

Australian Zircon NL

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# AustralianZircon

NL ABN 60 063 389 079

## **INTERIM FINANCIAL REPORT**

**FOR THE SIX MONTHS ENDED  
31 DECEMBER 2014**

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# DIRECTORS' REPORT

## Directors' Report

The Directors of Australian Zircon NL ('the Company') submit their report for the half year ended 31 December 2014.

The names of the Company's Directors in office during the financial year and until the date of this report are as follows.

Jeremy Shervington (Chairman)

Thomas Styblo

Gerhard Kornfeld

Johann Jacobs

## Review of Operations

The Company is continuing to focus on developing the WIM150 mineral sands project in western Victoria. During the half year ended 31 December 2014 the Company completed a Value Engineering/Optimisation Study of the Bankable Feasibility Study (BFS). In particular, the Company has undertaken the following during the reporting period:

- Progressing environmental and other studies which are a pre-requisite for securing key permits, licences and approvals required to develop and operate the Project.
- Advancing project finance arrangements across debt, equity and other options.
- Negotiating with potential partners to obtain binding offtakes for the remaining product not already committed to the Company's Joint Venture Partner.
- Approaching suitable EPC contractors with a view to obtaining Expressions of Interest.
- Continuing engagement with key stakeholders including government regulators, authorities, local communities and other stakeholder groups.

Upon completion of the BFS, under a Farm-In Agreement with Orient Zircon Resources (Australia) Pty Ltd, Australian Zircon NL earned an 80% interest in the WIM150 project. The results of the Optimisation Study as announced to the market on 30 September 2014 supported the conclusions reached under the BFS.

The BFS contemplates mining and processing of 10 million tonnes of WIM150 ore annually to produce a range of high quality zircon products for use in the ceramics industry. Titanium minerals - commonly used in the manufacture of pigments for use in paints - and rare earth minerals - used in the electronics industry - will be co-products.

Further Environmental Effects Studies requested by State and Federal Regulators, have and are continuing to be undertaken to enhance the Project.

## Financial Position

For the six months ended 31 December 2014, Australian Zircon NL recorded a loss of \$7,198,197, primarily due to foreign currency translation and interest expense on borrowings. As at 31 December 2014, the Company had cash and cash equivalents of \$496,113.

# DIRECTORS' REPORT

## Events subsequent to reporting date

There has not arisen, in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years, other than the issue of 3,000,000 Incentives to eligible participants, who are not directors, in the Company's Incentive Plan as disclosed in Note 9 (ii) to the Financial Statements.

Signed in accordance with a resolution of the Directors.



**J D Shervington**  
Chairman  
Perth, 13th March 2015

## Auditor's Independence Declaration

To those charged with the governance of Australian Zircon NL

As auditor for the review of Australian Zircon NL for the period ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

- i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the review; and
- ii) no contraventions of any applicable code of professional conduct in relation to the review.



Somes Cooke



Nicholas Hollens  
Partner

Perth

13 March 2015

# INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Note	31 Dec 2014 \$	31 Dec 2013 \$
Other income		1,425	9,277
Finance costs		(2,791,285)	(2,286,798)
Foreign exchange loss	8	(3,996,951)	(645,098)
Other expenses		(411,386)	(373,786)
<b>Loss before income tax</b>		<b>(7,198,197)</b>	<b>(3,296,405)</b>
Income tax expense		-	-
<b>Loss after income tax for the period</b>		<b>(7,198,197)</b>	<b>(3,296,405)</b>
<b>Other comprehensive income for the period</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period attributable to members of the Company</b>		<b>(7,198,197)</b>	<b>(3,296,405)</b>
<b>Earnings (loss) per share</b>			
Basic earnings (loss) per share (cents)		(0.49)	(0.22)
Diluted earnings (loss) per share (cents)		(0.49)	(0.22)

The interim statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes

# INTERIM STATEMENT OF FINANCIAL POSITION

## AS AT 31 DECEMBER 2014

	Note	31 Dec 2014 \$	30 June 2014 \$
<b>Assets</b>			
Cash and cash equivalents		496,113	358,274
Trade and other receivables	6	92,349	179,269
<b>Total current assets</b>		<b>588,462</b>	<b>537,543</b>
Deferred exploration and evaluation costs	7	17,844,749	17,442,967
Property, plant and equipment		38,610	46,026
<b>Total non-current assets</b>		<b>17,883,359</b>	<b>17,488,993</b>
<b>Total assets</b>		<b>18,471,821</b>	<b>18,026,536</b>
<b>Liabilities</b>			
Trade and other payables		139,769	455,678
Borrowings	8	101,564,847	93,594,302
Provisions		21,079	32,233
<b>Total current liabilities</b>		<b>101,725,695</b>	<b>94,082,213</b>
<b>Total liabilities</b>		<b>101,725,695</b>	<b>94,082,213</b>
<b>Net assets</b>		<b>(83,253,874)</b>	<b>(76,055,677)</b>
<b>Equity</b>			
Share capital	9	110,816,025	110,816,025
Accumulated losses		(194,069,899)	(186,871,702)
<b>Total Equity</b>		<b>(83,253,874)</b>	<b>(76,055,677)</b>

The interim statement of financial position is to be read in conjunction with the accompanying notes

# INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Issued capital	Share Based Payments Reserve	Accumulated losses	Total
	\$	\$	\$	\$
<b>For the six months ended 31 December 2014</b>				
Opening balance at 1 July 2014	110,816,025	-	(186,871,702)	(76,055,677)
<b>Total comprehensive income of the period</b>	-		(7,198,197)	(7,198,197)
<b>Balance as at 31 December 2014</b>	110,816,025	-	(194,069,899)	(83,253,874)
<b>For the six months ended 31 December 2013</b>				
Opening balance at 1 July 2013	110,816,025	899,095	(181,272,801)	(69,557,681)
<b>Total comprehensive income of the period</b>	-	-	(3,296,405)	(3,296,405)
Adjustments to share based payments reserve		(899,095)	899,095	-
<b>Balance as at 31 December 2013</b>	110,816,025	-	(183,670,111)	(72,854,086)

The interim statement of changes in equity is to be read in conjunction with the accompanying notes.



# INTERIM STATEMENT OF CASHFLOWS

## FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

	Note	31 Dec 2014 \$	31 Dec 2013 \$
<b>Cash flows from operating activities</b>			
Cash paid to suppliers and employees		(491,558)	(381,793)
Interest received		4,395	4,513
GST received		58,561	149,141
Sundry revenue		-	6,367
<b>Net cash (outflow) from operating activities</b>		<b>(428,602)</b>	<b>(221,772)</b>
<b>Cash flows from investing activities</b>			
Payments for exploration and evaluation assets		(615,870)	(2,604,320)
<b>Net cash outflow from investing activities</b>		<b>(615,870)</b>	<b>(2,604,320)</b>
<b>Cash flows from financing activities</b>			
Loan finance from DCM	9	1,182,311	2,860,000
Finance lease principal repayments		-	(8,619)
<b>Net cash inflow from financing activities</b>		<b>1,182,311</b>	<b>2,851,381</b>
<b>Net decrease in cash and cash equivalents</b>		<b>137,839</b>	<b>25,289</b>
Cash and cash equivalents at the beginning of the period		358,274	406,696
<b>Cash and cash equivalents at the end of the period</b>		<b>496,113</b>	<b>431,985</b>

The interim statement of cash flows is to be read in conjunction with the accompanying notes

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 1. Reporting entity

Australian Zircon NL (the Company) is a company domiciled and incorporated in Australia. The address of the Company's registered office is Suite H4.6, Level 4, 172 North Terrace, Adelaide SA 5000. The Company is primarily involved in the exploration and evaluation of heavy mineral sands in Victoria, Australia.

## 2. Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Company for the year ended 30 June 2014.

This interim financial report was approved by the Board of Directors on 13<sup>th</sup> March 2015.

## 3. Significant accounting policies

The accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2014.

## 4. Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. Although the Company believes that the statements, estimations, projections, beliefs and opinions reflected in such forward looking statements are reasonable, such statements involve risks and uncertainties and no assurance can be given that actual results and outcomes will be consistent with these forward looking statements

In preparing this interim financial report, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial report as at and for the year ended 30 June 2014.

## 5. Going concern

The financial statements have been prepared on the basis that the Company will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business at the amounts stated in these financial statements.

At the date of signing the financial report, the Company is dependent upon continuing financial support from its controlling shareholder, DCM DECOMetal GmbH ("DCM"), to pay its debts as and when they fall due. As at 31 December 2014, the Company had net liabilities of \$83,253,874 whilst \$99,126,120 was owing to DCM. DCM has indicated that it will continue to support the Company's activities in relation to the WIM150 mineral sands project.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

At the date of signing the financial report, the Directors are confident that DCM will continue to financially support the Company to enable it to pay its debts as and when they fall due, for at least the next six months. Further, the directors are exploring various alternative financing arrangements to secure the company's, and the WIM 150 project's, future, with the aim of achieving financial security in the next six months. As such, the Directors believe the going concern basis is appropriate.

Should the financial support of DCM be discontinued, or those alternative sources of finance not come to fruition, there is significant uncertainty whether the Company will be able to continue as a going concern.

The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or the amounts or classification of liabilities, which might be necessary should the Company not be able to continue as a going concern.

## 6. Trade and other receivables

	31 Dec 2014	30 June 2014
	\$	\$
Trade receivables	18,585	86,598
Rental bonds	17,039	17,039
Receivable from WIM 150 Joint Venture	56,725	75,632
Total trade and other receivables	92,349	179,269

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 7. Deferred exploration and evaluation costs

### (i) Interest in joint arrangements

	31 Dec 2014	30 June 2014
	\$	\$
<b>Current Assets</b>		
Cash at bank	448,411	1,245
Other receivables	14,840	66,824
<b>TOTAL CURRENT ASSETS</b>	<b>463,251</b>	<b>68,069</b>
<b>Non-current assets</b>		
Exploration & Evaluation - WIM150	2,578,560	2,092,537
<b>TOTAL NON CURRENT ASSETS</b>	<b>2,578,560</b>	<b>2,092,537</b>
<b>TOTAL ASSETS</b>	<b>3,041,811</b>	<b>2,160,606</b>
<b>Current Liabilities</b>		
Other Payables	226,899	302,526
<b>TOTAL CURRENT LIABILITIES</b>	<b>226,889</b>	<b>302,526</b>
<b>NET ASSETS</b>	<b>2,814,912</b>	<b>1,858,080</b>
Profit before income tax	2,970	1,103
Income tax expense	-	-
Profit after income tax	2,970	1,103

The company owns an 80% interest in the WIM150 Joint Venture ("WIM150"). Based on the contractual conditions governing the arrangement, there is joint control between the partners in WIM150. Given that, the arrangement comes under the scope of AASB 11, joint arrangements. The project has been classified as a joint operation under AASB 11, because the joint operators have rights to the assets and liabilities, in proportion to their interest in WIM150, rather than the net profit or loss of WIM150.

### (ii) Deferred exploration and evaluation costs

	\$
Balance at beginning of period	17,442,967
Exploration costs incurred in the period	401,782
Balance at end of period (iii)	17,844,749

(iii) Deferred exploration and evaluation costs as at 30 June 2014 and 31 December 2014 relate to the WIM 150 mineral sands deposit. Recoverability of the carrying amount is dependent upon the successful development and commercial exploitation, or alternatively, sale of the area of interest.

On 3 December 2013 the Company earned an 80% interest in WIM150, thus expenditure in the current year relates to activity in WIM150. Costs incurred prior to this time relate to activities, such as completion of a bankable feasibility study, which allowed the Company to earn the 80% interest in WIM150.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## 8. Borrowings

	31 Dec 2014	30 June 2014
	\$	\$
Amounts owed to DCM (i) (ii)	99,126,120	91,434,703
Withholding tax payable on interest owed to DCM	2,438,727	2,159,560
	<u>101,564,847</u>	<u>93,594,302</u>

- (i) Amounts owed to the Company's controlling entity, DCM, are secured by a fixed and floating charge over the assets of the Company. Interest is charged on principal borrowings at LIBOR +6% pa.

- (ii) Movement in DCM loan balance:

	\$
Balance at beginning of period	91,434,703
Loan funds from DCM	1,182,311
Repayment of loans from DCM	-
Interest accrued during period	2,512,155
Movement in foreign exchange rates	3,996,951
Balance at end of period	<u>99,126,120</u>

## 9. Share capital

### (i) Issued Capital

#### Movement in ordinary shares

	31 Dec 2014 No.	30 June 2014 No.	31 Dec 2014 \$	30 June 2014 \$
Fully paid:				
On issue at beginning of period	1,474,715,121	1,474,715,121	110,779,210	110,779,210
On issue at end of period	1,474,715,121	1,474,715,121	110,779,210	110,779,210
Partly paid:				
On issue at beginning of period	7,363,026	7,363,026	36,815	36,815
On issue at end of period	7,363,026	7,363,026	36,815	36,815
Total			<u>110,816,025</u>	<u>110,816,025</u>

### (ii) AZC Incentive Plan

At the Annual General Meeting held on 21 November 2014, shareholders approved the adoption of the AZC Incentive Plan, under which Performance Rights may be issued to eligible participants subject to certain performance conditions. At the same meeting, shareholders approved the issue of 6,500,000 Incentives to eligible participants under the Plan.

Subsequent to 31 December 2014, a further 3,000,000 Incentives have been issued to eligible participants who are not directors.

No Performance Rights have been exercised or shares have been issued on the exercise of those Rights as at the date of this report.

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## **10. Events subsequent to reporting date**

Aside from the matters raised in Note 9. (ii) there has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

## **11. Contingent Liabilities**

The company is defending a claim for \$175,725 for management services. The company denies any liability for the amount claimed and has lodged a defence and intends to pursue a “counterclaim” for an unspecified amount to be determined by the Court.

# DIRECTORS' DECLARATION

## Directors' Declaration

In accordance with a resolution of the Directors of Australian Zircon NL, I state that:

1. In the opinion of the Directors:
  - (a) The financial statements, notes and the additional disclosures included in the Directors' report designated as audited are in accordance with the *Corporations Act 2001*, including:
    - (i) Giving a true and fair view of the Company's financial position as at 31 December 2014 and of the Company's performance for the six months ended on that date;
    - (ii) Complying with Accounting Standards and *Corporations Regulations 2001*,  
which as stated in Note 2 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards.
  - (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. At the date of the signing of the financial statements, the Directors are confident that the financial support of its major shareholder will continue.
2. Signed in accordance with a resolution of the directors made pursuant to Section 303(5) of the *Corporations Act 2001*.

On behalf of the Board.



**J D Shervington**

Chairman

Perth, 13th March 2015



## Independent Auditor's Review Report

To the members of Australian Zircon NL

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian Zircon NL, which comprises the statement of financial position as at 31 December 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Half-Year Financial Report

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Australian Zircon NL's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*. As the auditor of Australian Zircon NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

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



## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Zircon NL is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of Australian Zircon NL's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.

## Emphasis of Matter – Inherent uncertainty regarding continuation as a going concern

Without modifying our conclusion, we draw attention to Note 5, which outlines that the company is dependent upon continuing financial support from its controlling shareholder, DCM Decometal ("DCM"), to pay its debts as and when they fall due. As at 31 December 2014, the company had net liabilities of \$83,253,874, and \$99,126,120 was owing to DCM.

As a result, there is a material uncertainty related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern, and therefore whether it will realise its asset and extinguish its liability in the normal course of business and at the amounts stated in the financial report.



Somes Cooke



Nicholas Hollens

13 March 2015

Perth  
Western Australia

# CONTACT

## Registered and Head Office

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## Auditors

**Somes Cooke**  
Level 2, 35 Outram Street  
West Perth  
Western Australia 6005

## Solicitor

**Jeremy Shervington**  
**Barrister & Solicitor**  
52 Ord Street  
West Perth  
Western Australia 6005

## Share Registry

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## Home Securities Exchange

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## Website

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