

# ANNUAL REPORT 2012



**PRECIOUS METAL  
RESOURCES LIMITED**



TABLE OF CONTENTS	PAGE
CORPORATE DIRECTORY .....	2
CHAIRMAN’S REPORT .....	3
REVIEW OF OPERATIONS .....	4
DIRECTORS’ REPORT .....	15
REMUNERATION REPORT – AUDITED .....	21
AUDITOR’S INDEPENDENCE DECLARATION.....	26
CORPORATE GOVERNANCE STATEMENT .....	27
STATEMENT OF COMPREHENSIVE INCOME .....	34
STATEMENT OF FINANCIAL POSITION.....	35
STATEMENT OF CHANGES IN EQUITY.....	36
STATEMENT OF CASH FLOWS .....	37
NOTES TO THE FINANCIAL STATEMENTS.....	38
DIRECTORS’ DECLARATION .....	62
INDEPENDENT AUDITOR’S REPORT.....	63
SHAREHOLDER INFORMATION .....	64

*Cover Photo:*  
*PMRs VTEM-plus and Magnetic Survey System in flight near Halls Peak conducted by Geotec*

## CORPORATE DIRECTORY

**Precious Metal Resources Limited**

ACN 145 105 148  
ABN 88 145 105 148

**Registered and Corporate Office**

Level 2  
Hudson House  
131 Macquarie Street  
Sydney NSW 2000  
Telephone: +61 2 9251 7177  
Fax: +61 2 9251 7500  
Website: [www.pmrl.com.au](http://www.pmrl.com.au)

**Auditors**

K.S. Black & Co  
Level 6  
350 Kent Street  
Sydney NSW 2000  
Telephone: +61 2 8839 3000

**Lawyers**

Piper Alderman  
Level 23, Governor Macquarie Tower  
1 Farrer Place  
Sydney NSW 2000  
Telephone: +61 2 9253 9999

**Bankers**

Australia & New Zealand Banking Group Limited  
Level 16,  
20 Martin Place  
Sydney NSW 2000  
Telephone: +61 2 9227 1818

St George Bank Limited  
Level 14, 182 George St  
Sydney NSW 2200  
Telephone: +61 2 9236 2230

**Directors**

The Hon. John Dawkins, AO (Chairman)  
John Foley (Deputy Chairman)  
Michael Leu (Managing Director)  
Peter Kennewell  
Peter Meers  
Bruce Dennis

**Joint Company Secretaries**

Henry Kinstlinger  
Julian Rockett

**Share Registry**

Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne VIC 3001  
Australia  
Telephone: 1300 850 505

**ASX Code – PMR**

Precious Metal Resources Limited shares are listed on the Australian Securities Exchange.

This financial report covers the Consolidated Entity consisting of Precious Metal Resources Limited and its controlled entities.

Precious Metal Resources Limited is a company limited by shares, incorporated and domiciled in Australia.

## CHAIRMAN'S REPORT

Dear Shareholders,

It is exciting to see the advances Precious Metal Resources Limited (**PMR**) has made since its float a little over twelve months ago, with major exploration funding organised with Chinese investors, potential for a world class base metal deposit outlined by a VTEM helicopter survey, and new exploration licences being granted in the highly prospective Broken Hill area.

Our assaying of previously ignored historical drill core yielded high results; enough to excite the Chinese state owned enterprise Jiangsu Geology and Engineering Co Ltd (**SUGEC**) from Nanjing. Their initial entry into a cooperation and investment agreement with your Company will entail contributing \$2 million toward exploration for zinc-lead-silver-copper at Halls Peak. Following the recent VTEM entails survey, additional agreements to fund an additional \$8 million in field operations were agreed, to fast track the exploration and to earn a 30% interest in the tenements.

Funding commenced with the contracting of a VTEM helicopter survey aiming to locate base metal deposits at depths of up to 400 metres beneath the Halls Peak base metal province. A flat lying electrically conductive bed extending over an area of 14 square kilometres was mapped, and possibly indicates the presence of base metal deposits at depth. This bed is present beneath all the areas mined in the past for base metals, and certainly has potential to be a world class zinc-lead-silver deposit. It is planned to drill test this bed as part of SUGEC's expenditure program.

To expand growth of your Company, nine exploration licences were applied for in the extremely prospective Broken Hill base metal province, home of the world's largest zinc-lead-silver mine. Most have now been granted, and compilation of the historical reports, many by major companies, is yielding valuable leads to highly prospective areas. The Company considers that these areas have not been adequately tested for base metal mineralisation, and have high prospectively.

The year saw the majority of our Company's shares purchased by Sovereign Gold Company Limited, an explorer with similar synergies. The purchase offered PMR shareholders exposure to a more diverse number of prospects and commodities. It also reduced operating costs by facilitating the joint ventures which both Companies have with SUGEC. Sovereign Gold's exploration of intrusion related gold deposits is being similarly funded to ours, with SUGEC to expend \$11 million to earn 30% equity in several tenements.

The year ahead is one of promise, with extremely encouraging targets developed on the Halls Peak base metal area, and with SUGEC funding in place to carry out a very substantial work program on them. Broken Hill is a highly prospective area in which several prospects are emerging as having potential to be of interest to majors when innovative programs of further exploration work are completed. The share price has been reflecting these recent developments during the past months, and has potential to continue to reflect shareholder enthusiasm into the future.



John Dawkins, AO,  
Chairman

## REVIEW OF OPERATIONS

This Review covers the period to 31 December 2012.

### SUMMARY

Precious Metal Resources Limited (**PMR**) conducted a Versatile Time-Domain Electromagnetic (**VTEM**) geophysical survey in the Halls Peak area and four target types were identified:

- Large flat laying conductors which may represent flat lying sulphide bearing beds
- Vertical vent zones from depth located on faults and possibly copper bearing
- Point magnetic anomalies which are very conductive
- Surficial anomalies

Significant of these are the flat laying conductors, which may represent a major stratiform Zn-Pb-Ag deposit, generally classified as sedimentary exhalative (**SEDEX**) deposit. A program is being developed to test these broad conductors, at depth below Gibsons Mine, Sunnyside Mine and Faints-Firefly Mine.

Halls Peak is the inferred volcanic centre for extensive small but high grade Volcanic Massive Sulphide (**VMS**) deposits rich in copper, lead, zinc and silver, with variable but largely untested gold values. Exploration aims to locate the right depositional environment to host a high-grade deposit of between 30,000 and 170,000 tonnes within a global exploration target of 5 – 70 million tonnes of mixed grade mineralisation. Several geochemical and geophysical anomalies are also present that should identify further high grade, near-surface sulphides.

Additional to the VMS prospectivity, there are indications for the presence of orogenic gold from breccia floaters and small pods of Au-rich quartz on the tenements carrying 1 to 10 grams per tonne Au.

A substantial body of exploration data has been generated over the years by the Geological Survey of NSW and a number of major mining companies including, BHP Ltd., MIM Ltd., The Zinc Corporation, Allstate Exploration NL, Carpentaria Exploration Co. Ltd., CRA Exploration Limited and Amoco Minerals Australia Co.

PMR is expanding on this work, unhindered by the plethora of small prospectors that originally held prime areas. PMR is implementing an exploration work programme focusing on the three key known sulphide bodies initially aiming to bring them to a proven resource stage quite rapidly through a diamond and reverse circulation drilling program.

### CORPORATE – 2012

29 March 2012	Chinese State Owned Enterprise Jiangsu Geology and Engineering Co Ltd of Nanjing China ( <b>SUGEC</b> ) and PMR entered into a cooperation and investment agreement to contribute \$2 million toward exploration on EL 7679 before 31 March 2014 to earn a 30% interest in EL 7679.
17 April 2012	Incorporation of subsidiary company PMR3 Pty Ltd to hold base metal exploration tenements in the area surrounding Broken Hill.
14 May 2012	Incorporation of subsidiary companies PMR4 Pty Ltd and PMR5 Pty Ltd to hold exploration tenements. PMR made further applications for copper and molybdenum tenements in the area surrounding Armidale.
10 July 2012	Sovereign Gold Company Limited ( <b>Sovereign Gold</b> ) launched a takeover of PMR offering nine Sovereign Gold shares for every 10 PMR shares. The offer represented a premium of 27.27% to the closing price of PMR shares prior to the announcement of the takeover.
27 August 2012	Sovereign Gold acquired 69,070,938 PMR Shares in exchange for 62,163,842 of its own shares as a consequence of the takeover.

31 August 2012	Following completion of the takeover bid by Sovereign Gold, John Dawkins AO was appointed director and chairman of PMR, Michael Leu was appointed managing director, John Foley remains as a director in the capacity of deputy chairman and Peter Kennewell was appointed chief geologist.
26 November 2012	SUGEC and PMR entered into 2 further cooperation and investment agreements to contribute \$8 million toward fast tracking exploration funding for EL4474 and EL5339 in New England area of New South Wales for an entitled 30% interest in each respective tenement upon meeting the associated expenditure commitment for that tenement. The agreement followed an extensive review and due diligence program by SUGEC.

## EXPLORATION

### *PMR–SUGEC Cooperation Agreements*

PMR and SUGEC entered into a cooperation agreement with respect to EL 7679 prospective for silver and base metals at Halls Peak. SUGEC is funding up to \$2 million on EL 7679 and has entered into 2 further cooperation and investment agreements to contribute \$8 million toward fast tracking exploration funding for EL4474 and EL5339. Subsequently in November 2012 SUGEC agreed to increase its exploration funding by an additional \$8 million to fast track exploration on EL 5339 and EL 4474. As a result, SUGEC will be entitled to a 30% interest in each respective tenement upon meeting the associated expenditure commitment for that tenement. SUGEC will commit a dedicated team of up to 14 geologists, geochemists and geophysicists to work with PMR on the projects.

### *PMR–SUGEC Project Summaries*

During the reporting period, PMR undertook a VTEM geophysical survey over its base metal project at Halls Peak, NSW.

Airborne VTEM surveys use a helicopter, which suspends a high-resolution caesium magnetometer from its cargo hook. The magnetometer is described as a 26-metre transmission coil or loop, which is suspended beneath the helicopter in a tent shaped array. The inner part of the array contains a smaller diameter receiving coil, which measures the period of time it takes for an induced electro-magnetic field to dissipate through the ground, using the principle that highly conductive rocks, like those containing metals, would hold an electric charge for a longer period.

A current is transmitted through the coil, which energises the ground, creating an electromagnetic field. When the induced current is stopped, sensors on the coil record the time delay for this induced electromagnetic field to disperse. The VTEM system has the ability to generate readings at a rate of 10 samples per second, which are recorded digitally with a GPS log and radar altimeter for accurate navigation.

The VTEM system produces data that are then translated onto maps which shows regions of conductivity in the earth and electromagnetic profiles. The helicopter flight paths were orientated to suit the overall geological trend, and line spacing was designed to ensure maximum coverage resulting in unparalleled resolution and depth of investigation in precision electromagnetic measurements.

Electromagnetic surveys measure the conductivity of the rocks beneath the earth's surface by emitting a magnetic field from an aerial suspended from a helicopter. This field penetrates into the earth and generates an electric current within any conducting rocks present, including bodies of base metal mineralisation. This generates a new magnetic field, which is measured and mapped by the helicopter, effectively locating exploration targets.

The helicopter borne survey was conducted by Geotech Airborne Ltd (**Geotech**). The survey located targets that were modelled and evaluated for potential bodies of mineralisation and base metal targets generated are prioritised for field evaluation. The VTEM system is one of the leading airborne geophysical systems in use and is particularly suited to identify deeply buried conductive ore bodies. It is renowned for its deep penetration, high special resolution and ability to detect and differentiate weak electromagnetic anomalies at depths over 400 metres.

In recent years many large base metal deposits have been located by this method. The area of the survey included the outcrop of the Halls Peak volcanics, in which volcanic ash, lava flows and sediments host the previously mined base metal deposits at Halls Peak.

This detailed surveying has allowed modelling and evaluation of potential bodies of mineralisation. From this, the base metal targets generated will be prioritised for field evaluation.

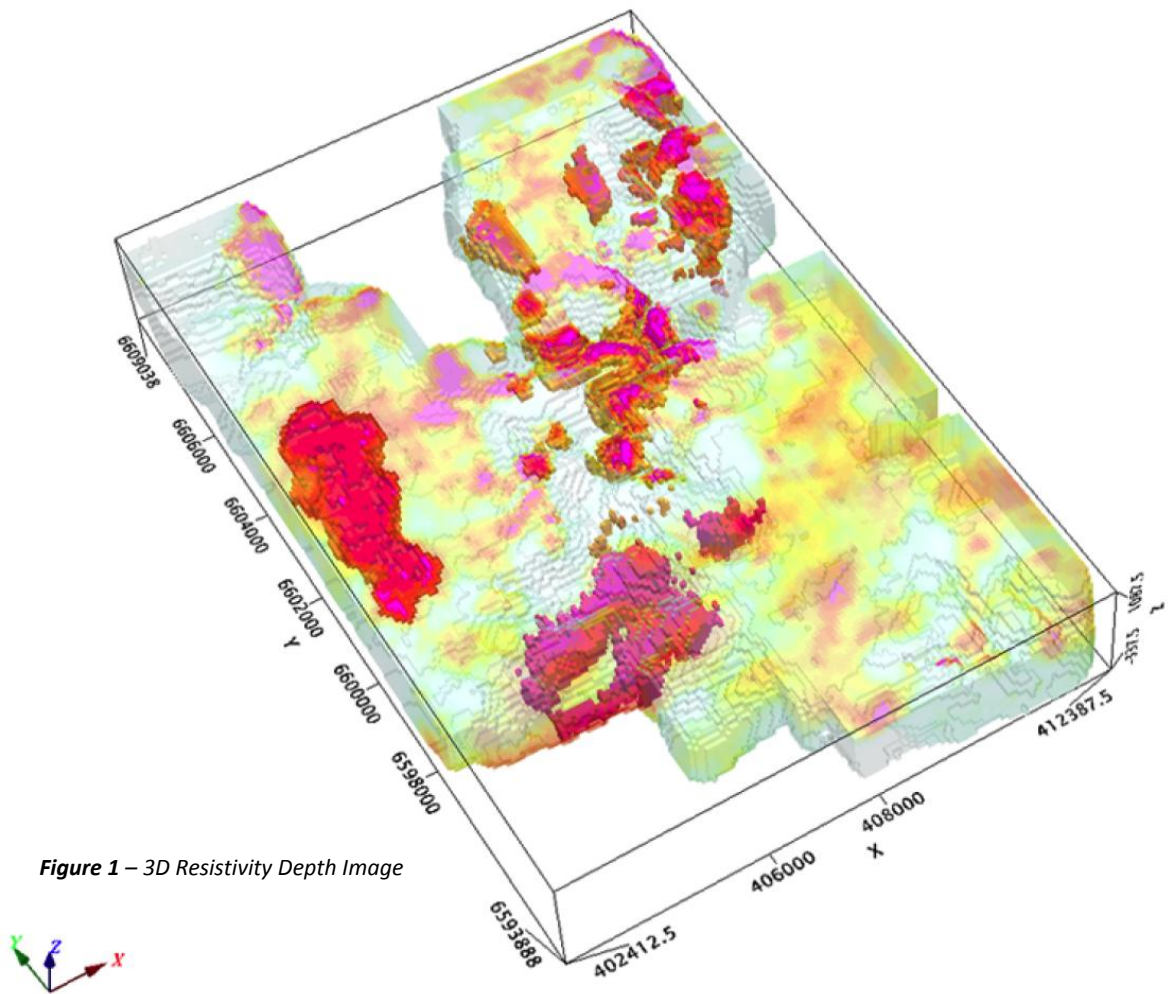
The VTEM survey conducted comprised 933 line-kms within EL 7679 and an additional 289 line-kms over PMR’s ELs 4474 and 5339 in which SUGEC are earning a 30% interest. SUGEC contributed the cost of flying the survey over EL 7679 and PMR funded the survey over EL 4474 and EL 5339.

The VTEM survey identified major anomalies in the Halls Peak silver-copper-lead-zinc field. The two anomalies that appear to be the most significant are 2km by 500 metres and 1.2km by 900 metres in extent.

Former mines containing high-grade massive silver-copper-zinc-lead mineralisation occur immediately to the southeast, northwest and southwest of these anomalies. 10,000 tonnes of high grade mineralised rock was mined from underground and open cut workings during last century.

These VTEM anomalies are produced by electrically conductive rocks at depths ranging from surface to over 300 metres. The rocks most likely to cause these anomalies are sulphides, graphite bearing black shales and, to a lesser extent, rocks saturated with highly salty water. The only conclusive way of determining their nature is by drilling. The presence of these anomalies is highly encouraging for further exploration efforts.

The Geotech survey report presents some initial interpretation of this huge amount of data, and outlines the broad features of the project area. It points out the areas which have major anomalies, and gives approximate estimates of their depths. It also presents a 3D image of these anomalies, showing their shape.





PMR engaged Southern Geoscience Consultants Pty Ltd to review and model the VTEM data collected. This analysis has yielded detailed images showing conductivity of the rocks at depth. Clearly visible on the CDI sections are potential vertical conductors, interpreted by PMR as sulphide bearing vent zones emanating from deep within the earth. These are overlain by horizontal zones interpreted as flat-lying sediments containing sulphide minerals which flowed from the vents onto the overlying sea floor.

The anomalies are defined on the north-west by a regional geological fault (rock fracture) trending northeast and mapped previously during the 1970s. The historic mines containing copper, zinc, and lead sulphides are present on or near this fault, strongly suggesting that the sulphide minerals mined had been remobilised to the surface by fluids leaching metals from these conductive zones. Silver is also commonly included with such deposits at Hall's Peak.

The anomalies located by the VTEM survey will form the basis for the next phase of exploration work on the project. They do not appear to outcrop, but field inspections will investigate the few points at which they come near the surface, in an attempt to confirm their nature.

#### ***Southern Geosciences Consultant's Report***

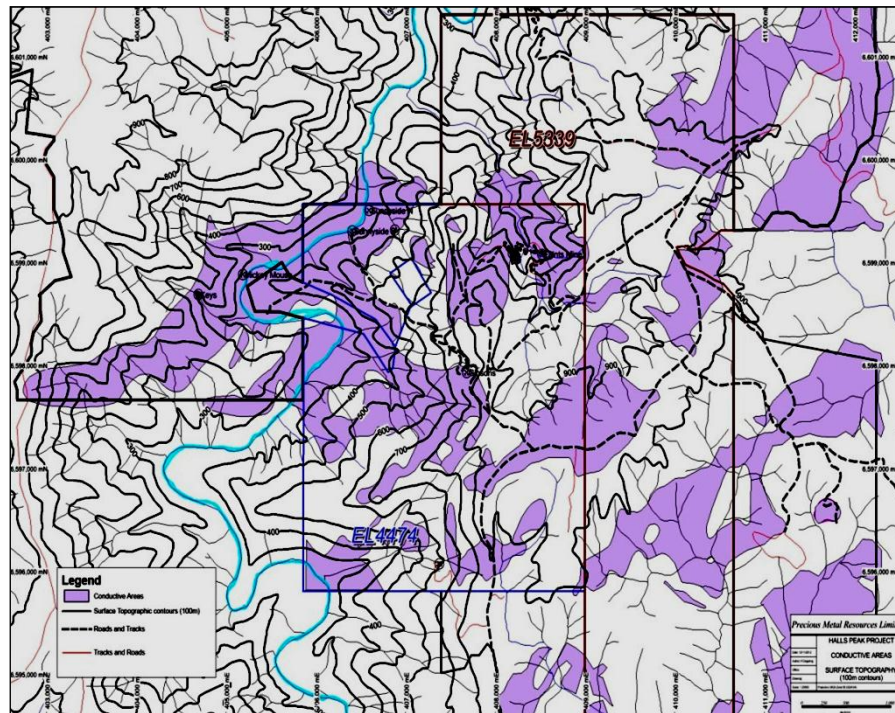
The Southern Geoscience Consultant's recently processed map, including target areas, is shown below together with their description of nine high priority anomalies and additional less significant anomalies:

*Seven early to mid-late time conductive zones (HPVA\_2 to HPVA\_8) were identified in the southern area. These conductors appear to terminate against the same northeast-southwest structures which are spatially associated with several of the historical workings. These should be highest priority for ongoing exploration. Evidence of source migration from early to late time toward these fault zones may be indicating thickening sulphide closer to the fault. A program of SEM and or 2D IP surveying is recommended to test the distribution of sulphides in relation to these features. This does not appear to be consistent with typical VMS systems, but may be more aligned to sedimentary exhalative (SEDEX) processes.*

Final processing and interpretation of the VTEM survey conducted over the Halls Peak tenements (EL 5339, EL 4474 and EL 7679) in 2012 have identified four target types.

- Large flat laying conductors which may represent flat lying sulphide bearing beds
- Vertical vent zones from depth located on faults and possibly copper bearing
- Point magnetic anomalies which are very conductive
- Surficial anomalies

Significant of these are the flat laying conductors, which may represent a major strati form Zn-Pb-Ag deposit, generally classified as SEDEX deposit which form when fluids containing base metals rise through fractures in the sea floor and deposit beds of base metals on the surrounding sea floor.



**Figure 2 - Areas of horizontal conductors, measuring 14.29 km<sup>2</sup> in purple**

PMR continues work to confirm the VTEM analyses to determine if the near surface high grade copper-lead-zinc-silver deposits mined at Halls Peak in the past may form part of a much larger but previously unrecognised SEDEX style base metal province. This is supported by the large 14.29 km<sup>2</sup> flat lying conductors, typical of these provinces, mapped by the recent VTEM helicopter survey.

PMR is undertaking a study of mineralisation within such mineral provinces, both in Queensland and worldwide, to determine the manner in which the smaller high grade, copper rich base metal deposits previously mined at Halls Peak may be related to the far larger SEDEX deposit which commonly produce large flat-lying broad conductors and a program is being developed to test these broad conductors, at depth below Gibsons Mine, Sunnyside Mine and Faints-Firefly Mine.

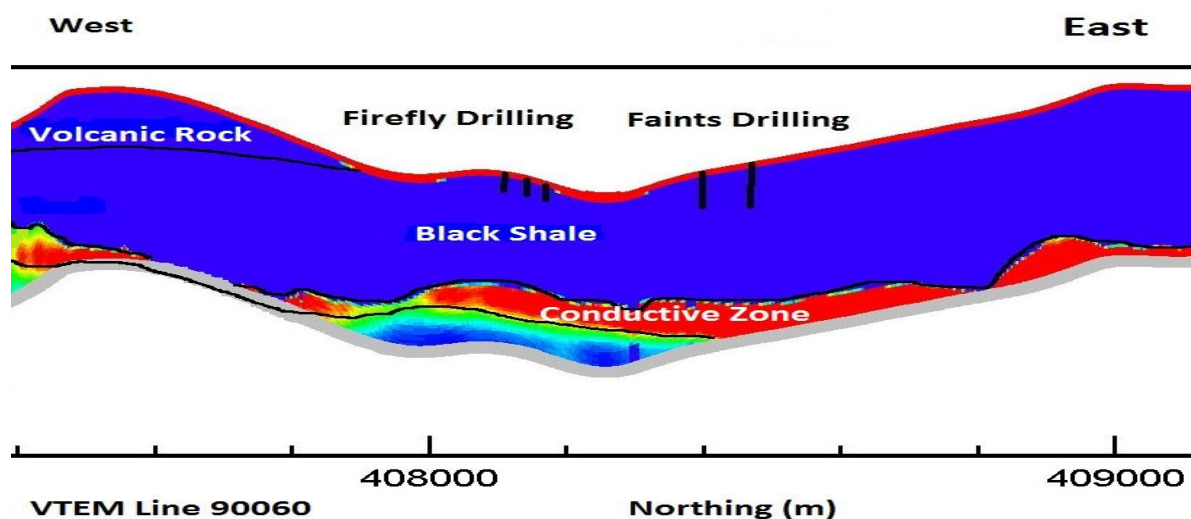
The grades mined at Halls Peak during last century were higher than grades mined in most SEDEX deposits, which are commonly in the order of 7% lead, 5% zinc and 124 g/t silver.

#### **Current Exploration Program**

Resampling and reassaying of Carpentaria Exploration Company Ltd's diamond drill hole Faints DDH 2, near the former Faints Mine at Halls Peak have demonstrated high grades of silver with 342.4 oz/t or 10,650 g/t of silver present over an intersection of 0.18 metres and base metals adjacent to the previously recognised mineralisation in this hole. These are present in mineralised rocks looking almost identical to those not carrying mineralisation but may have formed in the top part of a SEDEX mineralisation system. These systems form beneath deep seas, with hot springs venting upwards through fractures in the earth, creating beds of base metals on the sea floor. The Faints Mine system may extend regionally, through the nearby Gibsons Mine area and the surrounding 30 square kilometres, to form the Halls Peak base metal province.

The extreme grade mineralisation is contained within a 2.5 metre interval interpreted as a feeder zone which carried mineralisation to the overlying sea bed. It averages 50.5 ozs/tonne silver, 5.8% lead and 12.5% zinc.

Base metals from such vent zones are precipitated in the sea water as "black smokers" (mounds of base metal mineralisation) and also settle in the surrounding shales away from the vents as flat lying beds of base metals.



**Figure 3** - Conductivity Depth Images relative to the Faints and Firefly Mines

Massive pods of base metal mineralisation, which may have been formed by similar feeder zones, were mined in the nearby Faints Open Cut in 1922 (ASX: 8 October, 2012). These were interpreted as possible “black smoker” hot spring vents by the NSW Department of Natural Resources (1992). 1,600 tonnes of sulphide and oxide mineralisation were mined from here with an estimated average grade of 1.1% copper, 20.9% lead, 31.9% zinc and 30.0 ozs/tonne silver. These grades are consistent with the mineralisation venting from feeder zones similar to the one drilled.

These pods of high grade mineralisation and the surrounding extensive lower grade shales (ASX: 8 October, 2012) are near the upper surface of the black shales and formed during the final waning stages of mineralising activity. Higher grade base metal beds may have formed during the more intense initial stages of the SEDEX system. These beds, if present, would be preserved at a greater depth.

The VTEM survey has shown a broad and extensive conductive zone, possibly produced by base metal mineralisation, at depths of about 500 metres beneath the Faints and Firefly Mines. These conductive zones may be caused by higher grade base metal beds deposited during the earlier, more intense stages of mineralisation. The deepest hole drilled at Faints and Firefly Mines to date was completed at 200 metres in 1969. This was far too shallow to reach the conductive layer, shown to be present at about 500 metres depth.

A program is being developed to test these broad conductors at depth below Gibsons Mine, Sunnyside Mine and Faints-Firefly Mine. The grades obtained from re-assay of the preserved cores from Faints Mine and Firefly mine are outlined below.



**Figure 4** - CEC Faints DDH 2, the 342.4 oz/t silver occurs in unoxidised massive sulphide, middle core row.

This mineralisation was within a larger and previously unassayed silver – copper – lead - zinc rich intersection of 2.47 metres.

Grades within this interval are below:

Top (m)	Base (m)	Metres	Ag (oz/t)	Cu (%)	Pb (%)	Zn (%)
83.49	83.67	0.18	342.40	2.83	18.25	36.00
83.67	84.33	0.66	78.80	0.93	14.95	34.40
84.33	84.43	0.10	12.70	0.16	1.48	2.39
84.43	84.66	0.23	16.50	0.16	0.78	1.56
84.66	85.95	1.30	5.50	0.11	0.77	0.88
Weighted Average		2.47 m	50.6 oz/t (1,575 g/t)	0.53%	5.86%	12.53%

**Mining Potential**

Currently, the main areas of interest are the Gibsons Mine Area, Faints-Firefly and Khans Creek Lode, which at today’s prices are highly attractive targets. The sulphide lenses outcrop and only short adits were required to access the sulphide, e.g. BHP’s adit (1973) was developed for only 27m to intersect the sulphides at Khans Creek. The Silver Tunnel is accessible at surface via a direct drive on the sulphides and all lodes are accessible by existing dirt roads, however the topography is steep and the width of the roads currently limits the size of trucks able to haul the ore. Haulage will be limited to low-profile vehicles to a 5 tonne capacity for approximately 2 kms where the ore will be transferred to larger vehicles.

In the Gibsons Mine Area, there is the possibility that pattern drilling may reveal a sufficient density of small stacked strata bound VMS bodies to support open cut mining. As these essentially occur at surface, only a short adit is needed to access the sulphide. If the general grades of potential ore lenses at Halls Peak have a gold equivalent of 0.7 to 2 oz/t, as currently indicated, then shallow narrow vein mining should be cost effective. The intention is to ship unprocessed ore to off-take buyers for direct smelting.

An independent engineering study will be commissioned to review the mine development costs, (capital costs), exploration and mine production costs, infrastructure costs, transport costs, and port costs, to direct ship Gibson’s ore.

To produce direct shipping ore from the Gibson’s and Milking Cow lodes will require an engineering feasibility study covering stockpiling, blending, stripping ratio and waste disposal.

**Metallurgy and Treatment**

Fine grinding and flotation tests will be undertaken to establish if saleable concentrates of galena (lead), sphalerite (zinc), copper (chalcopyrites) and silver can be produced from the ores. If successful, the company will be able to generate a cash flow early in the exploration program that underpins the initial capital investment. Alternatively, the Run-of-Mine ore can be crushed to 3 mm and concentrated on tables for direct shipping.

The Silver Tunnel silver-rich sulphides average 25.23% Pb and 50.9 oz/t Ag.

**PMR’S REGIONAL STATE EXPLORATION STRATEGY**

PMR significantly expanded its portfolio of exploration tenements over three regional centres of NSW:

Armidale	Three granted exploration licences; Eight exploration licence applications
Goulburn	One granted exploration licence
Broken Hill	Eight exploration licence applications

Three major silver-lead-zinc-copper provinces have been targeted:

- Armidale – the New England Orogen, with additional ground and commodities to our current holdings at the Halls Peak base metal field
- Goulburn – the Lachlan Orogen near the former world class Woodlawn Mine
- Broken Hill – the Willyama Complex, the largest historical base metal producer in the world

Each regional centre provides existing infrastructure, skilled workforce and offers a full range of services.

The aim of this strategy is to grow PMR from a sole project explorer to one with a multifaceted portfolio. The projects are diversified and include several different but related commodities. The object is to further expand PMR with a diversification of commodity and occurrence risk.

PMR will reinterpret previous work and evaluate the large-scale potential of each area, followed by low cost initial work programs to clearly demonstrate this potential.

Armidale – New England Orogen

**Halls Peak Base Metals**

**EL 4474 | EL 5339 | EL 7679 | EL 8017 | ELA 4608**

Two exploration licence applications have been lodged adjacent to the ELs already held at Halls Peak. These have similar geology to the areas recently surveyed, and give scope for additional targets to be generated.

**Cangai and Bundarra Copper**

**ELA 4579 | ELA 4640 | ELA 7996**

The Cangai Copper mine was a moderate sized producer, and supported a smelter on site, while the nearby Paddy Doughty Copper Mine produced 312 tonnes of copper from 1914 to 1916. The lens mined was up to 3.5 metres in thickness. Extensions should be mappable using modern geophysics.

The Bundarra Copper Mine produced 3,800 tonnes of copper bearing rock with a gradation to higher zinc content with depth. This prospect is similarly suitable for ground geophysical evaluation of the surrounding area to determine continuations of the mineralised zone, and whether other similar or larger zones are present.

***Billygoat Knob Antimony***

**EL 8016**

This area is 70 kilometres distant and of similar geology to Hillgrove, one of the largest provinces of antimony mineralisation in the world. It includes twenty-five former small-scale mines, and the mode of occurrence of the antimony mineralisation resembles Hillgrove, and other antimony provinces throughout the world, including China, which has the largest reserves in the world.

***Moonbi Molybdenum***

**EL 7997**

This Application was made seeking molybdenum mineralisation in a porphyry environment, in which the world's largest deposit occurs.

Small amounts of molybdenite have been produced from the Betts Mine and the Mini Porphyry Prospect, suggesting the presence of porphyritic rocks, and its occurrence within a porphyry system. Three additional prospects were worked about six kilometres to the north, suggesting the presence of extensive porphyry systems.

These applications aim to continue the company's thrust into world class mineralised provinces during a period in which base and other metal prices are substantially higher than several decades ago, when these areas were previously economically evaluated.

Economics have since changed in favour of large-scale mineral deposits with lower grades. These deposits may well fit these modern economic criteria.

**Goulburn – Lachlan Orogen**

***Woodlawn Base Metals***

**EL 7920**

One exploration Licence has been granted in this province, extending to within five kilometres of the Woodlawn Mine leases.

Eighteen base metal prospects have previously been identified within the area, and much previous exploration and drilling has been completed. This data is being compiled and evaluated prior to commencing ground exploration.

***Broken Hill – Willyama Complex***

**ELA4619 | EL7998 | EL7999 | EL8000 | EL8015 | EL8018 | EL8023 | EL8024 | EL 4618**

Night Exploration Licence Applications totalling 1,719 square kilometres have been lodged over the Willyama Complex, which is the host to the Broken Hill mineralisation.

This district has not been explored intensively using modern methods during recent decades due to low base metal prices, a similar situation to the Halls Peak province, recently joint ventured. A similar and large amount of geological and geophysical work was completed by majors during past periods of high base metal prices. This data base will be systematically re-evaluated and compiled, and it is likely that many targets suitable for regional soil geochemistry and evaluation by modern regional ground geophysics and airborne methods such as VTEM will be generated. It is likely that such targets will be of great interest to major exploration companies.



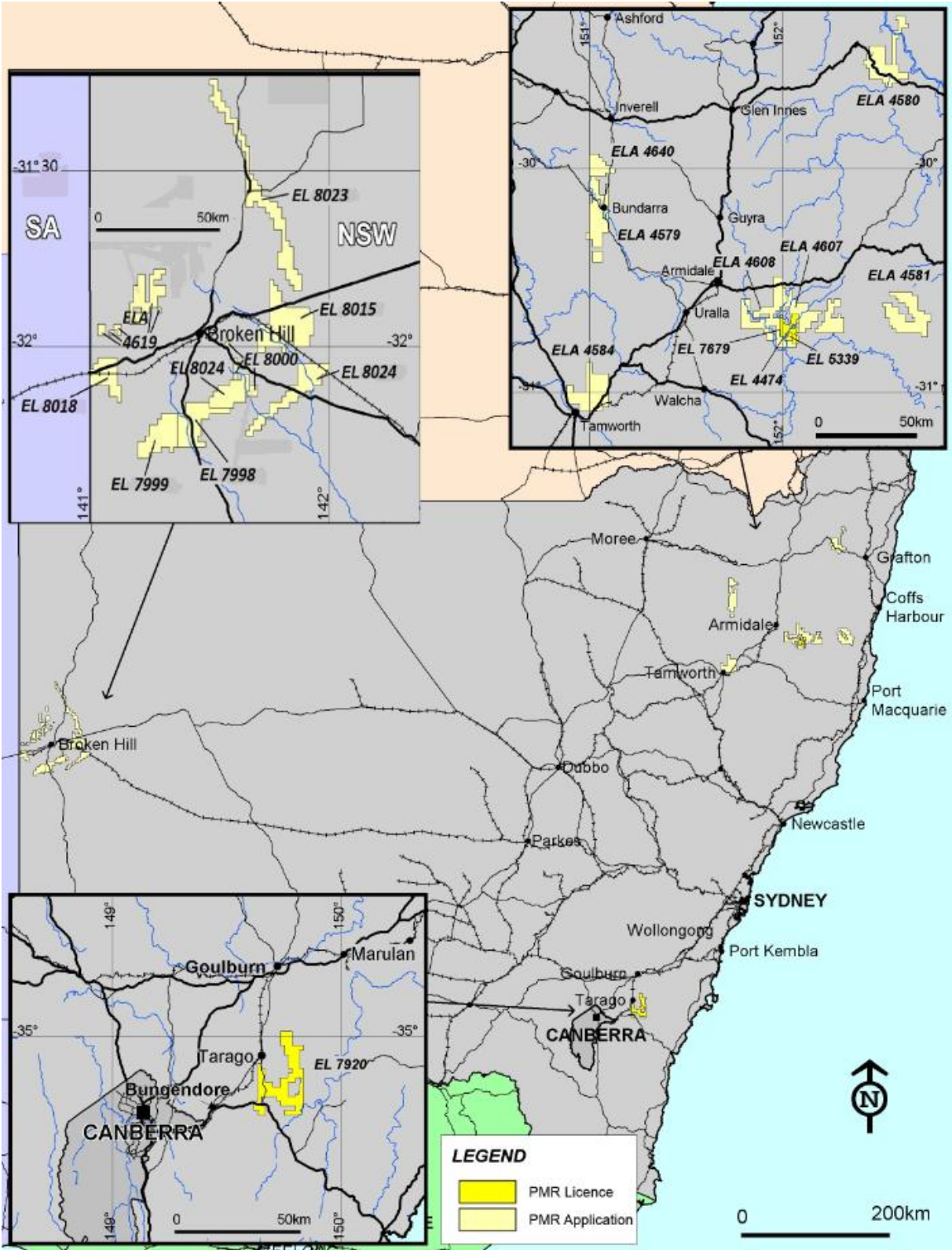


Figure 5 - Location map of PMR licences and applications December 2012

JORC CODE COMPLIANT PUBLIC REPORTS

The Company advises that this Annual Report contains summaries of Exploration Results and Mineral Results as defined in the 2004 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’ (JORC Code).

The following table references the location of the Code-compliant Public Reports or Public Reporting on which the summaries are based. This reference may be viewed on the ASX website.

Issue Date	Title of Notice as lodged with ASX
11/12/2012	VTEM 3 D Modelling - Halls Peak
28/11/2012	VTEM Analysis Report
23/10/2012	Significant Gold Anomalies Suggest Potential Hillgrove Style
08/10/2012	Halls Peak High Grade Pods
21/09/2012	Very High Grade Silver Faints DDH2
10/09/2012	Major VTEM Anomalies Identified at Halls Peak Base Metal Field
06/09/2012	Regional State Strategy
28/06/2012	VTEM Survey Underway
01/05/2012	Assays present further high grade results
29/03/2012	Chinese SOE to explore Halls Peak VMS deposit
26/03/2012	Archived Core Continues to Impress
19/03/2012	High Grade Intersections - Halls Peak

Qualifying Statements

The information in this report that relates to Resource Estimates is based on information compiled by Peter John Kennewell, who is a member of the Australasian Institute of Mining and Metallurgy and a qualified geologist and a Director of Precious Metal Resources Limited.

Mr. Kennewell has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a competent person as defined in the 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Identified Mineral Resources, and Ore Reserves”.

Mr Kennewell consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.



## DIRECTORS’ REPORT

Your directors present their report together with the financial statements on the parent entity and the consolidated entity (referred to hereafter as the **Group**) consisting of Precious Metal Resources Limited (the **Company**) and the entities it controlled at the end of or during the year ended 31 December 2012.

**Principal activities**            The principal continuing activities of the Group during the course of the financial year were conducting the mineral exploration and development programs.

**Consolidated results**        The net consolidated loss of the Group for the year ended 31 December 2012 was \$700,710 (2011: Loss \$490,627). The consolidated loss arises largely from mineral exploration activities.

Total Shareholders’ Funds as at 31 December 2012 are \$1.85 million.

Additional information on the operations of the Group is disclosed in both the Chairman’s Review and the Review of Operations section of this report.

**Review of operations**        Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Review of Operations on pages 4 to page 14 of this annual report.

**Dividends**                    The Directors of the Company do not recommend that any amount be paid by way of dividend. The Company has not paid or declared any amount by way of dividend since the commencement of the financial year.

**Directors**                    The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

John Dawkins, AO (Chairman)                    appointed 31 August 2012

John Foley (Deputy Chairman)

Michael Leu (Managing Director)

Peter Kennewell (Chief Geologist)

Peter Meers (Non Exec. Director)

Bruce Dennis (Non Exec. Director)

Meetings of Directors	Directors	Directors Meetings		Remuneration Committee *		Audit Committee *	
		Attended	Held whilst in office	Attended	Held whilst in office	Attended	Held whilst in office
	J. Dawkins	2	2	0	0	0	0
	J. Foley	11	11	1	1	2	2
	M. Leu	11	11	1	1	2	2
	P. Kennewell	11	11	1	1	2	2
	P. Meers	10	11	1	1	2	2
	B. Dennis	11	11	1	1	2	2

\* The Remuneration and Audit Committees are composed of the entire Board.

**INFORMATION ON DIRECTORS AND MANAGEMENT****John Dawkins AO, BEc, RDA****Non-Executive Chairman - Appointed on 31 August 2012**

	<p>Mr Dawkins' earliest exposure to the mining industry was when, as Minister for Trade in the Hawke Government, he was responsible for the administration of export controls on certain minerals until he proposed the abolition of these arrangements in order to improve the operation of the market.</p> <p>During his time in Government, Mr Dawkins served in a number of other portfolios including Minister for Finance (1983-1984), Minister for Employment, Education and Training (1987-1991) and Treasurer (1991-1993) in the Keating Government.</p> <p>Mr Dawkins brings to the Group a wealth of governance experience, including prominent roles in public and private institutions. He chairs the Australian Qualifications Framework Council and the Board of Governors of the Institute for International Trade at the University of Adelaide and is on the unlisted Government Board of Relations Australia Advisory Ltd.</p>
<b>Other Current Directorships of Listed Companies</b>	<p>Non-Executive Chairman of Sovereign Gold Company Limited</p> <p>Non-Executive Chairman of Australian Bauxite Limited</p> <p>Non-Executive Director of Tiaro Coal Limited</p> <p>Director of Integrated Legal Holdings Limited</p>
<b>Former Directorships in the Last 3 Years of Listed Companies</b>	<p>Director of Archer Exploration Limited.</p> <p>Director of MGM Wireless Limited</p>
<b>Special Responsibilities</b>	<p>Chairman of the Board</p> <p>Chairman of the Audit Committee</p> <p>Chairman of the Remuneration Committee</p>
<b>Interests in Shares and Options</b>	Nil

**John Foley BD LLB BL (Dub) MAICD****Non-Executive Deputy Chairman - Appointed on 27 May 2011**

	<p>Graduating in law from the University of Sydney in 1969, Mr Foley was admitted to practice as a Barrister in New South Wales in 1971, and was called to the Irish Bar in 1989 and admitted as a Member of the Honourable Society of Kings' Inns in Dublin, Ireland.</p> <p>Mr Foley has over 40 years' experience in the gold mining industry and was a founding Director of the Australian Gold Council, the industry body.</p> <p>Mr Foley has 20 years' experience as the Chairman of Australian mining company, Citigold Corporation Limited, listed on the ASX and the FSE (Frankfurt Stock Exchange), and with a Level One ADR (American Depository Receipts) program in the USA.</p> <p>Mr Foley has wide-ranging experience in resources, industrial, manufacturing, legal, financial and investment related industries, with extensive business experience in Australia. His leadership roles have covered a broad scope of senior positions, and his commercial and legal background provides further depth, knowledge and experience to the Company.</p>
<b>Other Current Directorships of Listed Companies</b>	Citigold Corporation Limited
<b>Former Directorships in the Last Three Years of Listed Companies</b>	None
<b>Special Responsibilities</b>	<p>Member Audit Committee</p> <p>Member of the Remuneration Committee</p>
<b>Interests in Shares and Options</b>	250,000 employee share options exercisable at 30 cents expiring 24 October 2016.

**Michael Leu B Sc. (Hons I), MAIG, MAusIMM**  
**Managing Director - Appointed on 8 July 2010**

	<p>Michael Leu is a geologist with over 30 years professional experience in exploration and mining across a range of mineral commodities within Australia and some Pacific and Asian countries. He has worked in industry (Freeport, Getty Oil, and Queensland Ores), as a private consultant and for seven years on the academic staff of Macquarie University.</p> <p>Michael Leu has extensive expertise in mineral exploration for epithermal and porphyry gold±Cu deposits; intrusion-related gold systems; metahydrothermal gold, greisen-hosted molybdenite, wolfram and tin; volcanic-hosted massive sulphides; chromite; uranium, alluvial gold and platinum and a range of industrial minerals.</p>
<b>Other Current Directorships of Listed Companies</b>	Chief Executive Officer & Chief Geologist of Sovereign Gold Company Limited
<b>Former Directorships in the Last Three Years of Listed Companies</b>	None
<b>Special Responsibilities</b>	Member Audit Committee Member Remuneration Committee
<b>Interests in Shares and Options</b>	250,000 employee share options exercisable at 30 cents expiring 24 October 2016.

**Peter Kennewell B Sc.**  
**Executive Director and Chief Geologist - Appointed a director on 27 May 2011**

	<p>Peter Kennewell has worked for the past 26 years for Cluff Resources Pacific NL as Exploration Manager and Managing Director.</p> <p>Mr Kennewell has successfully overseen the development of mines, from resource evaluation, prefeasibility study, environmental impact approvals, grant of mining tenements and funding arrangements, through to plant and accommodation construction and staffing.</p> <p>Other roles undertaken by Peter include Exploration Geologist for BHP and a period at the Commonwealth Department of National Development and the Bureau of Mineral Resources (now Geoscience Australia).</p>
<b>Other Current Directorships of Listed Companies</b>	None
<b>Former Directorships in the Last Three Years of Listed Companies</b>	None
<b>Special Responsibilities</b>	Member Audit Committee Member Remuneration Committee
<b>Interests in Shares and Options</b>	500,000 employee share options exercisable at 30 cents expiring 24 October 2016.

**Peter J Meers, BA (Economics), FAIB****Non-Executive Director - Appointed 8 July 2010**

	<p>Peter Meers has broad business experience across a range of industries including consumer, commercial and investment banking, securities trading and origination, mining and exploration and building materials.</p> <p>Mr Meers held senior executive positions and portfolio management roles in agribusiness, mining, property and trade finance during a career spanning 25 years with ANZ Bank in Australia and Asia.</p> <p>Past directorships include appointment on company boards in Malaysia, Indonesia and Singapore.</p>
<b>Other Current Directorships of Listed Companies</b>	<p>Executive Chairman &amp; CEO of Hudson Resources Limited</p> <p>Executive Deputy Chairman of Tiaro Coal Limited</p> <p>Executive Deputy Chairman of Australian Bauxite Limited</p> <p>Non-Executive Director of Sovereign Gold Company Limited</p> <p>Non-Executive Director of Hudson Investment Group Limited</p> <p>Non-Executive Director of Terragari Resources Bhd</p>
<b>Former Directorships in the Last Three Years of Listed Companies</b>	<p>Non-Executive Director of Archer Exploration Limited</p>
<b>Special Responsibilities</b>	<p>Member Audit Committee</p> <p>Member Remuneration Committee</p>
<b>Interests in Shares and Options</b>	<p>250,000 employee share options exercisable at 30 cents expiring 24 October 2016.</p>

**Bruce Dennis B Com LLM (UNSW)****Non-Executive Director - Appointed 8 July 2010**

	<p>Mr Dennis is a solicitor in Australia with over 30 years' experience. He has practised in areas of personal injury, civil and commercial litigation in the Federal Court, Supreme Court and District Court jurisdictions.</p> <p>Mr Dennis has considerable experience in identifying commercial and legal risk. His business interests include resource exploration.</p>
<b>Other Current Directorships of Listed Companies</b>	<p>None</p>
<b>Former Directorships in the Last Three Years of Listed Companies</b>	<p>None</p>
<b>Special Responsibilities</b>	<p>Member Audit Committee</p> <p>Member Remuneration Committee</p>
<b>Interests in Shares and Options</b>	<p>250,000 employee share options exercisable at 30 cents expiring 24 October 2016.</p>

## OTHER OFFICERS

### Henry Kinstlinger – Joint Company Secretary

---

Henry Kinstlinger has, for the past thirty years, been actively involved in the financial and corporate management of a number of public companies and non-governmental organisations. He is currently the Joint Company Secretary of Australian Bauxite Limited, Sovereign Gold Company Limited, Precious Metal Resources Limited, and Raffles Capitals Limited. He is a corporate consultant with broad experience in investor and community relations and corporate and statutory compliance.

### Julian Rockett, B.A., LL.B. – Joint Company Secretary

---

Mr Rockett was appointed to the position of Joint Company Secretary on 24 October 2011. His background is in government services and Mr Rockett most recently worked at a Sydney commercial litigation practice. Mr Rockett is also the Joint Company Secretary of Hudson Resources Limited, Hudson Investment Group and Tiaro Coal Limited and provides secretarial assistance to Australian Bauxite Limited, Raffles Capital Limited and Sovereign Gold Company Limited. In addition Mr Rockett provides corporate legal counsel to listed and non-listed corporate entities.

### Francis Choy MCom MBA FCPA (HK) FCPA CA – Chief Financial Officer

---

Francis Choy has held a number of senior positions in corporate financial management roles throughout Australia and South East Asia. He has extensive experience in project finance, compliance, acquisition and investment appraisals. He has been involved in project financing, financial management of property development and telecommunication projects in South East Asia. He held senior financial roles for numerous public listed companies both in Hong Kong and Australia.

## Likely Developments

Information on likely developments in the operations of the Group, known at the date of this report has been covered generally within the report. In the opinion of the Directors providing further information would prejudice the interests of the Group.

## Significant changes in state of affairs

During the year, an off-market takeover bid by Sovereign Gold Company Limited (**Sovereign Gold**) resulted in Sovereign Gold acquiring approximately 81.26% of the Company. The offer provided a price premium for PMR shares allowing shareholders the opportunity to hold securities in a more diversified company.

## Matters subsequent to balance date

At the date of this report there are no matters or circumstances which have arisen since 31 December 2012 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2012, of the Group;
- the results of those operations; or,
- the state of affairs, in financial years subsequent to 31 December 2012, of the Group.

**Environmental regulations**

The Group is subject to significant environmental regulation in respect of its exploration activities as follows:

The Company's operations in the State of New South Wales involve exploration activities. These operations are governed by the *Environment Planning and Assessment Act 1979*.

The Company operates within the resources sector and conducts its business activities with respect for the environment while continuing to meet the expectations of the shareholders, employees and suppliers.

The Company aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are mindful of the regulatory regime in relation to the impact of the Company's activities on the environment.

To the best of the directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation described above and are not aware of any breach of those requirements during the financial year and up to the date of the Directors' Report.

**Environmental Code of Practice for Mineral Exploration**

The Company is committed to conducting its exploration programs by following industry best practice in accordance with published government guidelines and codes.

The following policy is specific to mineral exploration on the Company's exploration projects.

**Access to Land**

Prior to the commencement of any work, the Company makes contact with landholders/leaseholders and discusses the general aims and types of work likely to be conducted.

Discussion with landowners, leaseholders and Native Title Claimants is ongoing. It commences prior to any work being conducted and continues throughout the program and beyond the cessation of exploration work.

The Company establishes conditions of access with landholders and where practicable, signs a written access agreement that sets out conditions and includes a schedule of agreed compensation payments.

The Company endeavours to provide landholders with ample warning prior to commencing any work and landholders are kept informed upon commencement, during and upon completion of an exploration program.

**Type of Land**

The type of land is determined and its inhabitants are assessed to identify areas of particular environmental concern including identification of sensitive areas or areas prone to erosion, water catchment, heritage sites, and areas home to vulnerable and endangered species.

Land use is taken into consideration and land under cultivation is not disturbed without the express consent of the landholder.

**MINERAL EXPLORATION PROGRAMS****Access**

The Company utilises existing tracks for access where possible.

Climatic conditions are considered when assessing areas to avoid access during extreme conditions such as during bush fire risk during hot, windy conditions and damage to tracks after heavy rain.

Surface disturbances are kept to a minimum.

**Drilling**

Drilling programs include rehabilitation and where possible holes are positioned in areas requiring little or no clearing. Small, manoeuvrable drill rigs are used to minimise the need for track clearing and to reduce ground compaction. Where required, topsoil is removed and stored separately so that it can be replaced during rehabilitation of the site. Ground sheets are used where required to avoid oil/fuel spills contaminating the soil.

**Rehabilitation**

Drill sites are rehabilitated as soon as practicable and drill holes are filled and capped where necessary.

Landholders are asked to confirm at the end of each program that exploration has been conducted to their satisfaction and that sites have been rehabilitated.

REMUNERATION REPORT – AUDITED

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

This report outlines the remuneration arrangements in place for Directors and Executives of the Company.

Remuneration Committee

The Remuneration Committee, which presently consists of the whole Board, will serve to determine the remuneration levels of any Executive Director’s remuneration (including base salary, incentive payments, equity awards and service contracts) and remuneration issues for Non-Executive Directors.

John Dawkins is the Chairman of the Remuneration Committee. When decisions are made concerning the remuneration of a Board member, the Board member will not be present while the remuneration decision is being discussed or voted upon.

It is intended that the Remuneration Committee will meet as often as required but not less than once per year.

The Committee met once during the financial year. Committee members attendance record can be found in the table of Directors Meetings disclosed on page 15.

Options granted to directors and key management personnel do not have performance conditions. As such the Group does not have a policy for directors and key management personnel removing the “at risk” aspect of options granted to them as part of their remuneration.

Directors’ and other Key Management Personnel remuneration

The following persons were Directors of the Company during the financial year unless otherwise stated:

John Dawkins, AO	Chairman	appointed 31 August 2012
John Foley	Deputy Chairman	
Michael Leu	Managing Director	
Peter Kennewell	Exec. Director and Chief Geologist	
Peter Meers	Non Exec. Director	
Bruce Dennis	Non Exec. Director	

The following persons were other key management personnel of the Company during the financial year:

Henry Kinstlinger	Joint Company Secretary
Julian Rockett	Joint Company Secretary
Benjamin Amzalak	Investor Relationship Officer
Francis Choy	Chief Financial Officer

Executive’s remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation. Directors are also able to participate in an Employee Share Option Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Group’s operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Remuneration of Non-Executive Directors is determined by the Board based on recommendations from the Remuneration Committee and the maximum amount approved by shareholders from time to time.

Performance conditions

The elements of remuneration as detailed within the Remuneration Report are dependent on the satisfaction of the individual’s performance and the Group’s financial performance.

The Board undertakes an annual review of its performance and the performance of the Board Committees.

Details of the nature and amount of each element of the remuneration of each Director of the Company and each specified executive of the Company and the Group receiving the highest remuneration are set out in the following tables. The remuneration amounts are the same for the Company and the Group.

<b>Consolidated 2012</b>	<b>Short Term Employee Benefits</b>		<b>Post Employment Benefits</b>	<b>Long Term Benefits</b>	<b>Share Based Payments</b>	<b>Total</b>
	<b>Salary and other Fees</b>	<b>Travelling Allowance</b>	<b>Super- annuation</b>	<b>Long Service Leave</b>		
<b>Directors</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
John Dawkins *	-	-	-	-	-	-
John Foley	-	-	-	-	-	-
Peter Kennewell	150,000	10,800	13,500	2,508	-	176,808
Bruce Dennis	-	10,800	-	-	-	10,800
Michael Leu	-	-	-	-	-	-
Peter Meers	-	-	-	-	-	-
<b>Total - Directors</b>	<b>150,000</b>	<b>21,600</b>	<b>13,500</b>	<b>2,508</b>	<b>-</b>	<b>187,608</b>
<b>Key Management Personnel</b>						
Henry Kinstlinger	-	-	-	-	-	-
Julian Rockett	-	-	-	-	-	-
Benjamin Amzalak	-	-	-	-	-	-
Francis Choy	-	-	-	-	-	-
<b>Total - KMP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Consolidated 2011</b>	<b>Short Term Employee Benefits</b>		<b>Post Employment Benefits</b>	<b>Long Term Benefits</b>	<b>Share Based Payments **(Options)</b>	<b>Total</b>
	<b>Salary and other Fees</b>	<b>Travelling Allowance</b>	<b>Super- annuation</b>	<b>Long Service Leave</b>		
<b>Directors</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
John Foley	-	-	-	-	12,467	12,467
Peter Kennewell	60,349	3,600	30,204	1,390	24,935	120,478
Bruce Dennis	-	3,600	-	-	12,467	16,067
Michael Leu	-	-	-	-	12,467	12,467
Peter Meers	-	-	-	-	12,467	12,467
<b>Total - Directors</b>	<b>60,349</b>	<b>7,200</b>	<b>30,204</b>	<b>1,390</b>	<b>74,803</b>	<b>173,946</b>
<b>Key Management Personnel</b>						
Henry Kinstlinger	-	-	-	-	12,467	12,467
Julian Rockett	-	-	-	-	4,987	4,987
Benjamin Amzalak***	-	-	-	-	12,467	12,467
Francis Choy	-	-	-	-	4,987	4,987
<b>Total - KMP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,908</b>	<b>34,908</b>

The amounts reported represent the total remuneration paid by entities in the Precious Metal Resources Limited Group of companies in relation to managing the affairs of all the entities within Precious Metal Resources Group.

\* John Dawkins - appointed on 31 August, 2012

\*\* Precious Metal Resources Limited issued options to directors and officers under the Employee Share Option Plan. For details please refer to note 23 of the financial statements.

\*\*\* Precious Metal Resources Limited issued success options to an entity related to Benjamin Amzalak.

There are no performance conditions related to any of the above payments.

There are no other elements of Directors and Executives remuneration.



**Executive employment agreement**

The Company has entered into an Executive Employment Agreement with Peter Kennewell, a director of the Company pursuant to which he has agreed to provide the services of Chief Geologist. The material terms are set out below.

The services he is to provide to the Company include:

- Employed to provide the services of Chief Geologist for a period of 3 years;
- To be paid \$150,000 per annum not including superannuation as required by the *Superannuation Guarantee Administration Act 1992 (Cth)*;
- Incentive payments will be considered by the Board from time to time and made available in either the form of cash bonuses or share options at the Company's discretion;
- The agreement can be terminated by either the Company or Peter Kennewell on 6 months' notice.

**Services agreement**

The Company has entered into a Service Agreement with Hudson Corporate Limited pursuant to which Hudson Corporate Limited has agreed to provide its management, registered office, administrative, accounting, compliance and secretarial services.

The term of the Services Agreement is two years and the fee payable is that amount agreed between the parties from time to time. The terms of the Services Agreement provide that Hudson Corporate Limited shall act in accordance with the directions of the Board.

The Company has entered into a geological services agreement with Michael Leu for fixed remuneration per day. The term of the contract is 2 years.

**Share options granted to Directors and Other Key Management Personnel**

1,950,000 employee share options were granted over unissued shares to directors and other key management personnel. For details please refer to note 21 to the financial statements.

**End of audited remuneration report.**

### Loans to Directors and Key Management Personnel

Details of individuals with loans above \$100,000 during the year are set out below.

	Balance at the start of the year	Advance/ (Repayments)	Interest payable for the year	Balance the end of the year	Highest indebtedness during the year	Additional interest otherwise payable*
<b>Key Management Personnel 2012</b>	\$	\$	\$	\$	\$	\$
Parent Entity	251,418	-	22,562	273,980	273,980	6,576
<b>Key Management Personnel 2011</b>	\$	\$	\$	\$	\$	\$
Parent Entity	-	250,000	1,418	251,418	251,418	315

\* Market interest rate 6% (2011: 7%). This represents the difference between interest charged at the latter and interest paid.

### Terms and conditions of loans

The interest bearing recourse loan \$250,000 was advanced to a consultant in 2011, the loan was secured against the shares only. Loan is repayable should the consultant leave the Company. None were written down during the year.

There were no other loans made to Directors or Specified Executives of the Company and the Group during the period commencing at the beginning of the financial year and up to the date of this report.

### Shares under option

Unissued ordinary shares of Precious Metal Resources Limited under option at the date of this report are as follows:

Class	Date options granted	Expiry Date	Exercise Price	No. of Options
Employee Share Options	24 October 2011	24 October 2016	\$0.30	1,950,000
Employee Share Option - Unallocated*			\$0.30	3,050,000
IPO - Success Option	6 December 2011	5 December 2014	\$0.30	1,650,000
				6,650,000

\* Unallocated options under the Employee Share Option Plan, expiry date is 3 years from date of issue.

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

### Shares issued on the exercise of options

No options have been exercised and no options expired during the financial year and in the period up to the date of this report.

### Directors' and Officers' indemnities and insurance

Upon the successful takeover of the Company by Sovereign Gold Company Limited (**Sovereign Gold**), they took up the responsibility of paying relevant insurance premiums including the insuring of the Company's Directors (as named in this report), Company Secretary, Executive Officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

A confidentiality clause in each of the above insurance contracts prohibits disclosure of the premium and the nature of insured liabilities.

**Proceedings on behalf of the Company**

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under Section 237 of the *Corporations Act 2001*.

**Auditor’s independence declaration**

The auditor’s independence declaration as required under Section 307C of the *Corporations Act 2001* has been received and is set out on page 26.

**Non-audit services**

Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor’s expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (**K.S. Black & Co**) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent Entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Audit services:</b>				
Amounts paid or payable to auditors for audit and review of the financial report for the entity or any entity in the Group				
Audit and review services	21,900	12,995	21,900	12,995
<b>Taxation and other advisory services:</b>				
Amounts paid or payable to auditors for non audit taxation and advisory services for the entity or any entity in the Group				
Taxation	7,570	7,200	7,570	7,200
Advisory Services	-	10,000	-	10,000
	7,570	17,200	7,570	17,200

**Auditor**

K.S. Black & Co continues in office in accordance with section 327 of the *Corporations Act 2001*.

This Directors’ Report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.

  
**Michael Leu**  
Managing Director

  
**Peter J Meers**  
Director

Signed at Sydney  
27 March 2013

## AUDITOR'S INDEPENDENCE DECLARATION

### Declaration of independence to the Directors of Precious Metal Resources Limited and Controlled Entities

As lead auditor of Precious Metal Resources Limited for the year ended 31 December 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of Precious Metal Resources Limited and the entities it controlled during the year.

**KS Black & Co**  
**Chartered Accountants**



**Faizal Ajmat**  
**Partner**

Sydney, 27 March 2013

## CORPORATE GOVERNANCE STATEMENT

Precious Metal Resources Limited (the **Company**) provides the following statement disclosing the extent to which the Company has followed the best practice recommendations set by the Australian Securities Exchange (**ASX**) Corporate Governance Council. Where the Company has not followed a recommendation, this fact has been disclosed together with the reasons for the departure.

### OVERVIEW

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the “Principles of Good Corporate Governance and Best Practice recommendations” set by the ASX Corporate Governance Council.

However, given the current size of both the Company’s operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations.

Consistent with the ASX best practice recommendations, the Company’s corporate governance practices were disclosed in the Prospectus prior to listing and are regularly reviewed. They are available on the Company’s website.

### COMPLIANCE WITH ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules requires public listed companies to include in their annual report a statement regarding the extent to which they have adopted the ASX Corporate Governance Council best practice recommendations. This statement provides details of the Company’s adoption of the best practice recommendations.

#### Principle 1 – Lay solid foundations for management and oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

##### Board responsibilities

The Board of directors is accountable to shareholders for the performance of the group. In carrying out its responsibilities, the board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board’s responsibilities will be encompassed in a formal charter to be published on the Company’s website. The charter will be reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

##### Directors’ education

The Company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

Continuing education is provided via the regular Board updates provided by the chief executive.

**Role of Chairman**

The Chairman is appointed by fellow board members and acts as the link between the board and the Managing Director **(MD)**.

He acts as the link between the board and the Company, establishing and maintaining an effective working relationship with the Managing Director. The Chairman sets the tone for the board, including the establishment of a common purpose. He is responsible for chairing board meetings and shaping the agenda in relation to goals, strategy, budget and executive performance.

The Chairman ensures all board members contribute and reach consensus in making decisions. He also assists in the selection of board committee members. The Chairman provides direction to the board in matters of corporate governance.

**Role of Managing Director**

The Board delegates responsibility for implementing the strategic direction and for managing the day to day operations of the Company to the Managing Director.

There are clear lines of communication established between the Chairman and Managing Director to ensure that the responsibilities and accountabilities of each are clearly understood.

The Managing Director has a formal service contract in place setting out duties, responsibilities, and rights, conditions of service and termination entitlements. Performance will be assessed against pre-determined objectives on an annual basis or more frequently if required.

The assessment and monitoring of the Managing Director is the responsibility of the Chairman. The Chairman provides an initial assessment and recommendation to the Board. The matter is then considered by the Board and their views are communicated to the Managing Director by the Chairman.

**Principle 2 – Structure the Board to add value**

Companies should have a board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

**Composition of the Board**

The Board of Directors is comprised of one (1) Executive director and five (5) Non-Executive directors.

All of the Non-Executive directors have a broad range of skills and experience.

The Chairman is a director.

In determining independence the board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board.

The Company does comply with recommendation 2.1 which provides that a majority of the board be independent directors.

The board considers that its composition provides for the timely and efficient decision making required for the Company in its current circumstances.

The board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of ten. Details of the members of the Board, their experience, expertise, qualifications are set out in the Directors' Report on pages 16- 18.

The position/Status and term in office of each director at the date of this report is as follows:

<b>Name of Director</b>	<b>Position/Status</b>	<b>Term in Office</b>
John Dawkins	Non-Executive Chairman - Independent	0 year 4 months
John Foley	Non-Executive Deputy Chairman - Independent	1 year 6 months
Michael Leu	Non-Executive Managing Director – Non-independent	2 year 6 months
Peter Kennewell	Executive Chief Geologist – Non-independent	1 year 6 months
Bruce V Dennis	Non-Executive Director – Independent	2 year 6 months
Peter Meers	Non-Executive Director – Independent	2 year 6 months

The Board proposes to hold 9 scheduled meetings each year together with any ad hoc meetings as may be necessary. The Board met 11 times during the year and Directors attendance is disclosed on page 15 of the Directors' Report.

#### **Access to independent professional advice**

All directors are required to bring an independent judgement to bear on Board decisions.

To facilitate this, the Board has adopted a procedure which allows each Director the right of access to all relevant Company information and to the Company's Executives.

The directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of these resources is co-ordinated through the Chairman of the Board.

#### **Nomination Committee**

The role of the Nomination Committee is undertaken by the full Board.

The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

For directors retiring by rotation the Board assesses that Director before recommending re-election.

The ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" recommends the appointment of a Nomination Committee for prospective Board appointments. The Board considers the Company and the Board are currently not of sufficient size to justify the establishment of a Separate Nomination Committee.

#### **Board performance evaluation**

The Company has processes in place to review the performance of the board and its committees and individual directors. Each year the board of directors will give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The Chairman is responsible for monitoring the contribution of individual directors and consulting with them in any areas of improvement.

### **Principle 3 – Promote Ethical and Responsible Decision making**

Companies should actively promote ethical and responsible decision making.

#### **Code of conduct**

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for the Company's ethical practices.

**Policy on dealing in Company securities**

The Company has a policy on how and when the Directors and employees may deal in the Company’s securities. In addition to these legal and regulatory restrictions, the Company has adopted a robust trading policy whereby trading in Company shares is prohibited under certain circumstances, and short-term trading is discouraged.

The purpose of this policy is to ensure that the Directors and employees deal in the Company’s securities in a manner which properly reflects their fiduciary duty, and that they do not transact in those securities whilst in possession of price sensitive information.

This policy requires all Directors and Senior Executives to disclose their share trade intentions to the Managing Director or Chairman prior to dealing in the Company’s securities.

The Company maintains compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

Details of both the Company’s Code of Conduct and Share Trading Policy are available under Corporate Governance on the Company’s website.

**Approach to diversity**

The Board recognises the benefits of diversity within the organisation generally, the organisational strengths, improved problem solving ability and the greater opportunities for innovation and success that diversity delivers to modern organisations.

The Company has established a diversity policy which sets out the beliefs, goals and strategies of the Company and makes reference to all the characteristics that makes individuals different from each other. The policy sets out the positive steps taken to ensure that current and prospective employees are not discriminated against, either directly or indirectly on such characteristics as gender, age, disability, marital status, sexual orientation, religion, ethnicity or any other area of potential difference. The Company is committed to gender diversity at all levels of the organisation. Gender equality is a key component of the Company's' diversity strategy. The implementation of this policy aims to reflect both the circumstances of the Company and the industry in which it operates.

As the Company is in an early development stage, its’ diversity policy prepares the Company for growth into the future.

The Company's diversity policy includes requirements that:

- the Board establishes measurable objectives for achieving gender diversity;
- the Board assesses annually the objectives set for achieving gender diversity; and
- the Board assesses annually the progress made towards achieving the objectives set.

The following table shows the current representation of female employees in the organisation workforce, including female representation goals, and progress towards achieving the relevant goals.

	Total employees and officers at 31 December 2012		Females at 31 December 2012		Company Objective		Progress toward meeting objective	
	No.	%	No.	%	No.	%	No.	%
Whole organisation	6	100	-	-	14	50	-	-
Senior Executives	-	-	-	-	1	50	-	-
Other positions	-	-	-	-	3	50	-	-
Board	6	100	-	-	3	50	-	-

A copy of the Company’s diversity policy has been posted on the Company’s website.



#### **Principle 4 – Safeguard Integrity in Financial Reporting**

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

##### **Audit committee**

The audit committee consists of the full Board. The structure of the audit committee does not comply with recommendation 4.2 which recommends that the audit committee consists of only Non-Executive Directors and the committee should have an independent Chairperson who is not the Chairperson of the Board.

The Board considers that given its current size and structure it is neither appropriate nor cost effective for the establishment of a separate audit committee.

The committee met twice during the financial year and attendance at those meetings can be found on page 15. The audit committee has adopted a formal charter which sets out the responsibilities of the audit committee.

These responsibilities include:

- Reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Monitoring corporate risk management practices;
- Review and approval of the Group's accounting policies and procedures;
- Reviewing the external audit plans;
- Reviewing the nomination, performance and independence of the external auditors; and
- Organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

##### **External auditors**

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board will receive regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

K.S. Black & Co have consented to act and have been appointed auditors.

The Australian accounting body's statement on professional independence requires mandatory rotation of audit partners for listed companies every five years.

K.S. Black & Co confirm that they conform with the requirements of the statement.

K.S. Black & Co are required to attend the Annual General Meeting and be available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's Report.

#### **Principle 5 – Make timely and balanced disclosure**

The Company promotes timely and balanced disclosure of any material matters concerning the Company.

The Company focuses on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary in consultation with the Chairman is responsible for communications with the ASX. He is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

**Principle 6 – Respect the rights of shareholders**

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

**Communication with shareholders**

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company follows a communications strategy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

The Company will achieve this through the following avenues:

**Regular mailings**

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

**General meetings**

All shareholders are invited to attend the Annual General Meetings which are to be held at the Company's Head Office in Sydney. The full Board and senior executives will be present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

The company also posts corporate information in the Investor section of its company website at [www.pmrl.com.au](http://www.pmrl.com.au).

**Email update service**

An email update service has been established and is available to the general public as well as shareholders at the Company's website or upon request.

**Principle 7 – Recognise and Manage Risks**

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide bi-monthly status reports to the Board which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assesses the Company's performance in the light of risks identified by such reports.

Management is also required to design, implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors to review internal control procedures. Recommendations once presented are considered by the Board.

**Principle 8 – Remunerate fairly and responsibly**

Companies should ensure that the level and composition of remuneration are sufficient and reasonable and that its relationship to performance is clear.

The role of the remuneration committee is undertaken by the whole Board. The Committee has adopted a formal charter.

The main responsibilities of the Remuneration Committee will include:

- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
  - review the on-going appropriateness and relevance of the policy;
  - consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
  - review and approve the design of all equity based plans;
  - review and approve the total proposed payments under each plan; and
  - review and approve the remuneration levels for non-executive Directors.
- It is intended that the Remuneration Committee will meet as often as required but not less than once per year.

**Executive directors and executive remuneration**

The Remuneration Committee reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Share Option Plan and Employee Share Purchase Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operation.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

**Non-executive directors**

Remuneration of Non-Executive Directors will be determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Directors have the right to participate in the Company's Share Option Plan and Employee Share Purchase Plan.

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Consolidated		Parent Entity	
		2012	2011	2012	2011
		\$	\$	\$	\$
<b>Revenue</b>	4	<b>241,675</b>	8,490	<b>241,557</b>	8,490
		<b>241,675</b>	8,490	<b>241,557</b>	8,490
Administrative and exploration expenses	5	(938,192)	(401,479)	(823,790)	(363,161)
Finance costs		(4,193)	(392)	(3,217)	(348)
Share based payment expenses	5	-	(97,246)	-	(97,246)
<b>(Loss)/Profit before income tax</b>		<b>(700,710)</b>	(490,627)	<b>(585,450)</b>	(452,265)
Income tax expense	6(a)	-	-	-	-
<b>(Loss)/Profit after income tax</b>		<b>(700,710)</b>	(490,627)	<b>(585,450)</b>	(452,265)
Other Comprehensive Income					
Other comprehensive income for the year net of tax		-	-	-	-
<b>Total comprehensive (loss)/income attributable to members of the consolidated entity</b>		<b>(700,710)</b>	(490,627)	<b>(585,450)</b>	(452,265)
		<b>Cents</b>	<b>Cents</b>		
Basic earnings/(loss) per share	20	<b>(0.82)</b>	(0.75)		
Diluted earnings/(loss) per share	20	<b>(0.76)</b>	(0.68)		

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

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

		Consolidated		Parent Entity	
	Notes	2012	2011	2012	2011
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	7	174,357	59,786	13,615	59,786
Trade and other receivables	8	1,058,383	1,782,343	978,383	1,762,343
Total current assets		1,232,740	1,842,129	991,998	1,822,129
<b>Non-current assets</b>					
Trade and other receivables	8	-	638,000	1,056,556	902,780
Mining tenements	9	656,324	200,250	-	-
Financial assets	10	70	-	470	100
Equipment		1,038	-	1,038	-
Total non-current assets		657,432	838,250	1,058,064	902,880
<b>Total assets</b>		<b>1,890,172</b>	<b>2,680,379</b>	<b>2,050,062</b>	<b>2,725,009</b>
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	11	26,758	7,897	26,758	7,897
Employee benefits provision	12	5,279	4,687	5,279	4,687
Total current liabilities		32,037	12,584	32,037	12,584
<b>Non-current liabilities</b>					
Employee benefits provision	12	3,898	1,391	3,898	1,391
Total non-current liabilities		3,898	1,391	3,898	1,391
<b>Total liabilities</b>		<b>35,935</b>	<b>13,975</b>	<b>35,935</b>	<b>13,975</b>
<b>Net assets</b>		<b>1,854,237</b>	<b>2,666,404</b>	<b>2,014,127</b>	<b>2,711,034</b>
<b>EQUITY</b>					
Issued capital	13	2,873,965	2,985,422	2,873,965	2,985,422
Reserves		179,532	179,532	179,532	179,532
Accumulated losses		(1,199,260)	(498,550)	(1,039,370)	(453,920)
<b>Total equity</b>		<b>1,854,237</b>	<b>2,666,404</b>	<b>2,014,127</b>	<b>2,711,034</b>

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

## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2012

Consolidated	Notes	Issued Capital	Reserve	Options Reserve	Accumulated Losses	Total Equity
		\$	\$	\$	\$	\$
<b>Balance at 1 January 2012</b>	13	<b>2,985,422</b>	-	<b>179,532</b>	<b>(498,550)</b>	<b>2,666,404</b>
Share issuing cost		(111,457)	-	-	-	(111,457)
Loss for the year		-	-	-	(700,710)	(700,710)
<b>Balance at 31 December 2012</b>		<b>2,873,965</b>	-	<b>179,532</b>	<b>(1,199,260)</b>	<b>1,854,237</b>
<b>Balance at 1 January 2011</b>		1,250	-	-	(7,923)	(6,673)
Shares issued		3,250,000	-	-	-	3,250,000
Share issuing cost		(265,828)	-	-	-	(265,828)
Options issued		-	-	179,532	-	179,532
Loss for the year		-	-	-	(490,627)	(490,627)
<b>Balance at 31 December 2011</b>		<b>2,985,422</b>	-	<b>179,532</b>	<b>(498,550)</b>	<b>2,666,404</b>

Parent Entity		Issued Capital	Reserve	Options Reserve	Accumulated Losses	Total Equity
		\$	\$	\$	\$	\$
<b>Balance at 1 January 2012</b>	13	<b>2,985,422</b>	-	<b>179,532</b>	<b>(453,920)</b>	<b>2,711,034</b>
Share issuing cost		(111,457)	-	-	-	(111,457)
Loss for the year		-	-	-	(585,450)	(585,450)
<b>Balance at 31 December 2012</b>		<b>2,873,965</b>	-	<b>179,532</b>	<b>(1,039,370)</b>	<b>2,014,127</b>
<b>Balance at 1 January 2011</b>		1,250	-	-	(1,655)	(405)
Shares issued		3,250,000	-	-	-	3,250,000
Share issuing cost		(265,828)	-	-	-	(265,828)
Options issued		-	-	179,532	-	179,532
Loss for the year		-	-	-	(452,265)	(452,265)
<b>Balance at 31 December 2011</b>		<b>2,985,422</b>	-	<b>179,532</b>	<b>(453,920)</b>	<b>2,711,034</b>

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

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	Consolidated		Parent Entity	
		2012	2011	2012	2011
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Receipts from customers		-	-	-	-
Payments to suppliers and employees		(1,360,534)	(406,754)	(729,081)	(368,392)
Interest paid		-	-	-	-
Interest received		24,744	45	24,626	45
<b>Net cash used in operating activities</b>	15	<b>(1,335,790)</b>	<b>(406,709)</b>	<b>(704,455)</b>	<b>(368,347)</b>
<b>Cash flows from investing activities</b>					
Interest bearing deposit		925,000	(1,500,000)	925,000	(1,500,000)
Payments for investments in subsidiaries		-	-	(300)	-
Payment for equipment		(1,182)	-	(1,182)	-
Repayment/(Advance) to other parties		638,000	(250,000)	638,000	(250,000)
(Advance) to controlled entities		-	(864,923)	(791,777)	(903,285)
<b>Net cash used in investing activities</b>		<b>1,561,818</b>	<b>(2,614,923)</b>	<b>769,741</b>	<b>(2,653,285)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		-	3,250,000	-	3,250,000
Share issuing cost		(111,457)	(168,582)	(111,427)	(168,582)
<b>Net cash used in financing activities</b>		<b>(111,457)</b>	<b>3,081,418</b>	<b>(111,427)</b>	<b>3,081,418</b>
<b>Net increase/ (decrease) in cash held</b>		<b>114,571</b>	<b>59,786</b>	<b>(46,171)</b>	<b>59,786</b>
Cash and cash equivalents at the beginning of the year		59,786	-	59,786	-
<b>Cash and cash equivalents at the end of the year</b>	7	<b>174,357</b>	<b>59,786</b>	<b>13,615</b>	<b>59,786</b>

The above Statement should be read in conjunction with the accompanying notes

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2012

#### 1. CORPORATE INFORMATION

The financial report of Precious Metal Resources Limited (the **Company**) for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the Directors and covers Precious Metal Resources Limited as an individual parent entity as well as the consolidated entity consisting of Precious Metal Resources Limited and its subsidiaries (the **Group**) as required by the *Corporations Act 2001*.

The financial report is presented in the Australian currency.

Precious Metal Resources Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (**ASX**).

The Company was incorporated as an unlisted public company on 18 July 2010 and successfully listed on the ASX on 6 December 2011.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a. Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporation Act 2001*.

##### *Statement of Compliance*

Compliance with Australian Accounting Standards Board (**AASB's**) ensures that the financial report of Precious Metal Resources Limited also complies with International Financial Reporting Standards (**IFRS**).

##### *Critical accounting estimates*

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

##### *(i). Options valuation*

Refer to Note 23 for estimates and assumptions used to calculate the valuation of options.

##### *Critical judgements*

Management has made the following judgements when applying the Group's accounting policies:

##### *(i). Capitalisation of exploration costs*

The Group follows the guidance of AASB 6 Exploration for and Evaluation of Mineral Resources when determining if exploration costs incurred can be capitalised. This determination requires significant judgement. In making this judgement, the Group evaluates if any one of the following conditions is met:

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



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

If one of the above conditions is met then the Group has made the judgement to capitalise the associated exploration expenses.

### *Historical cost convention*

These financial statements have been prepared on an accruals basis and are based on the historical cost convention except where noted in these accounting policies.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

### **b. Principles of consolidation**

#### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Precious Metal Resources Limited (the “**parent entity**”) as at report date and the results of all subsidiaries for the year then ended. Precious Metal Resources Limited and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the entity’s activities generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The financial performance of those activities is included only for the period of the year that they were controlled.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### **c. Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. Reporting to management by segments is on this basis.

### **d. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

#### *Interest Revenue*

Interest revenue is recognised as it accrues taking into account the effective yield on the financial asset.

#### *Other Income*

Income from other sources is recognised when proceeds or the fee in respect of other products or service provided are receivable. All revenue is stated net of the amount of goods and services tax (GST).

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### e. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Company and its wholly owned entities are part of a tax-consolidated group under Australian taxation law. Precious Metal Resources Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

The amounts receivable/payable under tax funding arrangements are due upon notification by the entity which is issued soon after the end of each financial year. Interim funding notices may also be issued by the head entity to its wholly owned subsidiary. These amounts are recognised as current intercompany receivables or payables.

### f. Goods and services tax (GST)

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### g. Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting period. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### h. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and in at call deposits with banks or financial institutions, investment in money market instruments maturing within less than two months, net of bank overdrafts.

### i. Trade and other receivables

Trade receivables are recognised initially at original invoice amounts and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that entities in the Group will not be able to collect all amounts due according to the original terms of receivables.

### j. Financial instruments

#### Recognition and Initial measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

#### Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- (d) less any reduction for impairment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

### (i). *Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

### (ii). *Loans and receivables*

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

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after reporting date. (All other loans and receivables are classified as non-current assets.)

### (iii). *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after reporting date. (All other investments are classified as current assets.)

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

### (iv). *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be disposed of within 12 months after reporting date. (All other financial assets are classified as current assets.)

### (v). *Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

### k. Tenement exploration, valuation and development costs

- (i). Costs incurred in the exploration for, and evaluation of, tenements for suitable resources are carried forward as assets provided that one of the following conditions is met:
  - the carrying values are expected to be justified through successful development and exploitation of the area of interest; or
  - exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable mineral resources, and active and significant operations in relation to the area are continuing.
- (ii). Expenses failing to meet at least one of the aforementioned conditions are expensed as incurred.
- (iii). Costs associated with the commercial development of resources are deferred to future periods, provided they are, beyond any reasonable doubt, expected to be recoverable. These costs are amortised from the commencement of commercial production of the product to which they relate on a straight-line basis over the period of the expected benefit. 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.

### l. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### m. Restoration and rehabilitation provisions

Both for close down and restoration and for environmental clean-up costs from exploration programs, if any, a provision will be made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### n. Employee benefits

#### (i). Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

#### (ii). Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

### o. Contributed equity

Ordinary shares are classified as equity.

### p. Share based payments

Ownership-based remuneration is provided to employees via an employee share option plan.

Share-based compensation is recognised as an expense in respect of the services received, measured on a fair value basis.

The fair value of the options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the Group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

### q. Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for costs of servicing equity (other than dividends), the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### r. New accounting standards for application

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. We have reviewed these standards and interpretations and there are none having any material effect.

### 3. FINANCIAL RISK MANAGEMENT

#### a. General objectives, policies and processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

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

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Group's risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material.

The Board receives reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's finance function also reviews the risk management policies and processes and reports their findings to the Audit Committee.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

Further details regarding these policies are set out below:

#### b. Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

The maximum exposure to credit risk at balance date is as follows:

	Consolidated		Parent Entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Current</b>				
Cash and cash equivalents	174,357	59,786	13,615	59,786
Trade and other receivables	1,058,383	1,782,343	978,383	1,762,343
<b>Non-current</b>				
Trade and other receivables	-	638,000	1,056,556	902,780
	<b>1,232,740</b>	<b>2,480,129</b>	<b>2,048,554</b>	<b>2,724,909</b>

#### c. Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet commitments associated with financial instruments that is, borrowing repayments. There is no bank borrowing at the balance date. It is the policy of the Board of Directors that treasury reviews and maintains adequate committed credit facilities and the ability to close-out market positions.

**3. FINANCIAL RISK MANAGEMENT continued**

<b>Maturity Analysis of Financial Liabilities</b>	<b>Carrying Amount</b>	<b>Contractual Cash Flows</b>	<b>&lt; 6 mths</b>	<b>6 - 12 mths</b>	<b>1 - 3 years</b>	<b>&gt; 3 years</b>
<b>Consolidated 2012</b>	\$	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>						
<b>Current</b>						
Trade and other payables	26,758	26,758	26,758	-	-	-
<b>Non-Current</b>						
Other Liabilities	-	-	-	-	-	-
Total financial liabilities at amortised cost	26,758	26,758	26,758	-	-	-
<b>Consolidated 2011</b>	\$	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>						
<b>Current</b>						
Trade and other payables	7,897	7,897	7,897	-	-	-
<b>Non-Current</b>						
Other Liabilities	-	-	-	-	-	-
Total financial liabilities at amortised cost	7,897	7,897	7,897	-	-	-
<b>Parent Entity 2012</b>	\$	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>						
<b>Current</b>						
Trade and other payables	26,758	26,758	26,758	-	-	-
<b>Non-Current</b>						
Other Liabilities	-	-	-	-	-	-
Total financial liabilities at amortised cost	26,758	26,758	26,758	-	-	-
<b>Parent Entity 2011</b>	\$	\$	\$	\$	\$	\$
<b>Financial Liabilities</b>						
<b>Current</b>						
Trade and other payables	7,897	7,897	7,897	-	-	-
<b>Non-Current</b>						
Other Liabilities	-	-	-	-	-	-
Total financial liabilities at amortised cost	7,897	7,897	7,897	-	-	-

**d. Interest rate risk**

The Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk. There is no bank borrowing at the balance date, therefore there is no material exposure to interest rate risk.

**Sensitivity Analysis**

The following tables demonstrate the sensitivity to a reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on fluctuation on deposit interest rate). There is no impact on the Group's equity.



**3. FINANCIAL RISK MANAGEMENT continued**

	Carrying Amount	+1% Profit/ (Loss)	-1% Profit/ (Loss)
<b>Consolidated</b>			
<b>2012</b>	\$	\$	\$
Cash and cash equivalents	174,357	1,744	(1,744)
Interest bearing deposit	586,000	5,860	(5,860)
Tax charge of 30%	-	-	-
After tax increase/(decrease)	760,357	7,604	(7,604)

<b>Consolidated</b>			
<b>2011</b>			
Cash and cash equivalents	59,786	598	(598)
Interest bearing deposit	1,500,000	15,000	(15,000)
Tax charge of 30%	-	(4,679)	4,679
After tax increase/(decrease)	1,559,786	10,919	(10,919)

The above analysis assumes all other variables remain constant.

<b>Parent Entity</b>			
<b>2012</b>			
Cash and cash equivalents	13,615	136	(136)
Interest bearing deposit	586,000	5,860	(5,860)
Tax charge of 30%	-	-	-
After tax increase/(decrease)	599,615	5,996	(5,996)

<b>Parent Entity</b>			
<b>2011</b>			
Cash and cash equivalents	59,786	598	(598)
Interest bearing deposit	1,500,000	15,000	(15,000)
Tax charge of 30%	-	(4,679)	4,679
After tax increase/(decrease)	1,559,786	10,919	(10,919)

**e. Currency risk**

In 2012 the consolidated entity and parent entity were not exposed to foreign currency risk (2011:Nil)

**f. Capital risk management**

The Group considers its capital to comprise its ordinary share capital and reserves. In managing its capital, the Group's primary objectives are to pay dividends and maintain liquidity. These objectives dictate any adjustments to capital structure. Rather than set policies, advice is taken from professional advisors as to how to achieve these objectives. There has been no change in either these objectives, or what is considered capital in the year.

**4. REVENUE**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Revenue</b>				
Interest income	<b>144,766</b>	8,490	<b>144,648</b>	8,490
	<b>144,766</b>	8,490	<b>144,648</b>	8,490
<b>Other Income</b>				
Expenses received	<b>78,909</b>	-	<b>78,909</b>	-
Fees received	<b>18,000</b>	-	<b>18,000</b>	-
	<b>96,909</b>	-	<b>96,909</b>	-

**5. EXPENSES**

Profit/(loss) before income tax includes the following specific expenses:

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Consultancy and professional fees	<b>72,200</b>	-	<b>72,200</b>	-
Director and employee expenses	<b>231,965</b>	99,831	<b>166,600</b>	99,831
Share based payments (note 23)	-	97,246	-	97,246

**6. INCOME TAX****a. Income Tax Expense**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Current tax expense	-	-	-	-
Deferred tax expense	-	-	-	-
Total income tax expense	-	-	-	-
Deferred tax expense				
Increase/(decrease) in deferred tax expense	-	-	-	-

**b. Numerical reconciliation of income tax expense to prima facie tax payable**

(loss)/Profit from continuing operations before income tax expense	<b>(700,710)</b>	(490,627)	<b>(585,450)</b>	(452,265)
Income tax expense (benefit) calculated at 30% (2011:30%)	<b>(210,213)</b>	(147,188)	<b>(175,635)</b>	(135,680)
Temporary differences not brought to account	<b>(147,544)</b>	(46,434)	<b>(11,139)</b>	13,642
Tax losses not brought to account	<b>357,757</b>	193,622	<b>186,774</b>	122,038
Income tax expense/(benefit) at effective tax rate of 30% (2011: 30%)	-	-	-	-

**6. INCOME TAX continued****c. Unrecognised deferred tax assets and liabilities**

Deferred tax assets and liabilities have not been recognised in the balance sheet for the following items:

Prior year unrecognised tax losses now ineligible due to change in tax consolidation group

- - - -

Other deductible temporary differences **(35,739)** (154,780) **(37,129)** 45,470

Deferred tax asset in respect of exploration activities not brought to account **(700,710)** (490,627) **(585,450)** (452,265)

Deferred tax liability in respect of exploration activities not recognised to the extent of unrecognised deferred tax asset

**(456,075)** - - -

**(1,192,524)** (645,407) **(622,579)** (406,795)

Potential (benefit)/expense at 30% (2011: 30%)

**(357,757)** (193,622) **(186,774)** (122,039)

**7. CASH AND CASH EQUIVALENTS**

	Consolidated		Parent Entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
Cash at bank and on hand	14,239	59,786	13,615	59,786
Cash held in trust-tenement guarantee	160,118	-	-	-
Cash at bank and on hand	174,357	59,786	13,615	59,786
Weight average interest rates	2.38%	0.00%	0.00%	0.00%

**a. Reconciliation to cash at the end of the year**

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash and cash equivalents	174,357	59,786	13,615	59,786
Balances per Statement of Cash Flows	174,357	59,786	13,615	59,786

**b. Interest rate risk exposure**

The Group's and the parent entity's exposure to interest rate risk is discussed in Note 3.

**8. TRADE AND OTHER RECEIVABLES**

	Consolidated		Parent Entity	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Current</b>				
Interest bearing deposit	690,488	1,507,027	690,488	1,507,027
Receivables - advance to other party	273,980	251,418	273,980	251,418
Other receivables	93,915	23,898	13,915	3,898
	1,058,383	1,782,343	978,383	1,762,343
<b>Non - Current</b>				
Controlled and parent entities receivables	-	638,000	1,056,556	902,780

**8. TRADE AND OTHER RECEIVABLES continued****a. Impaired receivables and receivables past due**

None of the current or non-current receivables are impaired or past due but not impaired.

**b. Interest bearing deposit**

An unsecured interest bearing deposit \$690,488 (2011: \$1,507,027) is placed with Hudson Corporate Limited. The deposit is repayable on demand.

**Receivable - advance to other party**

The Company advanced a recourse loan of \$250,000 to a consultant in 2011. The interest bearing 9% loan has a three year term on repayment.

**Other receivables**

These amounts relate to receivables for GST paid and tenement securities deposits paid.

None were written down during the year.

**c. Interest rate risk**

Information about the Group's and the parent entity's exposure to interest rate risk in relation to trade and other receivables is provided in Note 3.

**d. Fair value and credit risk****Current trade and other receivables**

Due to the short term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

**Non-current trade and other receivables**

The fair values and carrying values of non-current receivables are as follows:

	2012		2011	
	Carrying Amount \$	Fair Value \$	Carrying Amount \$	Fair Value \$
<b>Consolidated</b>				
Parent entities receivables	-	-	638,000	638,000
<b>Parent Entity</b>				
Controlled and parent entities receivables	1,056,556	1,056,556	902,780	902,780

The above receivables have no terms of repayment and are not interest bearing.

**9. MINING TENEMENTS**

	Consolidated		Parent Entity	
	2012 \$	2011 \$	2012 \$	2011 \$
Mining tenements	656,324	200,250	-	-
	656,324	200,250	-	-

The recoverability of the carrying amount of evaluation and exploration assets is dependent upon successful development and commercial exploration, or alternatively the sale of the respective areas of interest. For details please refer Tenement Schedule of this report.

**10. FINANCIAL ASSETS**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Investment in controlled entries (Note 14)	-	-	400	100
Investment in other entities	70	-	70	-
	<b>70</b>	<b>-</b>	<b>470</b>	<b>100</b>

**11. TRADE AND OTHER PAYABLES**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Current</b>				
Trade payables	1,125	7,897	1,125	7,897
Accrued payables	25,633	-	25,633	-
	<b>26,758</b>	<b>7,897</b>	<b>26,758</b>	<b>7,897</b>

**12. EMPLOYEE BENEFITS PROVISIONS**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Current</b>				
Staff leave entitlement	5,279	4,687	5,279	4,687
<b>Non-Current</b>				
Staff leave entitlement	3,898	1,391	3,898	1,391

**13. ISSUED CAPITAL**

	<b>Consolidated Entity and Parent Entity</b>		<b>Consolidated Entity and Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>Number of Shares</b>	<b>Number of Shares</b>	<b>\$</b>	<b>\$</b>
Ordinary shares Issued	85,000,000	85,000,000	2,873,965	2,985,422

**a. Movements in ordinary share capital during the year:**

<b>Consolidated Date</b>	<b>Details</b>	<b>No. of shares</b>	<b>Issue price \$</b>	<b>\$</b>
31 December 2011	Balance	85,000,000	-	2,985,422
	Share issuing - costs	-	-	(111,457)
31 December 2012	Balance	85,000,000	-	2,873,965

**b. Performance options**

No other performance option is granted or exercised during the year.

**13. ISSUED CAPITAL continued****c. Terms and conditions**

Each ordinary share participates equally in the voting rights of the Company. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

**d. Options**

There were 3,600,000 unissued ordinary shares under option at the end of the financial year.

A further 3,050,000 options have been approved for granting relevant to the Company's Employee Share Option Plan but have not been allocated.

Information relating to the Group's options issued for services rendered is set out in note 23.

**14. INVESTMENTS IN CONTROLLED ENTITIES**

Name of Entity	Class of Shares	Equity Holding		Country of Incorporation
		2012 %	2011 %	
PMR 1 Pty Ltd	Ordinary	100	100	Australia
PMR 3 Pty Ltd *	Ordinary	100	-	Australia
PMR 4 Pty Ltd *	Ordinary	100	-	Australia
PMR 5 Pty Ltd *	Ordinary	100	-	Australia

\* Wholly owned controlled entities were incorporated to hold exploration tenements.

**15. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES**

	Consolidated		Parent Entity	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Profit/(Loss) for the year</b>	<b>(700,710)</b>	(490,627)	<b>(585,450)</b>	(452,265)
Share based payments expense	-	97,246	-	97,246
Capitalisation of exploration expenditures	<b>(456,074)</b>	-	-	-
Unearned interest receivable	<b>(120,022)</b>	-	<b>(120,022)</b>	-
Change in operating assets and liabilities:				
(Increase)/Decrease in trade and other receivables	<b>(8,367)</b>	(25,912)	<b>(8,366)</b>	(25,912)
(Increase)/Decrease in other current assets	<b>(70,000)</b>	-	<b>(10,000)</b>	-
Increase/(Decrease) in trade and other creditors and provisions	<b>19,383</b>	12,584	<b>19,383</b>	12,584
(Increase) in deferred tax assets	-	-	-	-
Increase in deferred tax liabilities	-	-	-	-
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(1,335,790)</b>	(406,709)	<b>(704,455)</b>	(368,347)

**16. OPERATING SEGMENT**

The Group operates one operating segment being the mineral, exploration, development and geological surveys of resources in Australia.

**17. COMMITMENTS**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Exploration expenditure commitments</b>				
Tenement exploration expenditure	<b>1,425,000</b>	137,000	-	-
Tenement lease payment	<b>64,500</b>	-	-	-
	<b>1,489,500</b>	137,000	-	-

**Remuneration expenditure commitments**

Salary and other remuneration commitments under long-term employment contracts existing at reporting date not recognised as liabilities:

Within one year	<b>163,500</b>	163,500	<b>163,500</b>	163,500
Later than one year but not later than 5 years	<b>68,125</b>	231,625	<b>68,125</b>	231,625
Later than 5 years	-	-	-	-
	<b>231,625</b>	395,125	<b>231,625</b>	395,125

**Exploration expenditure commitments**

The minimum exploration expenditure commitments and lease payments on the Company's exploration tenements totalled approximately \$1,489,500 over the remaining term of tenements.

**Executive employment agreement**

PMR has entered into an Executive Employment Agreement with Peter Kennewell, a director of PMR pursuant to which he has agreed to provide the services of Chief Geologist. The material terms are set out below.

- provide the services of Chief Geologist of PMR for a period of 3 years;
- Peter Kennewell is to be paid \$150,000 per annum not including superannuation as required by the *Superannuation Guarantee Administration Act 1992 (Cth)*;
- Incentive payments will be considered by the Board from time to time and made available in either the form of cash bonuses or share options at PMR's discretion.
- The agreement can be terminated by either PMR or Peter Kennewell on 6 months' notice.

**Services agreements**

The Company has entered into a management service agreement with Hudson Corporate Limited pursuant to which Hudson Corporate Limited has agreed to provide its management, registered office, administrative accounting, secretarial and compliance services.

The term of the Services Agreement is two years and the fee payable is that amount agreed between the parties from time to time. The terms of the Services Agreement provide that Hudson Corporate Limited shall act in accordance with the directions of the Board.

The Company has entered into a geological services agreement with Michael Leu for fixed remuneration per day. The term of the contract is 2 years.

There are no other material commitments as at the date of this report.

**18. CONTINGENT LIABILITIES**

No material losses are anticipated in respect of any of the contingent liabilities. There are no other material contingent liabilities as at the date of this report.

**19. EVENTS SUBSEQUENT TO BALANCE DATE**

At the date of this report there are no matters or circumstances which have arisen since 31 December 2012 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2012, of the Group;
- the results of those operations; or
- the state of affairs, in financial years subsequent to 31 December 2012, of the Group.

**20. EARNINGS PER SHARE**

	<b>Consolidated</b>	
	<b>2012</b>	2011
	<b>Cents</b>	Cents
Basic earnings/(loss) per share	<b>(0.82)</b>	(0.75)
Fully diluted earnings/(loss) per share	<b>(0.76)</b>	(0.68)
	<b>2012</b>	2011
	<b>\$</b>	\$
Profit/(loss) from continuing operations used in calculating basic and fully diluted earnings per share	<b>(700,710)</b>	(490,627)
	<b>2012</b>	2011
	<b>Number of</b>	Number of
	<b>Shares</b>	Shares
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share:	<b>85,000,000</b>	65,416,667
Adjustments for calculation of diluted earnings per share:		
Options	<b>6,650,000</b>	6,650,000
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<b>91,650,000</b>	72,066,667

**21. KEY MANAGEMENT PERSONNEL DISCLOSURES****a. Directors**

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

John Dawkins, AO	Chairman	Appointed 31 August 2012
John Foley	Deputy Chairman	
Michael Leu	Managing Director	
Peter Kennewell	Chief Geologist	
Peter Meers	Non Exec. Director	
Bruce Dennis	Non Exec. Director	

**b. Other Key management personnel**

The following persons were other key management personnel of the Company during the financial year:

Henry Kinstlinger	Joint Company Secretary
Julian Rockett	Joint Company Secretary
Benjamin Amzalak	Investor Relationship Officer
Francis Choy	Chief Financial Officer



**21. KEY MANAGEMENT PERSONNEL DISCLOSURES continued****c. Compensation of key management personnel**

	Consolidated		Parent Entity	
	2012	2011	2012	2011
Directors	\$	\$	\$	\$
Short term employee benefits	171,600	67,549	171,600	67,549
Post employment benefits	13,500	30,204	13,500	30,204
Long term benefits	2,508	1,390	2,508	1,390
Termination benefits	-	-	-	-
Share based payments	-	74,803	-	74,803
	<b>187,608</b>	<b>173,946</b>	<b>187,608</b>	<b>173,946</b>
<b>Other Key Management Personnel</b>				
Short term employee benefits	-	-	-	-
Post employment benefits	-	-	-	-
Long term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	-	34,908	-	34,908
	<b>-</b>	<b>34,908</b>	<b>-</b>	<b>34,908</b>

**Directors and other Key Management Personnel of Precious Metal Resources Limited**

Consolidated 2012	Short Term Employee Benefits		Post Employment Benefits	Long Term Benefits	Share Based Payments	Total
	Salary and other Fees	Travelling Allowance	Super- annuation	Long Service Leave		
<b>Directors</b>	\$	\$	\$	\$	\$	\$
John Dawkins *	-	-	-	-	-	-
John Foley	-	-	-	-	-	-
Peter Kennewell	150,000	10,800	13,500	2,508	-	176,808
Bruce Dennis	-	10,800	-	-	-	10,800
Michael Leu	-	-	-	-	-	-
Peter Meers	-	-	-	-	-	-
<b>Total - Directors</b>	<b>150,000</b>	<b>21,600</b>	<b>13,500</b>	<b>2,508</b>	<b>-</b>	<b>187,608</b>
<b>Key Management Personnel</b>						
Henry Kinstlinger	-	-	-	-	-	-
Julian Rockett	-	-	-	-	-	-
Benjamin Amzalak	-	-	-	-	-	-
Francis Choy	-	-	-	-	-	-
<b>Total - KMP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**21. KEY MANAGEMENT PERSONNEL DISCLOSURES continued**

Consolidated 2011	Short Term Employee Benefits		Post Employment Benefits	Long Term Benefits	Share Based Payments **(Options)	Total
	Salary and other Fees	Travelling Allowance	Super- annuation	Long Service Leave		
<b>Directors</b>	\$	\$	\$	\$	\$	\$
John Foley	-	-	-	-	12,467	12,467
Peter Kennewell	60,349	3,600	30,204	1,390	24,935	120,478
Bruce Dennis	-	3,600	-	-	12,467	16,067
Michael Leu	-	-	-	-	12,467	12,467
Peter Meers	-	-	-	-	12,467	12,467
<b>Total - Directors</b>	<b>60,349</b>	<b>7,200</b>	<b>30,204</b>	<b>1,390</b>	<b>74,803</b>	<b>173,946</b>
<b>Key Management Personnel</b>						
Henry Kinstlinger	-	-	-	-	12,467	12,467
Julian Rockett	-	-	-	-	4,987	4,987
Benjamin Amzalak***	-	-	-	-	12,467	12,467
Francis Choy	-	-	-	-	4,987	4,987
<b>Total - KMP</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,908</b>	<b>34,908</b>

The amounts reported represent the total remuneration paid by entities in the Precious Metal Resources Limited Group of companies in relation to managing the affairs of all the entities within Precious Metal Resources Group.

\* John Dawkins - appointed on 31 August, 2012

\*\* Precious Metal Resources Limited issued options to directors and officers under the Employee Share Option Plan. For details please refer to note 23 of the financial statements.

\*\*\* Precious Metal Resources Limited issued success options to an entity related to Benjamin Amzalak.

There are no performance conditions related to any of the above payments.

There is no other element of Directors and Executives remuneration.

**d. Employee share option plan**

Precious Metal Resources Ltd has adopted an Employee Share Option Plan, (**ESOP**) for its employees. A person is an employee of Precious Metal Resources Ltd if that person is an Executive Director, Non-executive Director or considered by the Board to be employed by the Company or a related party.

The purpose of the ESOP is to provide an opportunity for all eligible employees of the Company to participate in its growth and development.

The Company expects to apply the proceeds to working capital needs, asset or business acquisitions and general corporate purposes. All options to be issued must be consistent with any applicable Listing Rules and having regard to regulatory constraints under the *Corporations Act 2001*, ASIC policy or any other applicable law.

**21. KEY MANAGEMENT PERSONNEL DISCLOSURES continued****e. Shareholdings and option holdings of key management personnel**

Particulars of interest in the issued capital of the Company's ordinary share and options at the date of the Report are:

	Shares Direct Holding	Shares Indirect Holding	Options
<b>Directors</b>			
John Dawkins	-	-	-
John Foley	-	-	250,000
Michael Leu	-	-	250,000
Peter Kennewell	-	-	500,000
Bruce Dennis	-	-	250,000
Peter J Meers	-	-	250,000

**Shares held in Precious Metal Resources Limited – 2012**

	Balance at beginning of year	Changes during the year	Balance at end of year
<b>Directors</b>			
John Dawkins	-	-	-
John Foley	-	-	-
Peter Kennewell	-	-	-
Bruce Dennis	2,500,000	2,500,000	-
Michael Leu	2,500,000	2,500,000	-
Peter Meers	-	-	-
<b>Other Key Management Personnel</b>			
Henry Kinstlinger	-	-	-
Julian Rockett	-	-	-
Benjamin Amzalak	-	-	-
Francis Choy	-	-	-
	<b>5,000,000</b>	<b>5,000,000</b>	<b>-</b>

**Shares held in Precious Metal Resources Limited – 2011**

	Balance at beginning of year	Changes during the year	Balance at end of year
<b>Directors</b>			
John Foley	-	-	-
Peter Kennewell	-	-	-
Bruce Dennis	2,500,000	-	2,500,000
Michael Leu	2,500,000	-	2,500,000
Peter Meers	-	-	-
<b>Other Key Management Personnel</b>			
Henry Kinstlinger	-	-	-
Julian Rockett	-	-	-
Benjamin Amzalak	-	-	-
Francis Choy	-	-	-
	<b>5,000,000</b>		<b>5,000,000</b>

**21. KEY MANAGEMENT PERSONNEL DISCLOSURES continued****Options held in Precious Metal Resources Limited – 2012**

<b>Directors</b>	<b>Nature</b>	<b>Balance at beginning of year</b>	<b>Changes during the year</b>	<b>Balance at end of year</b>
John Foley	Employee Share Option Plan	250,000	-	250,000
Peter Kennewell	Employee Share Option Plan	500,000	-	500,000
Bruce Dennis	Employee Share Option Plan	250,000	-	250,000
Michael Leu	Employee Share Option Plan	250,000	-	250,000
Peter Meers	Employee Share Option Plan	250,000	-	250,000
<b>Other Key Management Personnel</b>				
Henry Kinstlinger	Employee Share Option Plan	250,000	-	250,000
Julian Rockett	Employee Share Option Plan	100,000	-	100,000
Francis Choy	Employee Share Option Plan	100,000	-	100,000
		<b>1,950,000</b>	<b>-</b>	<b>1,950,000</b>
Benjamin Amzalak	Success Option	<b>250,000</b>	<b>-</b>	<b>250,000</b>

**Options held in Precious Metal Resources Limited – 2011**

John Foley	Employee Share Option Plan	-	250,000	250,000
Peter Kennewell	Employee Share Option Plan	-	500,000	500,000
Bruce Dennis	Employee Share Option Plan	-	250,000	250,000
Michael Leu	Employee Share Option Plan	-	250,000	250,000
Peter Meers	Employee Share Option Plan	-	250,000	250,000
<b>Other Key Management Personnel</b>				
Henry Kinstlinger	Employee Share Option Plan	-	250,000	250,000
Julian Rockett	Employee Share Option Plan	-	100,000	100,000
Francis Choy	Employee Share Option Plan	-	100,000	100,000
		-		1,950,000
Benjamin Amzalak	Success Option	-	250,000	250,000

**22. REMUNERATION OF AUDITORS**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Audit services:</b>				
Amounts paid or payable to auditors for audit and review of the financial report for the entity or any entity in the Group				
Audit and review services	<b>21,900</b>	12,995	<b>21,900</b>	12,995
<b>Taxation and other advisory services:</b>				
Amounts paid or payable to auditors for non audit taxation and advisory services for the entity or any entity in the Group				
Taxation	<b>7,570</b>	7,200	<b>7,570</b>	7,200
Advisory Services	-	10,000	-	10,000
	<b>7,570</b>	17,200	<b>7,570</b>	17,200

**23. SHARE BASED PAYMENTS**

	<b>Number of instruments</b>	<b>Vesting conditions</b>	<b>Expiry Date</b>
Employee share options were granted to directors, officers and consultants exercisable at any time prior to expiry	1,950,000	Vested and exercisable	24 October 2016
Initial Public Offer - Success Options	1,650,000	Vested and exercisable	24 October 2014

The number and weighted average exercise price of share options is as follows:

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2012 Number</b>	2011 Number	<b>2012 Number</b>	2011 Number
Vested and exercisable at beginning of year	<b>3,600,000</b>	-	<b>3,600,000</b>	-
Granted during the year	-	3,600,000	-	3,600,000
Vested and exercisable at the end of the year	<b>3,600,000</b>	3,600,000	<b>3,600,000</b>	3,600,000

*Option Expenses*

Share options granted	-	3,600,000	-	3,600,000
Expense recognised as costs <sup>1</sup>	-	97,246	-	97,246
Deducted from equity <sup>2</sup>	-	82,286	-	82,286
Fair Value per option at grant time	<b>0.0 cents</b>	4.98 cents	<b>0.00 cents</b>	4.98 cents

<sup>1</sup> The fair value of options granted above is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.20, the exercise price of \$0.30, expected volatility of 50%, expected dividends of \$Nil and a risk-free interest rate of 4.50%. There is no service or performance criteria in relation to the options.

<sup>2</sup> The fair value of options granted above is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.20, the exercise price of \$0.30, expected volatility of 50%, expected dividends of \$Nil and a risk-free interest rate of 4.50%.

**23. SHARE BASED PAYMENTS continued**

<b>2012</b>	<b>Employee Share Options</b>	<b>Success Options</b>	<b>Total</b>
Grant date	24/10/2011	24/10/2011	
Exercise date	24/10/2016	24/10/2014	
Exercise price (\$)	0.30	0.30	
Balance at beginning of year	1,950,000	1,650,000	3,600,000
Granted during the year	-	-	-
Forfeited during the year	-	-	-
Exercised during the year	-	-	-
Expired during the year	-	-	-
Balance at the end of year	1,950,000	1,650,000	3,600,000
Vested and exercisable at end of year	1,950,000	1,650,000	3,600,000

Weighted average exercise price 30.0 cents

<b>2011</b>	<b>Employee Share Options</b>	<b>Success Options</b>	<b>Total</b>
Grant date	24/10/2011	24/10/2011	
Exercise date	24/10/2016	24/10/2014	
Exercise price (\$)	0.30	0.30	
Balance at beginning of year	-	-	-
Granted during the year	1,950,000	1,650,000	3,600,000
Forfeited during the year	-	-	-
Exercised during the year	-	-	-
Expired during the year	-	-	-
Balance at the end of year	1,950,000	1,650,000	3,600,000
Vested and exercisable at end of year	1,950,000	1,650,000	3,600,000

Weighted average exercise price 30.0 cents

**24. RELATED PARTY TRANSACTIONS****a. Parent entities**

The parent entity within the Group is Precious Metal Resources Limited. The ultimate Australian parent entity is Sovereign Gold Company Limited which at 31 December 2012 owns 81.26% (2011: Nil).

**b. Subsidiaries**

Interests in subsidiaries are disclosed in note 14.

**c. Key management personnel compensation**

Key management personnel compensation information is disclosed in note 21.

**d. Transactions with related parties**

The following transactions occurred with related parties during the year ended 31 December 2012:

**Administration Fee***Consolidated and parent entity*

The Company paid an administration fee to Hudson Corporate Limited (**HCL**), a wholly owned subsidiary of Hudson Investment Group Limited, of \$406,000 as payment of sharing rent, administration, accounting, secretarial and compliance costs incurred by HCL on behalf of the Group.

**24. RELATED PARTY TRANSACTIONS continued****e. Outstanding balance**

	<b>Consolidated Entities</b>		<b>Parent Entity</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Receivable</b>				
<b>Non-current</b>				
Advance to related entity	<b>273,980</b>	251,418	<b>273,980</b>	251,418
Deposit with other party	<b>690,488</b>	1,507,027	<b>690,488</b>	1,507,027
Advance to controlled and parent entities	-	638,000	<b>1,056,556</b>	902,780
<b>Payable</b>				
<b>Non-current</b>				
Advance from controlled entities	-	-	-	-
Advance from related entity	-	-	-	-

**Terms and conditions of advances****Receivable-deposit with related entity**

An unsecured interest bearing deposit \$690,488 (2011: \$1,507,027) is placed with Hudson Corporate Limited. The deposit is repayable on demand.

**Receivable - advance to other party**

The Company advanced a recourse loan of \$250,000 to a consultant in 2011. The interest bearing 9% loan has a three year term on repayment.

None were written down during the year.

**f. Guarantees**

No guarantees were given or received from related parties during the year.

**g. Terms and conditions**

All transaction were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms or repayment of loans between the parties and that no interest is charged on outstanding balances.

## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards which as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS) and;
  - (b) give a true and fair view of the financial position as at 31 December 2012 and of the performance for the year ended on that date of the Company and the consolidated entity.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included on pages 21 to 23 of the Directors' Report (as part of the audited Remuneration Report), for the year ended 31 December 2012, comply with section 300A of the *Corporations Act 2001*.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**Michael Leu**  
**Managing Director**



**Peter J Meers**  
**Director**

Signed at Sydney  
27 March 2013



## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF PRECIOUS METAL RESOURCES LIMITED

#### Report on the Financial Report

We have audited the accompanying financial report of Precious Metal Resources Limited (the company) and Precious Metal Resources Limited and Controlled Entities (the consolidated entity) which comprises the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accompanying policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the Directors' report. As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of Directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124: Related Party Disclosures, under the heading "Remuneration Report" in the Directors' report and not in the financial report.

#### Director's Responsibility for the Financial Report and the Remuneration Report contained in the Directors' Report

The Directors of Precious Metal Resources Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report comprising the financial statement and notes, complies with IFRS.

The Directors of the company are also responsible for the remuneration report contained in the Directors' Report in accordance with s300A of the Corporations Act 2001.

#### 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 and that the remuneration report in the Directors' Report is in accordance with Australian Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, 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 and the remuneration disclosures contained in the Directors' report.

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF PRECIOUS METAL RESOURCES LIMITED (Cont'd)

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

#### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Precious Metal Resources Limited would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

#### Auditor's Opinion

In our opinion:

- (a) the financial report of Precious Metal Resources Limited and Precious Metal Resources Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2012 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the company and consolidated entity also comply with IFRS as disclosed in note 1.

#### Auditor's opinion on the Remuneration Report contained in the Directors' Report.

In our opinion, the remuneration disclosures that are contained on pages 21 to 23 of the Directors' Report comply with S300A of the Corporations Act 2001.

**KS Black & Co**  
**Chartered Accountants**



**Faizal Ajmat**  
**Partner**

Sydney, 27 March 2013



## SHAREHOLDER INFORMATION

as at 28 February 2013

### A. Substantial Shareholders

Name	Shares	% of Shares Holding
SOVEREIGN GOLD COMPANY LIMITED	69,070,938	81.26
RAFFLES CAPITAL LIMITED	10,000,000	11.76

### B. Distribution of Ordinary Shares

Range	Total holders	Units	% of Issued Capital
1 - 100	2	11	0.00
101 - 1,000	0	0	0.00
1,001 - 10,000	356	3,460,718	4.07
10,001 - 100,000	5	192,150	0.23
100,001 - 500,000	8	1,674,782	1.97
500,001 - 1,000,000	1	601,401	0.71
1,000,001 -and above	2	79,070,938	93.02
<b>Total</b>	<b>374</b>	<b>85,000,000</b>	<b>100</b>

### C. Unmarketable Parcels

	Minimum Parcel Size	Holders	Units
Minimum \$ 500.00 parcel at \$ 0.42 per unit	1,191	2	11

### D. Twenty Largest Shareholders aggregated

	Units	% of Units
1 SOVEREIGN GOLD COMPANY LIMITED	69,070,938	81.26
2 RAFFLES CAPITAL LIMITED	10,000,000	11.76
3 HUDSON CORPORATE LIMITED	601,401	0.71
4 HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	360,000	0.42
5 MR CHEOK HUAT AW	250,000	0.29
6 MAO YING ZHANG	250,000	0.29
7 TEMPRANILLO INVESTMENTS PTY LTD	200,000	0.24
<RUNNINE WITH BULLS S/F A/C>		
8 SING CAPITAL PTY LTD	184,782	0.22
9 MR MAN CHIME CHAN	155,000	0.18
10 MR GUAN CHYE ONG	150,000	0.18
11 JIAN HUA SU	125,000	0.15
12 MR RICHARD CHARLES CASALI	71,572	0.08
13 MS KAYE HOWELL	43,478	0.05
14 MS JINGMIN QIAN	30,000	0.04
15 ANTHONY FIELD & MARGARET FIELD	15,000	0.02
16 JESSICA ALSOPP	10,000	0.01
17 ZHENGHAO BAI	10,000	0.01
18 CELENE BLANCHARD	10,000	0.01
19 JING CAI	10,000	0.01
20 RUIFANG CAO	10,000	0.01
	<b>81,557,171</b>	<b>95.94</b>
<b>Total Remaining Holders Balance</b>	<b>3,442,829</b>	<b>4.06</b>

### E. Directors and Key Management Options Held

Meers, Peter	250,000	ESOP Options
Leu, Michael	250,000	ESOP Options
Kennewell, Peter	500,000	ESOP Options
Foley, John	250,000	ESOP Options
Dennis, Bruce	250,000	ESOP Options
Kinstlinger, Henry	250,000	ESOP Options
Choy, Francis	100,000	ESOP Options
Rockett, Julian	100,000	ESOP Options

F. Unquoted Securities (other than options issued under an Employee Share Option Plan)

Class	Exercise Price	Expiry Date	No. of Securities	No. of Holders	Name where holder holds 20% or more	% held
Success Options	\$0.30	24-Oct-14	1,650,000	9	N/A	N/A

G. Voting Right

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

H. List of Escrowed Securities

Precious Metal Resources Limited provides the following information with respect to the securities subject to escrow.

The escrow period in each case is 24 months from the date of Official Quotation of the Company’s securities on the ASX.

All Success Options are exercisable at 30 cents within 3 years from the date of quotation.

All ESOP Options are exercisable at 30 cents and expire on 24 October 2016.

All escrowed securities are unquoted.

Raffles Capital Limited	10,000,000	Ordinary
Tan, Luisa	100,000	Success Options
Sing Capital Pty Limited	250,000	Success Options
Safico Sdn Bhd	250,000	Success Options
Raffan, Nicholas	100,000	Success Options
Qiu, Qinjing	100,000	Success Options
Hughes, David	100,000	Success Options
Arotama Sdn Bhd	250,000	Success Options
Anything Communications Pty Ltd	250,000	Success Options
JT Capital Pty Ltd	250,000	Success Options
Meers, Peter	250,000	ESOP Options
Leu, Michael	250,000	ESOP Options
Kennewell, Peter	500,000	ESOP Options
Foley, John	250,000	ESOP Options
Dennis, Bruce	250,000	ESOP Options

**I. Tenement Schedule as at 28 February 2013**

<b>Tenement No.</b>	<b>Location</b>	<b>Square Kms</b>	<b>Registered Owner/ Applicant/ Assignee</b>	<b>% Interest</b>
EL 4474	Halls Peak	12	PMR1 Pty Ltd	100%
EL 5339	Halls Peak	15	PMR1 Pty Ltd	100%
EL 7679	Halls Peak	96	PMR1 Pty Ltd	100%
EL 7920	Tarago	300	PMR1 Pty Ltd	100%
EL 8017	Halls Peak North	309	PMR1 Pty Ltd	100%
ELA 4608	Halls Peak West	321	PMR1 Pty Ltd	100%
EL 7998	South Southwest Broken Hill	165	PMR3 Pty Ltd	100%
EL 7999	Southwest Broken Hill	153	PMR3 Pty Ltd	100%
EL 8000	South East Broken Hill	30	PMR3 Pty Ltd	100%
EL 8015	Broken Hill South South East	300	PMR3 Pty Ltd	100%
EL 8016	Billygoat Knob	300	PMR3 Pty Ltd	100%
EL 8018	Southwest Broken Hill	117	PMR3 Pty Ltd	100%
EL 8023	East Broken Hill	300	PMR3 Pty Ltd	100%
EL 8024	South Broken Hill	300	PMR3 Pty Ltd	100%
ELA 4618	Broken Hill North1	183	PMR3 Pty Ltd	100%
ELA 4619	Broken Hill North2	171	PMR3 Pty Ltd	100%
ELA 4579	Bundarra	300	PMR4 Pty Ltd (Copper)	100%
EL 7996	Cangai	300	PMR4 Pty Ltd (Copper)	100%
ELA 4640	Conrad	96	PMR4 Pty Ltd (Copper)	100%
EL 7997	Moonbi	300	PMR5 Pty Ltd (Molybdenum)	100%

**Compliance Statement**

Statement under ASX Listing Rule 4.10.19

From the date of admission of the Company's shares on the ASX (6 December 2011) to the date of this Annual Report, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. Expenditures have been made in line with the Prospectus estimates.



**PRECIOUS METAL  
RESOURCES LIMITED**

A.C.N. 145 105 148

**Level 2, Hudson House  
131 Macquarie Street  
Sydney NSW 2000  
AUSTRALIA**

**[www.pmrl.com.au](http://www.pmrl.com.au)**