 | 16,666 | - | 116,666 | 66,666 | 116,666 |
| H Liu | - | - | - | 100,000 | - | 100,000 | - | - |
| R Brougham | - | - | - | 175,000 | - | 175,000 | - | - |
| D Wilson | 150,000 | - | 150,000 | 25,000 | - | 175,000 | 75,000 | 150,000 |
| B Bamonte | 25,000 | 62,500 | 87,500 | 29,166 | - | 116,666 | 25,000 | 25,000 |
| A. Kehoe | - | - | - | 175,000 | (175,000) | - | - | - |
| W. Freeman | - | 100,000 | 100,000 | - | (100,000) | - | - | - |
| K Ramdeo | - | 50,000 | 50,000 | 25,000 | (75,000) | - | - | - |

No Shares issued under the Share Plan were exercised during the above periods.

Shares have been issued under the Share Plan to other KMP that have left the Company. These shares have been cancelled and the former KMP have no further rights to those shares under the Share Plan.

Shareholdings

The number of Ordinary Shares in the company held during the financial year by KMP, including shares held by related parties, are set out below: -

| KMP | Balance 1 July 2013 | Received as Remuneration | Options Exercised | Net Change Other # | Balance 30 June 2014 |
|--------------|------------------------|-----------------------------|----------------------|-----------------------|-------------------------|
| W. McCrae | 10,143,159 | - | - | 210,000 | 10,353,159 |
| P. Hutchison | 1,032,534 | - | - | 43,000 | 1,075,534 |
| P. Keran | 70,000 | - | - | 11,666 | 81,666 |
| G. Lambert | 20,000 | - | - | 3,333 | 23,333 |
| D. Taylor | 32,000 | - | - | 26,333 | 58,333 |
| Z. Ma | - | - | - | - | - |
| H. Liu | 40,000 | - | - | 71,400 | 111,400 |
| R. Brougham | - | - | - | - | - |
| D. Wilson | - | - | - | - | - |
| B. Bamonte | 9,000 | - | - | 4,139 | 13,139 |
| A. Kehoe | - | - | - | - | - |
| W. Freeman | - | - | - | - | - |
| K. Ramdeo | - | - | - | - | - |

Option holdings

The numbers of options in the Company held during the financial year by key management personnel, including options held by their related entities, are set out below.

| Key management personnel | Balance 30 June 2013 Total Options | Movement during the year | | | | Balances as at 30 June 2014 | | | |
|--------------------------------|--|--|--------------------|----------|-----------|-----------------------------|------------------|---------------------|----------------------------------|
| | | Granted through the employee share plan | | Acquired | Exercised | Forfeited / Expired | Total Options | Options Unvested | Total Vested & Exercisable |
| | | Granted | Pursuant | | | | | | |
| | | as remuner- ation | to Rights Issue | | | | | | |
| W. McCrae | 250,000 | - | 83,332 | 160,000 | - | - | 493,332 | - | 493,332 |
| P. Hutchison | 250,000 | - | 83,332 | - | - | - | 333,332 | - | 333,332 |
| P. Keran | 100,000 | - | 33,332 | - | - | - | 133,332 | - | 133,332 |
| G. Lambert | 100,000 | - | 33,332 | - | - | - | 133,332 | - | 133,332 |
| D. Taylor | 100,000 | - | 33,332 | 8,333 | - | - | 141,665 | - | 141,665 |
| Z. Ma | - | - | - | - | - | - | - | - | - |
| H. Liu | - | 100,000 | - | - | - | - | 100,000 | 100,000 | - |
| R. Brougham | - | 150,000 | 50,000 | - | - | - | 200,000 | 200,000 | - |
| D. Wilson | 150,000 | 100,000 | 50,000 | - | - | - | 300,000 | 100,000 | 200,000 |
| B. Bamonte | 87,500 | 37,500 | 33,332 | - | - | - | 158,332 | 125,000 | 33,332 |
| A. Kehoe | - | 150,000 | 50,000 | - | - | (200,000) | - | - | - |
| W. Freeman | 100,000 | - | - | - | - | (100,000) | - | - | - |
| K. Ramdeo | 50,000 | - | - | - | - | (50,000) | - | - | - |
| | 1,187,500 | 537,500 | 449,992 | - | - | (350,000) | 1,824,992 | 525,000 | 1,299,992 |

DIRECTORS' REPORT (continued)

REMUNERATION REPORT - AUDITED (continued)**Option holdings (continued)**

All shares issued pursuant to the loan funded employee share plan are treated as in-substance options and included above.

Options (Loan Funded Shares) granted since year end

The Company has not granted any options over unissued ordinary shares in CuDeco Limited since the end of the financial year to any key management personnel or executives as part of their remuneration.

Transactions with Directors and Director-Related Entities

A number of Directors of the Company, or their personally related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. The terms of the transactions with Directors and their personally related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis, unless otherwise noted.

The results for the year include the following expenses that resulted from transactions with Directors of the Company and their personally related entities.

| | 2014 | 2013 |
|---|---------------|------------|
| | \$'000 | \$'000 |
| Rents paid or payable to Mr McCrae and his director-related entities. | 306 | 325 |

There were no balances due to Directors and Director Related Entities at period end.

Other Transactions with Key Management Personnel

In the 2014 financial year there were no other transactions between the Consolidated Entity and Key Management Personnel.

This is the end of the audited remuneration report

DIRECTORS' REPORT (continued)

ENVIRONMENTAL REGULATION

There are significant regulations under the environmental and mining laws and regulations of Queensland that apply to the exploration and mining tenements the Consolidated Entity holds in that State, including license requirements relating to ground disturbance, rehabilitation and waste disposal.

The Directors believe that the Consolidated Entity has adequate systems in place for management of its environmental requirements in relation to all its tenement holdings and are not aware of any significant breaches of these environmental requirements during the period covered by this report.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, CuDeco Ltd paid a premium of \$ 36,967 (2013: \$22,291) to insure the Directors and officers of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company.

The Company has not indemnified or insured its auditor.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance, except where disclosed in the corporate governance statement.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Consolidated Entity, or to intervene in any proceedings to which the Consolidated Entity is a party, for the purpose of taking responsibility on behalf of the Consolidated Entity for all or part of those proceedings. The Consolidated Entity was not a party to any such proceedings during the year.

NON AUDIT SERVICES

In 2014, KPMG provided non-audit services, being the provision of tax services. In 2013, BDO Audit Pty Ltd were the auditors and they provided non-audit services being the provision of tax services. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. The following fees for non-audit services were paid or were payable to the external auditors during the year ended 30 June 2014:

- \$26,000 (2013: \$18,230) for the provision of tax services.

ROUNDING OFF

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

DIRECTORS' REPORT (continued)

AUDITOR'S INDEPENDENCE DECLARATION

The auditor, KPMG, has provided the Board of Directors with an independence declaration in accordance with section 307C of the Corporations Act 2001.

The independence declaration is attached to and forms part of this Directors' Report.

Signed in accordance with a resolution of the Board of Directors

A handwritten signature in black ink, appearing to be 'W McCrae', written in a cursive style.

W McCrae
Chairman

30 September 2014



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Cudeco Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

P Steer

Paul Steer
Partner

Gold Coast
30 September 2014

**Consolidated statement of profit or loss and other comprehensive income
for the year ended 30 June 2014**

| | Notes | 2014 \$'000 | 2013 \$'000 |
|---|-------|----------------|----------------|
| Revenue – finance income | 8 | 641 | 3,139 |
| Other income | 8 | 1,624 | 458 |
| | | 2,265 | 3,597 |
| Expenses | | | |
| Depreciation expense | | (772) | (525) |
| Employee and consultancy expenses | | (4,534) | (5,519) |
| Insurance expense | | (174) | (279) |
| Occupancy expenses | | (594) | (1,045) |
| Stock exchange and shareholder communication expenses | | (309) | (249) |
| Travel | | (163) | (531) |
| Other | | (265) | (270) |
| Total Expenses | | (6,811) | (8,418) |
| Loss from continuing operations before related income tax expense/benefit | | (4,546) | (4,821) |
| Income tax benefit | 11 | - | 828 |
| Net loss for the year | | (4,546) | (3,993) |
| Other comprehensive income | | - | - |
| Total comprehensive income (loss) for the year | | (4,546) | (3,993) |
| | | Cents | Cents |
| Earnings per share: | | | |
| Basic earnings (loss) per share | 12 | (1.8) | (2.1) |
| Diluted earnings per share | 12 | (1.8) | (2.1) |

The above financial statement should be read in conjunction with the accompanying notes.

Consolidated statement of financial position as at 30 June 2014

| | Notes | 2014 \$'000 | 2013 \$'000 |
|--------------------------------------|--------------|------------------------|------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 13 | 9,231 | 45,522 |
| Trade and other receivables | 14 | 960 | 2,135 |
| Inventory | 15 | 11,141 | - |
| TOTAL CURRENT ASSETS | | 21,332 | 47,657 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | 14 | 2,231 | 1,986 |
| Inventory | 15 | - | 2,934 |
| Property, plant and equipment | 16 | 219,219 | 147,248 |
| Exploration and evaluation assets | 17 | 16,627 | 39,168 |
| Development costs | 18 | 149,689 | 90,250 |
| TOTAL NON-CURRENT ASSETS | | 387,766 | 281,586 |
| TOTAL ASSETS | | 409,098 | 329,243 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 19 | 7,467 | 4,004 |
| Provisions | 20 | 1,374 | 998 |
| TOTAL CURRENT LIABILITIES | | 8,841 | 5,002 |
| NON-CURRENT LIABILITIES | | | |
| Provisions | 20 | 6,286 | 2,041 |
| TOTAL NON-CURRENT LIABILITIES | | 6,286 | 2,041 |
| TOTAL LIABILITIES | | 15,127 | 7,043 |
| NET ASSETS | | 393,971 | 322,200 |
| EQUITY | | | |
| Contributed equity | 21 | 424,602 | 367,829 |
| Reserves | 23 | 56,765 | 37,221 |
| Accumulated losses | | (87,396) | (82,850) |
| TOTAL EQUITY | | 393,971 | 322,200 |

The above financial statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity for the year ended 30 June 2014

| | Contributed Equity | Accumulated Losses | Option Reserve | Capital Realisation Reserve | Capital Redemption Reserve | Total Equity |
|--|-----------------------|-----------------------|----------------|-----------------------------------|----------------------------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance – 1 July 2012 | 311,313 | (78,857) | 34,647 | 95 | 432 | 267,630 |
| Profit (Loss) for the year | - | (3,993) | - | - | - | (3,993) |
| Total comprehensive income | - | (3,993) | - | - | - | (3,993) |
| Share issued | | | | | | |
| To pay for Goods and Services | 49,540 | - | - | - | - | 49,540 |
| Option Conversions | 750 | - | - | - | - | 750 |
| Share Placement | 17,250 | - | - | - | - | 17,250 |
| Share issue costs | (926) | - | - | - | - | (926) |
| Share based payment expense | - | - | 2,047 | - | - | 2,047 |
| Less Shares transferred to Employee Share Plan | (10,098) | - | - | - | - | (10,098) |
| Balance - 30 June 2013 | 367,829 | (82,850) | 36,694 | 95 | 432 | 322,200 |
| Profit (Loss) for the year | - | (4,546) | - | - | - | (4,546) |
| Total comprehensive income | - | (4,546) | - | - | - | (4,546) |
| Share issued | | | | | | |
| To pay for Goods and Services | 24,603 | - | - | - | - | 24,603 |
| Rights issue including issue to underwriters | 38,185 | - | 18,314 | - | - | 56,499 |
| Share issue costs | (2,092) | - | (925) | - | - | (3,017) |
| Share based payment expense | - | - | 2,155 | - | - | 2,155 |
| Less Shares transferred to Employee Share Plan | (3,923) | - | - | - | - | (3,923) |
| Balance - 30 June 2014 | 424,602 | (87,396) | 56,238 | 95 | 432 | 393,971 |

The above financial statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows for the year ended 30 June 2014

| | Notes | 2014 \$'000 | 2013 \$'000 |
|---|--------------|------------------------|------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts in the course of operations (including GST) | | 18,723 | 1,465 |
| Payments in the course of operations (including GST) | | (23,111) | (10,329) |
| Interest received | | 766 | 3,901 |
| Research & development tax concession | | - | 828 |
| NET CASH OUTFLOWS FROM OPERATING ACTIVITIES | 26 | (3,622) | (4,135) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments for property, plant and equipment | | (51,443) | (45,439) |
| Payments for exploration and evaluation assets | | (1,468) | (4,606) |
| Payments for mine development costs | | (31,056) | (33,511) |
| Proceeds from sale of plant and equipment | | 111 | 296 |
| Increase in security deposits | | (245) | (1,936) |
| NET CASH OUTFLOWS FROM INVESTING ACTIVITIES | | (84,101) | (85,196) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares | | 55,575 | 18,000 |
| Proceeds from loan | | 951 | - |
| Cost of on-market share buy-back/employee share plan | | (3,923) | (10,097) |
| Share issue / buy back costs | | (2,092) | (927) |
| NET CASH INFLOWS FROM FINANCING ACTIVITIES | | 50,511 | 6,976 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS HELD | | (37,212) | (82,355) |
| Cash and cash equivalents at the beginning of the financial year | | 45,522 | 127,442 |
| Effect of foreign exchange rates on cash and cash equivalents | | 921 | 435 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | 13 | 9,231 | 45,522 |

The above financial statement should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Cudeco Limited (the "Company") is a company domiciled in Australia.

The Company's registered office is at Unit 34, Brickworks Annex, 19 Brolga Avenue, Southport Queensland. The consolidated financial statements comprise the Company and its subsidiaries (collectively the "Group" or "consolidated entity" and individually "Group companies").

The Group is a for-profit entity and primarily is involved in mineral exploration, evaluation, mine development and construction of the plant and other infrastructure related to the Rocklands Project in Cloncurry, Queensland.

2. BASIS OF ACCOUNTING

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

They were authorised for issue by the Board of Directors on 30 September 2014.

3. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

(a) Judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 17 – Exploration and evaluation expenditure

The Board of Directors determines when an area of interest should be abandoned. When a decision is made that an area of interest is not commercially viable, all costs that have been capitalised in respect of that area of interest are written off. The Directors' decision is made after considering the likelihood of finding commercially viable reserves.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

4. USE OF JUDGEMENTS AND ESTIMATES (continued)**(b) Assumptions and estimation uncertainties**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ending 30 June 2014 are included in the following notes:

- Note 15 – Inventory;
- Note 18 – Development Costs;
- Note 20 – Recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 22 – Share-based payment transactions; and
- Note 5 - Going Concern

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 22 – share-based payment arrangements; and
- Note 24 – financial instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014**5. GOING CONCERN**

The consolidated financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group at 30 June 2014 had cash on hand of \$9.2m, net assets of \$394.0m, net current assets of \$12.5m and an approved finance facility of US\$65m to fund the Rocklands Project. At balance date the Group was completing the mine development and associated infrastructure and commissioning of the Rocklands mine processing plant, with the plan to derive revenue from ore processing and Direct Shipping Ore ('DSO') during the year ending 30 June 2015.

During the year the Group completed a rights issue and raised \$56.5m (before costs) from new and existing shareholders. At 30 June 2014 the Group had significant mine development and associated infrastructure commitments of \$42.3m (refer Note 27) and additional capital expenditure of \$39.1m is planned in order to successfully commercialise the Rocklands Project. Subsequent to year end the Group has used US\$45m of the approved finance facility.

The Group is also negotiating with a number of smelters for the sale of DSO which is being stockpiled and cash flow from DSO sales may reduce any need for raising of additional equity or seeking of additional finance facilities.

The directors have prepared cash flow projections that support the ability of the Group to continue as a going concern which encompasses use of cash funds at balance date and utilisation of the US\$65m finance facility. These cash flow projections are based on the successful completion of the mine development and associated infrastructure and commissioning of the Rocklands mine processing plant and assume the Group obtains revenues from the sale of native copper and DSO prior to commencement of production.

The ongoing operation of the Group is dependent upon:

- Successful commissioning of the Rocklands mine processing plant and the Group receiving cash flows from the sale of processed ore and DSO; and
- The Group raising additional equity funding from shareholders or other parties to the extent needed.

These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. In the event the Group does not receive cash flows from the sale of DSO and processed ore and the Group is not able to secure further funding, the Group would be required to reduce planned expenditure in line with available funding or may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations until the funding is received.

6. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

(a) Basis of consolidation**(i) Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a)(iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see (u)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(a) Basis of consolidation (continued)**

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Investments in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(a) Basis of consolidation (continued)****(vi) Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Revenue**Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement.

(c) Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(c) Income Tax (continued)**

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

CuDeco Limited and its wholly-owned Australian subsidiaries are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is CuDeco Limited.

(d) Goods and Services Tax

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

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

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

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(f) Receivables

The collectability of receivables is assessed at balance date and specific provision is made for any doubtful accounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Inventories**

Inventories are stated at the lower of cost and net realisable value on a 'first in first out basis'. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Cost is determined on the following basis:-

- Copper and other metals on hand are valued on average total production cost method.
- Ore stockpiles are valued at the average cost of mining and stockpiling the ore, including haulage.
- A proportion of related depreciation and amortisation charge is included in the cost of inventory.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated future selling price in the ordinary course of business, based on the prevailing metal prices, less the estimated costs of completion and estimated costs necessary to make the sale.

(h) Exploration and Evaluation

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the Consolidated Entity's rights of tenure to that area of interest are current and that the costs are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Exploration and evaluation assets are assessed for impairment if:

- (i) Sufficient data exists to determine technical feasibility and commercial viability; and
- (ii) Facts and circumstances suggest the carrying amount exceeds the recoverable amount.

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(i) Mining assets**

Capitalised mining development costs include expenditures incurred to develop new ore bodies to define further mineralisation in existing ore bodies, to expand the capacity of a mine and to maintain production. Mining development also includes costs transferred from exploration and evaluation phase once production commences in the area of interest.

Amortisation of mining development is computed by the units of production basis over the estimated proved and probable reserves. Proved and probable mineral reserves reflect estimated quantities of economically recoverable reserves which can be recovered in the future from known mineral deposits. These reserves are amortised from the date on which production commences. The amortisation is calculated from recoverable proven and probable reserves and a predetermined percentage of the recoverable measured, indicated and inferred resource. This percentage is reviewed annually.

Restoration costs expected to be incurred are provided for as part of development phase that give rise to the need for restoration.

(j) Property, Plant and Equipment**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated to write off the cost of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives, and is generally recognised in profit or loss or capitalised as development costs. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The depreciation rates of property, plant and equipment are as follows:

- buildings 10%
- plant and equipment 20% – 33%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(k) Research and Development Expenditure**

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised if the product or service is technically feasible, adequate resources are available to complete the project, it is probable that future economic benefits will be generated and expenditure attributable to the project can be measured reliably. The carrying value of development costs is reviewed annually when the asset is not yet available for use, or when events or circumstances indicate that the carrying value may be impaired.

(l) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are unsecured and normally settled within 30 days.

(m) Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Rehabilitation and dismantle costs

The consolidated entity has a constructive obligation under the Environmental Protection Act to rehabilitate areas on mining leases disturbed by mining activities. The consolidated entity calculates its rehabilitation liability to reflect the costs to rehabilitate significantly disturbed land from mining activities, in accordance with the Department of Environmental and Heritage Protection (EHP) Guideline: Financial Assurance under the Environmental Protection Act 1994. Significantly disturbed land is defined in the Environmental Protection Regulation 2008 and refers to land that is contaminated or disturbed and requires human intervention to rehabilitate it.

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the operation of the mine up to reporting date but not yet rehabilitated, as if the mine was shut down at reporting date. Provision has been made. The estimated cost of rehabilitation includes the current cost of recontouring, topsoiling and revegetation employing current technology while having regard current legislative requirements. An asset is created as part of the non-current development assets, to the extent that the development relates to future productions activities, which is offset by a current and non-current provision for rehabilitation.

The rehabilitation liability is estimated as part of the preparation of the annual Plan of Operations of each mine which is reviewed by the Department of Natural Resources and Mines as required by the Mineral Resources Act.

Changes in estimates are dealt with on a prospective basis as they arise. Significant uncertainty exists as to the amount of rehabilitation obligations under which will be incurred due to the following factors:

- uncertainty as to the remaining life of existing operating sites; and
- the impact of changes in environmental legislation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(n) Employee Benefits**

The Consolidated Entity's liability for employee benefits arising from services rendered by employees to balance date is accrued. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(o) Issued Capital

Ordinary shares issued are classified as contributed equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds.

(p) Share-Based Payments

The Company may provide benefits to Directors, employees and suppliers of the Consolidated Entity in the form of share-based payment transactions, whereby Directors, employees and suppliers render services in exchange for options to purchase shares in the Company (equity-settled transactions). There is currently a loan funded share plan and an Employee Option Plan in place to provide these benefits to employees.

The cost of these share-based payment transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the life of the option, the current price of the underlying instrument, the price volatility of the underlying instrument, the expected dividend yield and the risk-free rate for the life of the option, further details of which are given in Note 22.

The assessed fair value at grant date is recognised as an expense or is capitalised to exploration and evaluation expenditure, together with a corresponding increase in equity, pro rata over the life of the option from grant date to expected vesting date. No amount is recognised for awards that do not ultimately vest because internal vesting conditions were not met. An amount is still recognised for options that do not ultimately vest because a market condition was not met.

Where options are cancelled, they are treated as if they had vested on the date of cancellation, and any unrecognised expenses are immediately recognised. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(q) Leases

The 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.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(q) Leases (continued)**

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

(r) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

(s) Earnings per Share

- (i) *Basic Earnings per Share* – Basic earnings per share is determined by dividing the net profit or loss by the weighted average number of ordinary shares outstanding during the financial year.
- (ii) *Diluted Earnings per Share* – Diluted earnings per share adjusts the figures used in the determination of basic earnings per share for the after tax effect of financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(t) Financial instruments

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(t) Financial instruments (continued)**

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

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

Available-for-sale financial assets

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments, are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss in equity is reclassified to profit or loss.

Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(u) Impairment

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of nine months to be prolonged.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets measured at both an individual asset and a collective level. All individually significant assets are individually assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)**(u) Impairment (continued)**

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, it is reversed through OCI.

(i) Non-derivative financial assets**Equity-accounted investees**

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Government grants

The consolidated entity recognises an unconditional government grant related to research and development expenditure as deferred income and is offset against mine development costs.

(w) New standards and interpretations

(i) *Changes in accounting policies*

AASB 10 Consolidated Financial Statements (2011)

AASB 11 Joint Arrangements

AASB 12 Disclosure of Interests in Other Entities

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The nature and effects of the changes are explained below

Consolidated financial statements

As a result of AASB 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. AASB 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, AASB 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances. No adjustments have been made as a result of the change in accounting policy.

Joint arrangements

As a result of AASB 11, the Group has changed its accounting policy for its interests in joint arrangements. Under AASB 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification. No adjustments have been made as a result of the change in accounting policy.

Disclosure of interests in other entities

As a result of AASB 12, the Group has expanded its disclosures about its interests in subsidiaries.

Deferred stripping costs

Under AASB Interpretation ("IFRIC") 20, production stripping costs are now capitalised as part of an asset, if it can be demonstrated that it is probable that future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved. The asset is called "deferred stripping asset". The deferred stripping asset is amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied. Production stripping costs that do not satisfy the asset recognition criteria are expensed. There has been no change to the prior years' financial statements as a result of the change in account policy as the impact was not material.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

6. SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) New standards and interpretations (continued)

- (ii) A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments (2013), AASB 9 Financial Instruments (2010) and AASB 9 Financial Instruments (2009) (together AASB 9)

AASB 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under AASB 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. AASB 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of AASB 9 and add new requirements to address the impairment of financial assets.

AASB 9 (2013) introduces new requirements for hedge accounting.

AASB 9 is effective for annual periods beginning on or after 1 January 2017. The effective date is subject to review pending the finalisation of the outstanding phases of the standard. However, early adoption is permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities. The Group has not yet determined the impact on its hedging arrangements.

7. OPERATING SEGMENTS

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The consolidated entity is managed primarily on a geographical basis, that is, the location of the respective areas of interest (tenements) in Australia. Operating segments are determined on the basis of financial information reported to the Board which is at the consolidated entity level. The consolidated entity does not have any products or services it derives revenue from.

Accordingly, management currently identifies the consolidated entity as having only one reportable segment, being exploration for copper in Australia. There have been no changes in operating segments during the financial year. Accordingly all significant operating decisions are based upon the analysis of the consolidated entity as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| 8. REVENUE AND OTHER INCOME | | |
| <i>Revenue</i> | | |
| Finance income | 641 | 3,139 |
| | 641 | 3,139 |
| <i>Other income</i> | | |
| Foreign exchange gain | 921 | 435 |
| Sundry income | 703 | 23 |
| | 1,624 | 458 |
| 9. EXPENSES | | |
| Profit (loss) before income tax has been arrived at after the following items: | | |
| Operating lease rental – director-related entity | 152 | 326 |
| Operating lease rental – other | 50 | 588 |
| Share based payment expense – employees and consultants | 391 | 1,009 |
| Defined contribution superannuation expense | 157 | 186 |
| | 2014 | 2013 |
| | \$ | \$ |
| 10. AUDITORS' REMUNERATION | | |
| Audit and review services | | |
| Auditors of the Company - KPMG | | |
| Audit and review of financial statements | 105,000 | - |
| Other regulatory audit services | - | - |
| | 105,000 | - |
| Other auditors | | |
| Audit and review of financial statements | 11,000 | 100,938 |
| | 11,000 | 100,938 |
| Other services | | |
| Auditors of the Company - KPMG | | |
| In relation to other assurance, taxation and due diligence services | 26,000 | - |
| | 26,000 | - |
| Other auditors | | |
| In relation to other assurance, taxation and due diligence services | 34,000 | 18,230 |
| | 34,000 | 18,230 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| 11. INCOME TAX BENEFIT (EXPENSE) | | |
| Reconciliation | | |
| Current Income Tax Expense | - | - |
| Deferred Income Tax Expense | - | - |
| Under/Over provision in prior year | - | - |
| Research and development rebate | - | (828) |
| Total | - | - |

The prima facie income tax profit (loss) is reconciled to the income tax provided in the financial statements as follows:

The prima facie income tax expense (benefit) (30%) on

| | | |
|-----------------------------------|---------|---------|
| profit/(loss) before income tax | (1,364) | (1,446) |
| Permanent differences | 359 | 372 |
| Deferred tax not recognised | 1,005 | 1,075 |
| Research and development rebate | - | (828) |
| Income tax expense/benefit | - | 828 |

Deferred Tax Balances

| | | |
|---|----------|----------|
| Unused tax losses | 33,657 | 22,284 |
| | 33,657 | 22,284 |
| Deferred tax liabilities | (33,657) | (22,284) |
| Assessable temporary differences | - | - |
| Net deferred tax recognised | - | - |
| Unrecognised deferred tax assets | | |
| Unrecognised tax losses | 21,074 | 14,827 |
| Deferred tax assets not taken up at 30% (2012: 30%) | 6,322 | 4,448 |

In order to recoup carried forward losses in future periods, either the Continuity of Ownership Test (COT) or Same Business Test must be passed. The majority of losses are carried forward at 30 June 2014 under COT.

Deferred tax assets which have not been recognised as an asset, will only be obtained if:

- (i) the Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- (ii) the Consolidated Entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the Consolidated Entity in realising the losses.

For the purposes of taxation, CuDeco Limited and its wholly-owned Australian subsidiaries have formed a tax consolidated group.

Franking credits

There are no franking credits available to shareholders of CuDeco Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

12. EARNINGS PER SHARE

| | 2014 No. | 2013 No. |
|--|---------------------|---------------------|
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS | 214,768,324 | 193,000,783 |
| Weighted average number of ordinary shares and potential ordinary outstanding during the year used in calculation of diluted EPS | 214,768,324 | 193,000,783 |
| | \$'000 | \$'000 |
| Earnings (loss) used to calculate basic earnings per share | (3,762) | (3,993) |
| Earnings used to calculate diluted earnings per share | (3,762) | (3,993) |

The Company has a total of 26,376,811 (2013: 625,000) share options outstanding. Options are considered to be potential ordinary shares and are used in the calculation of the Diluted Earnings per share where the exercise price of the options is lower than the prevailing share price. For the 30 June 2014 year nil (2013:nil) share options were included in the calculation of the Diluted Earnings per share. As the Consolidated Entity's continuing operation was in a loss position for the year ended 30 June 2014 they were considered anti-dilutive in nature, as their exercise will not result in diluted earnings per share that shows an inferior view of earnings performance of the Consolidated Entity than is shown by basic earnings per share.

| | | |
|--------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| 13. CASH AND CASH EQUIVALENTS | | |
| Cash at bank and in hand | 1,288 | 2,837 |
| Deposits at call | 7,943 | 42,685 |
| | 9,231 | 45,522 |

- Cash at bank and deposits on call earn interest at floating rates based on daily bank deposit rates.

14. TRADE AND OTHER RECEIVABLES**Current**

| | | |
|-------------------|------------|--------------|
| Accrued interest | 7 | 131 |
| GST receivable | 519 | 1,870 |
| Prepayments | 320 | 134 |
| Other receivables | 114 | - |
| | 960 | 2,135 |

Non-current

| | | |
|-------------------|--------------|--------------|
| Security deposits | 2,231 | 1,986 |
|-------------------|--------------|--------------|

No receivables are past due or impaired at year end.

Terms and conditions relating to the above financial instruments:

- Trade and sundry debtors are non-interest bearing and generally on 30 day terms.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

| | 2014 \$'000 | 2013 \$'000 |
|------------------------|----------------|----------------|
| 15. INVENTORIES | | |
| Current | | |
| Ore stockpiles | 8,705 | - |
| Consumables | 1,516 | - |
| Spare parts | 920 | - |
| | <u>11,141</u> | <u>-</u> |
| Non-current | | |
| Ore stockpiles | - | 2,934 |
| | <u>-</u> | <u>2,934</u> |
| Total Inventories | <u>11,141</u> | <u>2,934</u> |

As production is expected to commence within 12 months of the end of the financial year, all inventory is expected to be utilised in this period and therefore it has been classified as a current asset

16. PROPERTY, PLANT AND EQUIPMENT*Land and buildings*

| | | |
|--------------------------|---------------|--------------|
| At cost | 15,905 | 10,305 |
| Accumulated depreciation | (2,529) | (1,300) |
| Total land and buildings | <u>13,376</u> | <u>9,005</u> |

Plant and equipment

| | | |
|---------------------------|---------------|---------------|
| At cost | 32,316 | 32,192 |
| Accumulated depreciation | (16,457) | (11,178) |
| Total plant and equipment | <u>15,859</u> | <u>21,014</u> |

| | | |
|--|----------------|----------------|
| Plant and equipment (work-in-progress) | <u>189,984</u> | <u>117,229</u> |
| | <u>219,219</u> | <u>147,248</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

| | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| 16. PROPERTY, PLANT AND EQUIPMENT (Continued) | | |
| Reconciliation | | |
| Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the financial year | | |
| <i>Land and buildings</i> | | |
| Carrying amount at the beginning of year | 9,005 | 6,897 |
| Additions during the year | 4,023 | 2,908 |
| Disposals during the year | (14) | - |
| Depreciation for the year | (1,133) | (800) |
| Reclassification of assets | 1,495 | - |
| Carrying amount at the end of the year | 13,376 | 9,005 |
| <i>Plant and equipment</i> | | |
| Carrying amount at the beginning of year | 21,014 | 12,184 |
| Additions during the year | 1,750 | 9,063 |
| Equipment transferred from plant and equipment being commissioned | 1,096 | 5,013 |
| Disposals | (49) | (275) |
| Depreciation charged | (5,376) | (4,971) |
| Reclassification of assets | (2,576) | - |
| Carrying amount at the end of the year | 15,859 | 21,014 |
| <i>Plant and equipment (work-in-progress)</i> | | |
| Carrying amount at the beginning of year | 117,229 | 39,235 |
| Additions during the year | 72,770 | 83,007 |
| Equipment transferred to plant and equipment | (1,096) | (5,013) |
| Reclassification of assets | 1,081 | - |
| Carrying amount at the end of the year | 189,984 | 117,229 |
| | 219,219 | 147,248 |
| 17. EXPLORATION AND EVALUATION ASSETS | | |
| Costs carried forward in respect of areas of interest in exploration and/or evaluation phase: | | |
| Balance at the beginning of the year | 39,168 | 31,190 |
| Exploration costs incurred | 1,624 | 5,724 |
| Transferred to development costs | (24,165) | - |
| Depreciation capitalised to exploration | - | 2,254 |
| | 16,627 | 39,168 |

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| 18. DEVELOPMENT COSTS | | |
| Costs carried forward in respect of areas of interest in the development phase: | | |
| Balance at the beginning of the year | 90,250 | 51,961 |
| Development costs incurred | 29,537 | 35,296 |
| Depreciation capitalised to development costs | 5,737 | 2,993 |
| Transferred from exploration and evaluation assets | 24,165 | - |
| | 149,689 | 90,250 |

The development costs relate to the Rocklands Project. The ultimate recoupment of costs carried forward for the development phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. To date there has been no amortisation of the costs as production has not commenced.

19. TRADE AND OTHER PAYABLES

CURRENT

Unsecured liabilities:

Trade creditors

4,322 3,356

Sundry creditors and accrued expenses

3,145 648

7,467 4,004

Terms and conditions relating to the above financial instruments:

- Trade and other creditors are non-interest bearing and are normally settled on 30 day terms.

20. PROVISIONS

CURRENT LIABILITY

Annual leave provision

1,087 826

Long service leave provision

287 172

1,374 998

NON-CURRENT LIABILITY

Long service leave provision

40 119

Rehabilitation provision (a)

6,246 1,922

6,286 2,041

(a) Land disturbed by mining activities is required to be restored to its original condition. For the year ended 30 June 2014 the Group provided \$4.324m (2013: \$1.422m). Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the future costs that will be incurred. The Group has assumed that the site will be restored using technology and materials that are available currently.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| 21. CONTRIBUTED EQUITY | | |
| Issued and paid-up share capital | | |
| 2014 229,486,354 (2013: 201,200,722) ordinary shares, fully paid | 424,602 | 367,829 |

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

(a) Ordinary Shares

Movements in ordinary share capital over the past two years were as follows:

| Date | Details | Number of Shares | Issue Price | \$'000 |
|---------------------------|--|---------------------|----------------|----------------|
| 1 July 2012 | Opening Balance | 187,043,961 | | 311,312 |
| 17 September 2012 | Option conversion | 140,000 | \$2.50 | 350 |
| 3 October 2012 | Option conversion | 160,000 | \$2.50 | 400 |
| 12 December 2012 | Share placement | 600,000 | \$3.90 | 2,340 |
| 15 February 2013 | Share placement | 3,333,333 | \$3.90 | 13,000 |
| 15 February 2013 | Share placement | 7,600,000 | \$4.50 | 34,200 |
| 4 June 2013 | Share placement | 5,000,000 | \$3.45 | 17,250 |
| July 2012 to June 2013 | Shares acquired for the loan funded share plan | (2,676,572) | | (10,097) |
| | Share issue costs / cancellation costs | - | | (926) |
| 30 June 2013 | Closing Balance | 201,200,722 | | 367,829 |
| 5 July 2014 | Placement for acquisition of plant and equipment | 139,880 | \$2.60 | 364 |
| 19 December 2013 | Share Issue pursuant to rights issue | 2,599,423 | \$1.69 | 4,392 |
| 24 December 2013 | Placement for acquisition of plant and equipment | 6,376,811 | \$3.45 | 22,000 |
| 24 December 2013 | Placement for acquisition of plant and equipment | 20,000 | \$1.90 | 38 |
| 6 January 2014 | Issue to Underwriters of Rights Issue | 20,000,000 | \$1.69 | 33,792 |
| 12 February 2014 | Placement for acquisition of plant and equipment | 20,000 | \$1.50 | 30 |
| 8 April 2014 | Placement for acquisition of plant and equipment | 550,000 | \$2.00 | 1,100 |
| 24 June 2014 | Placement for acquisition of plant and equipment | 535,852 | \$2.00 | 1,072 |
| July 2013 to June 2014 | Shares acquired for the loan funded share plan | (1,956,334) | | (3,923) |
| | Share issue costs / cancellation costs | - | | (2,092) |
| 30 June 2014 | Closing Balance | 229,486,354 | | 424,602 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

21. CONTRIBUTED EQUITY (continued)

(b) Share Options

| Exercise Period | Exercise Price | Opening Balance 1 July 2013 Number | Options Issued 2013/ 2014 Number | Options Exercised 2013/2014 Number | Options Expired/ Forfeited 2013/2014 Number | Closing Balance 30 June 2014 Number |
|-------------------------|----------------|---|--|--|--|---|
| 15/12/2013 - 15/09/2014 | \$2.50 | 400,000 | - | - | 400,000 | - |
| 15/09/2011 - 15/09/2014 | \$2.50 | 225,000 | - | - | 225,000 | - |
| 31/12/2015 | \$2.50 | - | 22,599,423 | - | - | 22,599,423 |
| | | 625,000 | 22,599,423 | - | 625,000 | 22,599,423 |

None of the options have any voting rights, any entitlement to dividends or any entitlement to the proceeds on liquidation in the event of a winding up.

22. SHARE BASED PAYMENTS

Loan Funded Share Plan

In November 2011, the Company sought, and was granted, approval for setting up of Loan Funded Employee Share Plan ("Share Plan"). The Plan allows Directors from time to time to invite eligible employees to participate in the Share Plan and offer shares to those eligible persons. The Share Plan is designed to provide incentives, assist in the recruitment, reward, retention of employees and provide opportunities for employees (both present and future) to participate directly in the equity of the Company. The participant will be provided with an interest free, non-recourse loan for the consideration payable for the shares. The vesting of the shares will be subject to performance or service conditions as determined by the Board. The shares allocated to employees under the Share Plan are held in trust for eligible persons as security for the loans. There are no cash settlement alternatives.

In the year ended 30 June 2014 1,956,334 (2013: 1,619,072) shares were issued under the Share Plan.

| Options Issued | Exercise price | No. of options vested | No. of options not vested | Vesting date – First Tranche | Vesting Details | | |
|--------------------------------|----------------|-----------------------|---------------------------|------------------------------|-----------------------------|-------------------------------|------------------------------|
| | | | | | No. Vesting – First Tranche | Vesting date – Second Tranche | No. Vesting – Second Tranche |
| To Directors - December 2011 | \$3.60 | 800,000 | - | - | - | - | - |
| To employees - June 2012 | \$3.14 | 200,000 | - | - | - | - | - |
| To employees - November 2012 | \$3.93 | - | 1,619,072 | 31/03/2015 | 809,536 | 30/06/2016 | 809,536 |
| To employees - June 2013 | \$3.93 | - | 100,000 | 31/03/2015 | 50,000 | 30/06/2016 | 50,000 |
| To employees - 29 July 2013 | \$1.80 | - | 1,087,500 | 31/03/2015 | 543,750 | 30/06/2016 | 543,750 |
| To Director - 10 December 2013 | \$1.86 | - | 100,000 | 31/12/2014 | 50,000 | 30/06/2016 | 50,000 |
| To employees - 24 April 2014 | \$1.90 | - | 1,087,500 | 31/03/2015 | 543,750 | 31/03/2016 | 543,750 |

Additional Options issued as a result of the Rights Issue

| | | | | | | | |
|--------------------------------|--------|---------|---------|------------|---------|------------|---------|
| To Directors | \$2.50 | 133,333 | - | - | - | - | - |
| To employees | \$2.50 | 33,333 | 467,762 | 31/03/2015 | 233,881 | 30/06/2016 | 233,881 |
| To Director - 10 December 2013 | \$2.50 | - | 16,667 | 31/12/2014 | 8,333 | 30/06/2016 | 8,333 |

For accounting purposes shares allocated to employees pursuant to the Share plan will be treated and valued as options, and the fair value of the options granted under the Plan is estimated as at the date of grant using a

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

22. SHARE BASED PAYMENTS (continued)

Black-Scholes model taking into account the terms and conditions upon which they were granted. The value of the options are allocated over their vesting period as part of the remuneration of the individual they relate. The following is a summary of the allocation of these values as share based payments:-

| | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| Share based payment included as an expense | 1,169 | 1,009 |
| Share based payments capitalised to exploration and evaluation asset | 155 | 379 |
| Share based payments capitalised to mine development expenditure | 831 | 659 |
| Total share based payments for the year | 2,155 | 2,047 |

Employee Option Plan

In November 2008, the Company sought, and was granted, approval for the maintenance of the CuDeco Ltd Employee Option Plan ("Plan"). The Employee Option Plan has stopped being used since the introduction of the Loan Funded Share Plan in November 2011. The Option Plan allowed Directors from time to time to invite eligible employees to participate in the Plan and offer options to those eligible persons. The Plan was designed to provide incentives, assist in the recruitment, reward, retention of employees and provide opportunities for employees (both present and future) to participate directly in the equity of the Company. The contractual life of each option granted was three years. There were no cash settlement alternatives.

The following table illustrates the number and weighted average exercise prices of and movements in the unlisted share options during the year:

| | 2014 No. | 2014 Weighted average exercise price | 2013 No. | 2013 Weighted average exercise price |
|--|-------------|--|-------------|--|
| Outstanding at the beginning of the year | 625,000 | \$2.50 | 6,075,000 | \$4.91 |
| Exercised during the year | - | - | (300,000) | \$2.50 |
| Expired during the year | (625,000) | \$2.50 | (5,150,000) | \$5.34 |
| Outstanding at the end of the year | - | - | 625,000 | \$2.50 |

The weighted average share price on the date that options were exercised was \$0.81 (2013 4.52).

Listed Options

During the year ended 30 June 2014 the Company undertook a Rights Issue and pursuant to this issue, granted options. The following table illustrates the number and weighted average exercise prices of and movements in the listed options during the year

| | 2014 No. | 2014 Weighted average exercise price | 2013 No. | 2013 Weighted average exercise price |
|------------------------------------|-------------|--|-------------|--|
| Granted during the year | | | | |
| - Pursuant to rights issue | 22,599,423 | \$2.50 | - | - |
| Forfeited during the year | - | - | - | - |
| Exercised during the year | - | - | - | - |
| Expired during the year | - | - | - | - |
| Outstanding at the end of the year | 22,599,423 | \$2.50 | - | - |
| Exercisable at the end of the year | 22,599,423 | \$2.50 | - | - |

The weighted average for the remaining contractual life of share options outstanding at the end of the year is 1.5 years (2013: 0.21 years). Share options outstanding at the end of the year have an exercise price of \$2.50 (2013: \$2.50).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

22. SHARE BASED PAYMENTS (continued)**2014**

The fair value of options issued on 19 December 2013 under the rights issue were estimated as a the date of grant based on the share price at the date of announcement of the rights issue. The fair value of \$0.81 per option was based on the conversion price of \$2.50 per right and the share price of \$1.69.

2013

The following table lists the model used for the year ended 30 June 2013:

| | 2013 |
|---|------------------|
| Fair value | \$1.86 to \$2.67 |
| Volatility (%) | 49-83 |
| Average risk-free interest rates (%) | 4.00 |
| Weighted average expected life of options (years) | 5 |
| Weighted average exercise prices | \$3.93 |
| Weighted average share price at grant date | \$3.93 |
| Dividends | - |

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

| | \$'000 | \$'000 |
|---|---------------|---------------|
| 23. RESERVES | | |
| Capital Realisation | 95 | 95 |
| Capital Redemptions | 432 | 432 |
| Option ^(a) | 56,238 | 36,694 |
| | 56,765 | 37,221 |
| ^(a) Movement during the year – Option Reserve | | |
| Opening balance | 36,694 | 34,647 |
| Issue of options to directors/employees / consultants | 2,155 | 2,047 |
| Value of options issued pursuant to rights issue | 18,314 | - |
| Costs of rights issue allocated to options | (925) | - |
| Closing balance | 56,238 | 36,694 |

Option Reserve

The option reserve is used to record the fair value of options issued but not exercised.

24. FINANCIAL INSTRUMENT DISCLOSURES

To ensure a prudent approach to risk management the Consolidated Entity's exposure to the following key risks have been assessed where applicable; market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Consolidated Entity through regular reviews of the risks.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

24. FINANCIAL INSTRUMENT DISCLOSURES (continued)

The Groups financial assets and liabilities primarily comprise:

| | 2014 \$'000 | 2013 \$'000 |
|-----------------------------|----------------|----------------|
| Cash and cash equivalents | 9,231 | 45,522 |
| Trade and other receivables | 3,191 | 4,121 |
| Total Assets | <u>12,422</u> | <u>49,643</u> |
| Trade and other payables | 7,467 | 4,004 |
| Total Liabilities | <u>7,467</u> | <u>4,004</u> |

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the entity's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

The entity does not have any material exposure to market risk other than interest rate risk and foreign exchange risk.

(i) Interest rate risk

The Consolidated Entity's exposure to the risk of changes in market interest rate relates primarily to the Consolidated Entity's cash and cash equivalents. The Consolidated Entity does not have any interest bearing liabilities. It is the policy of the Consolidated Entity to manage interest rate risk exposures by continuously monitoring interest rates and to alter the balance of fixed and variable rate deposits as considered appropriate.

The Consolidated Entity has fixed interest term deposit facilities with a secure banking institution to maximise its interest income from surplus cash. The Consolidated Entity holds working capital in transaction accounts at variable interest rates. Fixed interest term deposit accounts have been included in the sensitivity analysis as they generally mature within a 1 - 3 month period. A change of 100 basis points (100bps) in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below, where interest is applicable. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for last year.

| | Carrying Amount \$'000 | Profit or (Loss) 100bps increase \$'000 | 100bps decrease \$'000 | Equity 100bps increase \$'000 | 100bps decrease \$'000 |
|-----------------------------|------------------------------|--|------------------------------|--|------------------------------|
| 30 June 2014 | | | | | |
| Cash and cash equivalents | 9,231 | 92 | (92) | 92 | (92) |
| Total increase / (decrease) | | 92 | (92) | 92 | (92) |
| 30 June 2013 | | | | | |
| Cash and cash equivalents | 45,522 | 455 | (455) | 455 | (455) |
| Total increase / (decrease) | | 455 | (455) | 455 | (455) |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

24. FINANCIAL INSTRUMENT DISCLOSURES (continued)**(ii) Foreign exchange risk**

The Consolidated Entity is exposed to foreign currency fluctuations risks. This arises from cash held in US dollars. These funds were acquired when the Consolidated Entity made commitments to acquire plant and equipment which was priced in this currency. The Directors at the time believed that the rate at which the US dollars were acquired was favourable and limited the Consolidated Entity to any additional risk to foreign exchange fluctuations.

A change of 1 cent in the US Dollar equivalent of an Australian dollar exchange rate at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The amounts disclosed below are the Australian dollar equivalents.

| | | Profit or (Loss) | | Equity | |
|-----------------------------|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | Carrying Amount | 1 cent US increase | 1 cent US decrease | 1 cent US increase | 1 cent US decrease |
| | \$'000 (AUD) | \$'000 (AUD) | \$'000 (AUD) | \$'000 (AUD) | \$'000 (AUD) |
| 30 June 2014 | | | | | |
| Cash and cash equivalents | 7,920 | (84) | 84 | (84) | 84 |
| Total increase / (decrease) | | (84) | 84 | (84) | 84 |
| 30 June 2013 | | | | | |
| Cash and cash equivalents | 2,387 | (22) | 22 | (22) | 22 |
| Total increase / (decrease) | | (22) | 22 | (22) | 22 |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---------|---------------------|-------------|---------------------------------|-------------|
| | 2014 | 2013 | 2014 | 2013 |
| AUD/USD | 0.9179 | 1.0269 | 0.9040 | 0.9312 |

(b) Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and cash on deposit.

(i) Cash on deposit

The Consolidated Entity limits its exposure to credit risk by only depositing its funds with reputable financial institutions. Cash at year end was deposited with National Australia Bank.

(ii) Receivables

As the Consolidated Entity has not commenced production, it does not have trade receivables and therefore is not exposed to material credit risk in relation to trade receivables.

The Consolidated Entity's maximum exposure to credit risk is the carrying amount of its financial assets as disclosed in the statement of financial position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

24. FINANCIAL INSTRUMENT DISCLOSURES (continued)**(c) Liquidity risk**

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation. The Consolidated Entity currently has no committed lines of credit or any significant financial liabilities, other than payables.

The Consolidated Entity manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

Due to the nature of the Consolidated Entity's activities and the present lack of operating revenue, the Consolidated Entity has to raise additional capital from time to time in order to fund its exploration and development activities. The decision on how and when the Consolidated Entity will raise future capital will depend on market conditions existing at that time and the level of forecast activity and expenditure.

At the reporting date the contractual maturity of trade and other payables are all less than 12 months.

(d) Capital Management

The capital structure of the Company consists of contributed equity and reserves less accumulated losses.

Management controls the capital of the Company in order to ensure that the Company can fund its operations on an efficient and timely basis and continue as a going concern.

There are no externally imposed capital requirements.

Management effectively manages the Company's capital by assessing the Company's cash projections up to twelve months in the future and any associated financial risks. Management will adjust the Company's capital structure in response to changes in these risks and in the market.

There have been no changes in the strategy adopted by management to control the capital of the Company since the prior year.

(e) Measurement of fair values

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

(f) Finance facilities

During the year the Group entered into a finance facility with the China Minsheng Banking Corporation for \$US65m. At 30 June 2014 the Group were yet to complete a condition precedent regarding the registration of mortgages. The completion of this condition precedent and first drawdown of this facility subsequent to year end has been disclosed in Note 32.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

25. CONTROLLED ENTITIES

Particulars in relation to controlled entities

| Name of Chief Entity | Incorporated in | Interest held % | |
|---|-----------------|-----------------|------|
| | | 2014 | 2013 |
| CuDeco Limited | Australia | | |
| Controlled Entities Consolidated | | | |
| Cloncurry Infrastructure Pty Ltd | Australia | 100 | 100 |
| CuDeco Logistics Pty Ltd | Australia | 100 | 100 |
| CuDeco Employee Share Plan Pty Ltd | Australia | 100 | 100 |

26. NOTES TO THE STATEMENT CASH FLOWS

| (a) Reconciliation of profit after income tax to net cash inflows from operating activities | 2014 | 2013 |
|---|----------------|----------------|
| | \$'000 | \$'000 |
| Loss after income tax | (4,546) | (3,993) |
| Add/(less) non-cash items | | |
| Share based payments | 1,169 | 1,009 |
| (Profit) loss on sale of assets | (48) | (21) |
| Depreciation expense | 772 | 524 |
| Foreign exchange (gain) loss | (921) | (435) |
| (Increase) / decrease in trade and other receivables | 94 | 306 |
| Decrease in inventories | - | (2,934) |
| Increase / (decrease) in trade creditors and accruals | (338) | 1,098 |
| Increase / (decrease) in provisions | 196 | 311 |
| Cash outflows from operations | <u>(3,622)</u> | <u>(4,135)</u> |

(b) Non-cash financing and investing activities

Refer to note 22 for share based payment transactions.

(c) Financing arrangements

The Consolidated Entity entered into a finance facility as outlined in Note 24.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

27. COMMITMENTS**Mineral Tenement Leases**

In order to maintain current rights of tenure to mining tenements, the Consolidated Entity will be required to outlay amounts of approximately \$2,570 per annum on an ongoing basis in respect of tenement lease rentals, rates and other costs of keeping tenure. The annual expenditure commitment is \$10,000. These obligations are expected to be fulfilled in the normal course of operations by the Consolidated Entity.

The company also has commitments to conduct exploration activities on its exploration permits (EPMs) as a condition of maintaining the EPMs. The requirement under the EPMs is for an expenditure of \$1.612m over five years.

Native Title

Under the Native Title Agreements concluded, CuDeco Ltd is committed to making certain payments. The payments are:

- 1) Annual administration payment of \$15,000;
- 2) \$50,000 on commencement of production of minerals from the mining licence areas; and
- 3) Annual payment of 0.25% of the value of minerals sold from the mining licence areas.

Operating lease commitments – Consolidated Entity as Lessee

The Consolidated Entity has entered into rental agreements for premises in Cloncurry and Southport. These leases have an average life of up to three years. One option of five (5) years is included in all current contracts. There are no restrictions placed upon the lessee in entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Within one year | 667 | 479 |
| After one year but not more than five years | 1,111 | 752 |
| More than five years | - | - |
| | 1,778 | 1,231 |

Mining plant and mine development

The Consolidated Entity has entered into a number of contracts relating to the Process Plant components and structures for its Rocklands Project. As at 30 June 2014 the remaining contractual commitments are summarized as follows:

| Contract details | Total contract amount | Amounts paid at 30 June 2014 | Commitment outstanding at 30 June 2014 |
|---|------------------------------|-------------------------------------|---|
| | \$'000 | \$'000 | \$'000 |
| Design and supply of components and structures, including steel structures and piping | 94,933 | 70,213 | 24,720 |
| Supply of 22 megawatt power station | 72,500 | 56,200 | 16,300 |
| Supply of concrete foundations | 13,569 | 13,289 | 280 |
| Supply of concrete foundations | 5,095 | 4,100 | 995 |
| | 186,097 | 143,802 | 42,295 |

All the commitments will fall due within 12 months of balance date.

At 30 June 2013 the capital contractual commitments in relation to mine development infrastructure and mining plant for the Rocklands Project was \$48.9m.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)**28. CONTINGENCIES**

There were no contingent liabilities or contingent assets as at 30 June 2014 other than: -

- a. A former employee has commenced legal action against the Company for an amount of approximately \$340,000 being the alleged loss incurred by the employee as a result of the cancellation of options previously issued to him under the Company's Employee Option Plan. No provision has been made in the financial statements in respect of this claim as the Group considers it will be able to successfully defend the claim.
- b. A claim has been made by the Company against a supplier of plant and equipment for damages and losses suffered as a result of breach of contract. The claim exceeds \$10m. The supplier has lodged a counter claim where the net liability to the Company would be approximately \$1.78m should the claim be successful and costs awarded. The Group considers that it will successfully defend the counter claim and no provision has been made in the financial statements.

29. KEY MANAGEMENT PERSONNEL

The key management personnel ("KMP") compensation is as follows:

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Short-term employee benefits | 2,623 | 2,342 |
| Post-employment benefits (superannuation) | 137 | 101 |
| Share-based payments | 614 | 930 |
| Other long term benefits | 27 | - |
| | 3,401 | 3,373 |

30. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

(a) Parent entity

The parent entity and ultimate controlling entity is CuDeco Limited, which is incorporated in Australia.

(b) Subsidiaries

Interests in subsidiaries are disclosed in Note 25.

(c) Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report contained in the Directors' Report and in Note 29 of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

31. PARENT ENTITY INFORMATION

Selected financial information of the parent company is as follows:-

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| Financial performance | | |
| Profit / (loss) for the year | (3,441) | (3,485) |
| Total comprehensive income for the year | (3,441) | (3,485) |
| Financial position | | |
| Current assets | 21,058 | 47,429 |
| Total assets | 428,304 | 343,127 |
| Current liabilities | 8,802 | 4,669 |
| Total liabilities | 15,087 | 6,710 |
| Contributed equity | 442,382 | 381,686 |
| Accumulated losses | (85,931) | (81,750) |
| Capital Realisation Reserve | 95 | 95 |
| Capital Redemption Reserve | 432 | 432 |
| Option Reserve | 56,239 | 35,954 |
| Total equity | 413,217 | 336,417 |

Guarantees

No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

Capital commitments**Mineral Tenement Leases**

In order to maintain current rights of tenure to mining tenements, the parent company will be required to outlay amounts of approximately \$2,570 per annum on an ongoing basis in respect of tenement lease rentals, rates and other costs of keeping tenure. The annual expenditure commitment is \$10,000. These obligations are expected to be fulfilled in the normal course of operations by the parent company.

The parent company also has commitments to conduct exploration activities on its exploration permits (EPMs) as a condition of maintaining the EPMs. The requirement under the EPMs is for an expenditure of \$1.612m over five years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)**31. PARENT ENTITY INFORMATION (continued)****Native Title**

Under the Native Title Agreements concluded, the parent company is committed to making certain payments. The payments are:

- 1) Annual administration payment of \$15,000;
- 2) \$50,000 on commencement of production of minerals from the mining licence areas; and
- 3) Annual payment of 0.25% of the value of minerals sold from the mining licence areas.

Operating lease commitments – Consolidated Entity as Lessee

The parent company has entered into rental agreements for premises in Cloncurry and Southport. These leases have an average life of up to three years. One option of five (5) years is included in all current contracts. There are no restrictions placed upon the lessee in entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

| | 2014 | 2013 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| Within one year | 667 | 479 |
| After one year but not more than five years | 1,111 | 752 |
| More than five years | - | - |
| | 1,778 | 1,231 |

Mining Plant

The parent company has entered into a number of contracts relating to the Process Plant components and structures for its Rocklands Project. As at 30 June 2014 the remaining contractual commitments are summarized as follows:

| Contract details | Total contract amount | Amounts paid at 30 June 2014 | Commitment outstanding at 30 June 2014 |
|---|------------------------------|-------------------------------------|---|
| | \$'000 | \$'000 | \$'000 |
| Design and supply of components and structures, including steel structures and piping | 94,933 | 70,213 | 24,720 |
| Supply of 22 megawatt power station | 72,500 | 56,200 | 16,300 |
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| Supply of concrete foundations | 5,095 | 4,100 | 995 |
| | 186,097 | 143,802 | 42,295 |

All the commitments will fall due within 12 months of balance date.

At 30 June 2013 the contractual commitments in relation to mine development infrastructure for the Rocklands Project totalled \$48.9m.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014 (Continued)

31. PARENT ENTITY INFORMATION (continued)**Contingent liabilities**

There were no contingent liabilities or contingent assets as at 30 June 2014 other than: -

- a. A former employee has commenced legal action against the parent company for an amount of approximately \$340,000 being the alleged loss incurred by the employee as a result of the cancellation of options previously issued to him under the Company's Employee Option Plan. No provision has been made in the financial statements in respect of this claim as the parent company considers it will be able to successfully defend the claim.
- b. A claim has been brought by the parent company against a supplier of plant and equipment for damages and losses suffered as a result of the plant and equipment not being to the required standard. The claim exceeds \$10m. The supplier has lodged a counter claim where the net liability to the parent company would be approximately \$1.78m should the claim be successful and costs awarded. The parent company believes that it will be able to successfully defend the counter claim and no provision has been made in the financial statements.

32. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years, other than: -

- a. The Company completed the first drawdown of its \$US65m (\$AUD70) banking facility with the China Minsheng Banking Corporation in July 2014. All documentation for the facility was signed before the end of the financial year but the last condition precedent for the facility being the registration of the mortgages was completed in July 2014 and the first drawdown for \$US45m (\$AUD48) was completed on 31 July 2014.
- b. In August 2014 the Company issued 305,883 ordinary fully paid shares at \$2.00 per share as payment of \$611,766 for the freight to bring major components of plant and equipment to the Rocklands Project site.

CuDeco Limited
Directors' declaration

- 1 In the opinion of the directors of CuDeco Limited ('the Company'):
 - (a) the consolidated financial statements and notes that are set out on pages 32 to 69 and the Remuneration report in the Directors' report, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2014.
3. The directors draw attention to Note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

30 September 2014.
Gold Coast



W McCrae
Chairman

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUDECO LIMITED****Report on the financial report**

We have audited the accompanying financial report of CuDeco Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, and consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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*.



Auditor's opinion

In our opinion:

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Material uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to note 5, Going Concern, in the financial report. The conditions disclosed in note 5, including the need to successfully commission the Rocklands mine processing plant and the Group receiving cash flows from the sale of Direct Shipping Ore and processed ore, and the Group raising additional equity funding from shareholders or other parties, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the Remuneration Report included in pages 19 to 28 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of CuDeco Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

P Steer

Paul Steer
Partner
Gold Coast
30 September 2014