

AustralianZircon

NL ABN 60 063 389 079

2012 Annual Report

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DIRECTORS' REPORT

The Directors of Australian Zircon NL ("the Company") and consolidated entities ("the Group") submit their report for the year ended 30 June 2012. The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

DIRECTORS

Jeremy D Shervington

B.Juris.LLB - (Appointed 16 February 1998, Chairman from 23 December 2008)

Mr Shervington was appointed a Director of Australian Zircon on 16 February 1998. He is a solicitor specialising in laws regulating companies and the securities industry in Australia. Currently Mr Shervington is the Chairman of the Board. He is also a Director of various ASX and unlisted public and private companies.

Other current Directorships: Emerald Oil & Gas - Non executive Chairman from 23 January 2006, Non executive director Horseshoe Metals Limited from 14 December 2006, and Ridge Resources Limited since 11 November 2010

Former Directorships in the last 3 years: Papillon Resources Appointed 11 May 2006, Resigned 27 May 2011; North Manganese Limited Appointed 11 May 2006, Resigned 22 March 2010; Prairie Downs Limited Appointed 11 October 2002, Resigned 25 August 2011; Stirling Resources Limited Appointed 13 July 2009, Resigned 18 June 2010; Cokal Limited Appointed 8 August 2006 Resigned 24 December 2010; Industrial Minerals Corporation Limited Appointed 17 January 2004, Resigned 10 March 2011

Age: 55

Thomas Styblo

Executive Master of Laws (LL.M.), Masters Degree in Economic and Social Sciences

Non - Executive Director: Appointed 22 February 2012

Mr Styblo is an executive of Australian Zircon's largest shareholder, DCM DECOMetal GmbH and is responsible for the legal and commercial aspects of DCM's mining investments as well as the management of DCM's Australian mining operations.

Prior to joining DCM, Mr Styblo was Managing Director and CFO of Schweighofer & Styblo GmbH and was responsible for finance, legal and accounting, tax optimisation, human resources and strategic planning for that company.

Other current Directorships: Stirling Resources Ltd, Murray Zircon Pty Ltd

Former Directorships in the last 3 years: Nil

Age: 45

Martin Adams

B Eng (Min), MBA, MAusIMM, GAICD - Executive Director: Appointed 24 June 2011

Mr Adams has thirty years' experience in the Australasian mining industry having held a range of operational senior management positions in open pit and underground mining operations and has extensive experience in gold, copper, iron ore, lead/zinc and mineral sands projects.

Other current Directorships: Nil

Former Directorships in the last 3 years: Stirling Resources (July 2010 to 31 December 2010), Redbank Copper (22 July 2007 to 14 September 2010), Matilda Zircon (20 July 2010 to 31 December 2010), Swan Gold Mining (22 July 2010 to 11 September 2010).

Age: 57

Dr Gerhard Kornfeld

PhD, Master of Business Economics - Non-executive Director: Appointed 23 August 2012

Dr. Kornfeld is the CEO of Australian Zircon's largest shareholder, DCM DECOMetal GmbH. Dr. Kornfeld has extensive experience in the industrial and manufacturing sectors, mainly in the Central and Eastern Europe region. He has a degree and PhD in Economics and has held senior positions in the Siemens Group and Mondy Austria

Other current Directorships: Swan Gold Mining

Age: 44

Giga Bedineishvili

B.Phys, MBA - Non-executive Director appointed 18 May 2009, resigned 4 January 2012

Mr Bedineishvili is Director of Business Development for global commodity trader, and Australian Zircon major shareholder, DCM DECOMetal. He has strong business and

Other current Directorships: Nil

Former Directorships in the last 3 years: Stirling Resources Limited

Age: 50

Laurie Shervington

LLB, SF Fin, MAICD (Lawyer) - Alternate Director appointed 31 March 2011, resigned 22 March 2012

Mr Shervington is a Special Counsel in Minter Ellison's Perth corporate advisory group. He has over 35 years specialist commercial and corporate law experience.

Other current Directorships: Cooper Energy Limited Appointed 1 October 2003

Former Directorships in the last 3 years: Nil

Age: 69

Steve McEwen

B A (Accounting), CA

Director: Appointed 10 August 2010, resigned 5 December 2011

and Company Secretary in the mining, manufacturing and financial services industries. He is principally experienced in areas of finance, system policies and control,

Other current Directorships: Nil

Former Directorships in the last 3 years: Nil

Age: 51

EXECUTIVES

Martin Adams

B Eng (Mining), MBA, MAusIMM, GAICD - (Chief Executive Officer from 21 January 2010)

Mr Adams has thirty years' experience in the Australasian mining industry having held a range of operational senior management positions in open pit and underground mining operations and has extensive experience in gold, copper, iron ore, lead/zinc and mineral sands projects.

Age: 57

Steve McEwen

B A (Accounting), CA - (Chief Financial Officer from 15 October 2008 to 31 January 2012, Company Secretary from 15 October 2008 to 5 December 2011)

Steve McEwen has been in the financial services sector and a Chartered Accountant for over 20 years. He has held the position of Finance Director, Chief Financial Officer and Company Secretary in the mining, manufacturing and financial services industries. He is principally experienced in areas of finance, system policies and control, financial reporting, risk management and compliance.

Age: 51

COMPANY SECRETARY

Graham Seppelt

CPA - (Company Secretary from 6 December 2011)

Mr Seppelt was appointed as company secretary in December 2011. Graham is a Certified Practising Accountant (CPA) with 40 years' experience and a wide exposure to a range of industries as a senior manager and contract accountant in corporate advisory roles. He is also company secretary for ASX listed companies BSA Limited, Mesbon China Nylon Limited, UXA Resources Limited and Legend Corporation Limited.

Age: 69

DIRECTORS' REPORT – (continued)

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

Particulars of current Directors' interests in the shares of Australian Zircon NL as at the date of this report are as follows:

	Fully paid shares held	Partly paid shares held	Options held
JD Shervington	1,216,230	900,000	-

No other current Directors hold shares in Australian Zircon NL as at the date of this report other than those stated above.

PRINCIPAL ACTIVITIES

The Company retains a 35% interest in Murray Zircon Pty Ltd which owns and operates the Mindarie mineral sands mine and holds exploration tenements in South Australia and Victoria. The Company is continuing to progress the Bankable Feasibility Study pertaining to the WIM 150 mineral sands project in western Victoria.

RESULTS AND DIVIDENDS

The Group made a loss after tax of \$3,928,823 (2011: \$28,960,385 profit after tax), primarily due to its investment in the continuing work on the Bankable Feasibility Study pertaining to the WIM150 project. No dividends were paid and the Directors have not recommended the payment of a dividend.

CORPORATE PERFORMANCE

The performance of the Consolidated Entity over the last five years is:

Year	Net (loss)/profit for the year	(Loss)/profit per share – cents	Shareholders' Equity	Share price at the beginning of the year – cents	Share price at the end of the year – cents
2008	(15,827,064)	(5.5)	19,444,643	33.5	12
2009	(139,505,543)	(18.2)	(64,987,502)	12	5
2010	(20,103,123)	(1.4)	(85,090,625)	5	N/A
2011	28,960,385	2.0	(56,130,240)	N/A	N/A
2012	(3,928,823)	(0.3)	(60,059,063)	N/A	N/A

No dividends were paid in any of the above years, nor were there any capital reductions or share cancellations.

REVIEW OF OPERATIONS AND LIKELY DEVELOPMENTS

The Company is continuing to focus on developing the WIM150 mineral sands project in western Victoria by progressing work on a Bankable Feasibility Study. Upon completion of a Bankable Feasibility Study, under a Farm-In Agreement with Austpac NL, Australian Zircon NL will earn an 80% interest in the WIM150 project. Australian Zircon NL also retains a 35% interest in Murray Zircon Pty Ltd, which is planning the resumption of mining at the Mindarie zircon mine in South Australia.

STATE OF AFFAIRS

During the year the Group issued no fully paid ordinary shares.

ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation in respect of the mining tenements granted to it and the mining legislation of the states in which the mining tenements are held. The Directors are satisfied that no breaches of the environmental conditions of these licences have occurred as they are continually monitoring the Group's operations. No notices of any such breaches have been received from any authority.

OPTIONS

Particulars regarding options of Australian Zircon NL (all options are unlisted and currently exercisable) as at the date of this report:

Category	Expiry date	Exercise price	Exercised during the year	Outstanding
Non-related party - Crescent Gold	19-Sep-13	9.47 cents each	-	39,000,000

Between the end of the year and the date of this report no options have been exercised.

None of the above options entitle the holders to participate, by virtue of the options, in any share issue of any other corporation.

SIGNIFICANT EVENTS AFTER BALANCE DATE

Except as mentioned below, in the opinion of the Directors there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

On the 15th August 2012, the Company announced that it has entered into conditional arrangements with a company based in Hong Kong in the Peoples Republic of China (the Purchaser). Pursuant to these arrangements, the Company has agreed to sell its 35% shareholding in Murray Zircon Pty Ltd to the Purchaser for a consideration of AUD 11,500,000.

On the 15th August 2012, Austpac announced that it would transfer the EL4521 to Orient Zircon Resources (Australia) Pty Ltd subject to the consent of the Company.

On the 16th August 2012, the Company informed Austpac that it does not consent to the transfer of the EL 4521. The Company also referred to its announcement to the ASX dated 10 November 2010 regarding an option held by the group from the People's Republic of China to call for a transfer to a joint venture company of the company's WIM150 assets. The above described option was not exercised within the prescribed time and has lapsed.

On the 21st August 2012, the Company announced that it had been informed by the group from the People's Republic of China that the group disputes that the above described option has lapsed. The Company reiterates that the correct position is as it announced on the 16th August 2012 and will take whatever action is required to maintain that position legally. The Company and the group have agreed to hold "without prejudice" discussions in an effort to try and find a mutually acceptable resolution and, pending those discussions, to refrain from commencing any legal action.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support and have adhered to the principles of good corporate governance. The Group's corporate governance statement is contained in the section titled "Corporate Governance Statement".

DIRECTORS' REPORT – (continued)

REMUNERATION REPORT (audited)

This report outlines the remuneration arrangements in place for key management personnel of the Group. The corporate performance summary is disclosed elsewhere in the Directors' Report.

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

Remuneration philosophy

The performance of the Group depends on the quality of its Directors and Executives. To prosper, the Group must attract, motivate and retain highly skilled staff, Directors and Executives.

To this end, the Group embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives
- Link executive rewards to shareholder value
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration

The key management personnel of Australian Zircon NL consists of the directors as previously listed above in the Directors Report.

No key management personnel are employed under a service contract. Their appointment dates are set out above in the Directors report. The major provisions relating to remuneration are set out below:

Remuneration committee

Due to the relatively small size of the Group the Board have decided not to form a separate Remuneration Committee, and instead the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, Chief Executive Officer (CEO) and the senior management team.

The Board of Directors assesses the appropriateness of the nature and amount of remuneration of Directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Share options may form part of a remuneration package and number and terms of such options will be determined in accordance with the above objectives.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive Director and senior manager remuneration is separate and distinct.

Non-executive Director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain Directors of the highest calibre and with the experience and qualifications appropriate to the development of the Group, whilst incurring a cost which is acceptable to shareholders.

Structure

The constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by shareholders in general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The latest determination was at the Annual General Meeting held in 2006 when shareholders approved an aggregate remuneration limit of \$400,000 per year.

The Board considers fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Non-executive Directors' fees are not linked to the performance of the Group. However, Directors may be issued options from time to time to provide the necessary incentive to work and grow long-term shareholder value. Issues of options to Directors require approval by shareholders in general meeting.

DIRECTORS' REPORT – (continued)

REMUNERATION REPORT (audited) - (continued)

Executive director remuneration

Objective

The Group aims to reward executive directors with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- Reward executive directors for Group and individual performance;
- Align the interests of executive directors with those of shareholders;
- Link reward with the strategic goals and performance of the group; and
- Ensure total remuneration is competitive by market standards.

Structure

It is Board policy that employment contracts are entered into with the Chief Executive Officer and other senior executives.

Remuneration consists of the following key elements:

- Fixed remuneration
- Variable remuneration

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established by the Board of Directors.

Fixed Remuneration

Objective

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

Fixed remuneration is reviewed by the Board of Directors and the process consists of a review of companywide and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Variable remuneration

Objective

The level of variable remuneration is not connected to performance parameters, it is at the discretion of the Board. The Board in exercising its discretion will undertake a process which consists of a review of companywide and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

Compensation of Directors' and Key Management Personnel

30 June 2012	Short term		Post employment		Total	Total performance related
	Salary and fees \$	Professional fees \$	Superannuation \$	Super Salary Sacrifice \$	\$	%
JD Shervington	-	48,000	-	-	48,000	-
T Styblo	-	-	-	-	-	-
MP Adams	-	242,200	-	-	242,200	-
SW McEwen	109,054	7,500	9,815	-	126,369	-
G Bedineishvili	-	5,175	-	-	5,175	-
	109,054	302,875	9,815	-	421,744	-

30 June 2011	Short term		Post employment		Total	Total performance related
	Salary and fees \$	Professional fees \$	Superannuation \$	Super Salary Sacrifice \$	\$	%
JD Shervington	-	44,000	-	-	44,000	-
MP Adams	-	177,515	-	-	177,515	-
SW McEwen	191,671	-	17,250	-	208,921	-
G Bedineishvili	-	33,000	-	-	33,000	-
	191,671	254,515	17,250	-	463,436	-

END OF AUDITED SECTION

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held and numbers of meetings attended by each of the Directors' of the Group during the financial year were:

	Directors' meetings	
	Number of meetings held while in office	Number of meetings attended
JD Shervington	8	8
T Styblo	3	3
G Bedineishvili	5	5
MP Adams	8	8
SW McEwen	5	5
L Shervington (alternate for JD Shervington)	5	0

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the independence declaration from our auditors *SomesCooke*, a copy of which is on page 7 of this report.

NON-AUDIT SERVICES

Somes Cooke has not provided any non-audit services during the financial year ended 30 June 2012 (2011: Nil).

INDEMNIFICATION AND INSURANCE OF OFFICERS

During the previous financial year the Group entered into agreements to indemnify all Directors of the Group, Australian Zircon NL, against all liabilities (subject to certain limited exclusions) to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as a Director or executive officer unless the liability relates to conduct involving a lack of good faith. The Group has agreed to indemnify the Directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments. During the financial year the Group paid insurance premiums in respect of Directors' liability insurance. Disclosure of the nature of the liability and the extent of the premium is prohibited by the confidentiality clause of the contract of insurance.

The Directors' and officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than Australian Zircon NL or a related body corporate) incurred in their position as Director unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

Signed in accordance with a resolution of the Directors.



J D Shervington
Chairman
Perth, 14 September 2012

AUDITOR'S INDEPENDENCE DECLARATION

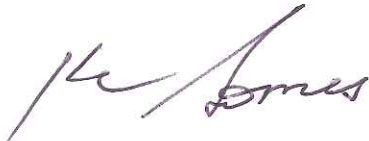
To those charged with governance of Australian Zircon NL

As auditor for the audit of Australian Zircon NL for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- a) No contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) No contraventions of any applicable code of professional conduct in relation to the audit.



Somes Cooke



Kevin Somes
Perth
14 September 2012

STATEMENT OF COMPREHENSIVE INCOME
for the Year Ended 30 June 2012

	Note	<u>Consolidated</u> 2012 \$	<u>Consolidated</u> 2011 \$
Other income	3	683,668	5,913,062
Employee benefits expense	4	(146,793)	(454,310)
Finance expenses	4	(4,074,958)	(4,320,040)
Corporate expenses		(856,566)	(179,795)
Share of net loss of joint venture entity	9	(542,525)	-
Other expenses		(91,649)	(112,464)
(LOSS) / PROFIT BEFORE INCOME TAX		(5,028,823)	846,453
Income tax benefit / (expense)	5	-	-
(LOSS) / PROFIT FROM CONTINUING OPERATIONS		(5,028,823)	846,453
Profit for the year from discontinuing operations after tax	6	1,100,000	28,113,932
(LOSS) / PROFIT FOR THE YEAR		(3,928,823)	28,960,385
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT		(3,928,823)	28,960,385

EARNINGS PER SHARE FROM CONTINUING AND DISCONTINUING OPERATIONS

Basic (loss) / earnings per share (cents)	19	(0.3)	2.0
Diluted (loss) / earnings per share (cents)	19	(0.3)	2.0

EARNINGS PER SHARE FROM CONTINUING OPERATIONS

Basic (loss) / earnings per share (cents)	19	(0.3)	0.1
Diluted (loss) / earnings per share (cents)	19	(0.3)	0.1

EARNINGS PER SHARE FROM DISCONTINUING OPERATIONS

Basic earnings per share (cents)	19	0.1	1.9
Diluted earnings per share (cents)	19	0.1	1.9

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

STATEMENT OF FINANCIAL POSITION
as at 30 June 2012

	Note	<u>Consolidated</u> <u>2012</u> \$	<u>Consolidated</u> <u>2011</u> \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	792,775	2,152,332
Trade and other receivables	8	272,461	1,255,084
TOTAL CURRENT ASSETS		1,065,236	3,407,416
NON-CURRENT ASSETS			
Interest in joint venture entity	9	9,734,565	8,365,000
Property, plant and equipment	10	102,006	92,325
Deferred exploration and evaluation expenses	11	6,501,238	2,495,033
TOTAL NON-CURRENT ASSETS		16,337,809	10,952,358
TOTAL ASSETS		17,403,045	14,359,774
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	416,178	469,234
Borrowings	13	77,031,958	70,008,811
Provisions	14	13,972	11,969
TOTAL CURRENT LIABILITIES		77,462,108	70,490,014
TOTAL LIABILITIES		77,462,108	70,490,014
NET LIABILITIES		(60,059,063)	(56,130,240)
ACCUMULATED LOSSES			
Issued capital	15	110,816,025	110,816,025
Reserves	16	899,095	899,095
Accumulated Losses		(171,774,183)	(167,845,360)
ACCUMULATED LOSSES		(60,059,063)	(56,130,240)

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

STATEMENT OF CHANGES IN EQUITY
for the Year Ended 30 June 2012

Consolidated

	Issued capital	Accumulated losses	Share based payments reserve	Total
	\$	\$	\$	\$
At 1 July 2010	110,816,025	(196,805,745)	899,095	(85,090,625)
Total comprehensive income for the year	-	28,960,385	-	28,960,385
At 30 June 2011	<u>110,816,025</u>	<u>(167,845,360)</u>	899,095	<u>(56,130,240)</u>
At 1 July 2011	110,816,025	(167,845,360)	899,095	(56,130,240)
Total comprehensive income for the year	-	(3,928,823)	-	(3,928,823)
At 30 June 2012	<u>110,816,025</u>	<u>(171,774,183)</u>	899,095	<u>(60,059,063)</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS
for the Year Ended 30 June 2012

	<u>Note</u>	<u>Consolidated</u> 2012 \$	<u>Consolidated</u> 2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,124,501)	(3,547,013)
Borrowing costs paid		-	(1,826)
Interest received		142,329	-
Sundry revenue from other activities		563,924	-
Net cash outflow from operating activities	21	(418,248)	(3,548,839)
CASH FLOWS FROM INVESTING ACTIVITIES			
Exploration costs paid		(4,006,205)	(1,211,329)
Funds from OZ in lieu of assets sale		-	20,000,000
Contribution of equity to joint venture entity		(597,090)	-
Payments for acquisition of plant and equipment		(29,718)	-
Net cash (outflow) / inflow from investing activities		(4,633,013)	18,788,671
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan finance from the Group's controlling entity, DCM		3,700,379	4,383,004
Repayment of loan from DCM		-	(20,000,000)
Finance lease principal repayments		(8,675)	(6,622)
Net cash inflow / (outflow) from financing activities		3,691,704	(15,623,618)
Net (decrease) in cash and cash equivalents held		(1,359,557)	(383,786)
Cash and cash equivalents at the beginning of the financial year	7	2,152,332	2,536,118
Cash and cash equivalents at the end of the financial year	7	792,775	2,152,332

The above statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

1. CORPORATE INFORMATION

These consolidated financial statements of Australian Zircon NL (or "the Company") and controlled entities ("the Group") for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on the date of the Directors Report.

Australian Zircon NL, is a public no liability company. Under the Corporations Act 2001, public no liability companies are required to include specific provisions in their Constitution which state that:

The sole object of the company must be mining; and the company must have no right under its constitution to recover calls made on its shares from shareholders who fail to pay them.

The registered office of the Group is located at Suite 2, Level 2, 52 Hindley Street, Adelaide SA 5000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board (AASB).

The financial report is presented in Australian dollars.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial liabilities and financial assets.

Going concern

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

At the date of signing the financial report the Group is dependent upon continuing financial support from its controlling shareholder, DCM, to pay its debts as and when they fall due. As at 30 June 2012, the Group had net liabilities of \$60,059,063 and \$77,015,602 was owing to DCM. DCM have indicated that they will continue to support the group's activities in relation to the WIM 150 mineral sands project.

On 15 August, 2012, the Company announced that it has entered into conditional arrangements with a company based in Hong Kong in the Peoples Republic of China (the Purchaser). Pursuant to these arrangements, the Company has agreed to sell its 35% shareholding in Murray Zircon Pty Ltd to the Purchaser for a consideration of AUD 11,500,000. It is expected that the proceeds from this sale will assist the Company continuing with its mineral sands focus by progressing the Bankable Feasibility Study relating to its WIM 150 project earning a right to a 80% interest in the project at the completion of the BFS.

At the date of signing the financial report, the directors are confident that DCM will continue to financially support the Group to enable it to pay its debts as and when they fall due for the next 12 months, and as such believe the going concern basis is appropriate. Should the financial support of DCM be discontinued, there is significant uncertainty whether the Company and Group will be able to continue as a going concern. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or the amounts or classification of liabilities, which might be necessary should the Company and Group not be able to continue as a going concern.

(b) Basis of consolidation

The consolidated financial statements comprise the financial statements of Australian Zircon NL and subsidiaries it controlled at the end of the reporting period ('the Group'). A controlled entity is an entity over which Australian Zircon NL has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Australian Zircon NL has control.

(c) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on judgements, estimates and assumptions of future events. The key judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are the going concern assumption (Note 2a) and:

Impairment of non-financial assets

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions

Deferred exploration and evaluation expenses

The Group capitalises and carries exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current that are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

(d) Revenue recognition

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

Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

(e) Borrowing costs

Borrowing costs are recognised as an expense when incurred, except to the extent that they relate to the acquisition of qualifying assets in which case they are capitalised.

(f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset as follows:

Plant and equipment 3 - 5 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognised.

(g) Exploration and evaluation

Exploration and evaluation expenditure in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the Statement of Financial Position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale, or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

(h) Impairment

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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

(j) Interests in joint venture entities

The Group's interest in joint venture entities are recorded using the equity method of accounting in the consolidated financial statements, whereby the investment is initially measured at cost and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture entity. In addition, the Group's share of the profit or loss of the joint venture entity is included in the Group's profit or loss.

Where the Group contributes assets to the joint venture or if the Group purchases assets from the joint venture, only the portion of the gain or loss that is not attributable to the Group's share of the joint venture shall be recognised. The Group recognises the full amount of any loss when the contribution results in a reduction in the net realisable value of current assets or an impairment loss.

(k) Trade and other receivables

Trade and other receivables are generally receivable within 30-90 day terms, are recognised and carried at original amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(l) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the Statement of Financial Position date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

(m) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the profit or loss net of any reimbursement.

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

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

Restoration

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning mined strands and restoring the affected areas.

The provision of future restoration costs is the best estimate of the present value of the future expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the Statement of Financial Position date, with a corresponding change in the cost of the associated asset.

The amount of the provision for the future restoration costs are capitalised and depleted as a component of the cost of those activities. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(n) Employee leave benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits expected to be settled within 12 months of the reporting date are recognised in other payables and annual leave in respect of employees' services up to reporting date are recognized in provisions. They 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 at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service.

Expected future payments are discounted using market yields at the reporting date on notional government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash flows.

(o) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the profit or loss over the lease term.

(p) Trade and other payables

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

(q) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of share proceeds received.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

(r) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position date.

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

Deferred income tax liabilities are recognised for all taxable temporary differences except;

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

Unrecognised deferred income tax assets are reassessed at each Statement of Financial Position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(s) Earnings per share

Basic earnings per share is calculated as net profit / (loss) attributable to members of the Company, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares on issue, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit (loss) to members of the Company, 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;
- 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.

(t) Other taxes

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 Cash Flow Statement on a gross basis and 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.

(u) Foreign currency translation

Both the functional and presentation currency of Australian Zircon NL and its subsidiaries is Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the Statement of Financial Position date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

(v) Share-based payments

From time to time, the Group provides benefits to Senior Executives of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes method.

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

At each subsequent reporting date until vesting, the cumulative charge to the profit or loss is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period; and (iii) the expired portion of the vesting period.

The charge to the profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding credit to equity. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so.

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

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

(w) Changes to Accounting Policies

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- (1) simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
 - (2) simplifying the requirements for embedded derivatives;
 - (3) removing the tainting rules associated with held-to-maturity assets;
 - (4) removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
 - (5) allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
 - (6) requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
 - (7) requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to
- The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).

This Standard makes amendments to AASB 112: Income Taxes and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into AASB 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments are not expected to significantly impact the Group.

AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the "special purpose entity" concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

(i) for an offer that may be withdrawn – when the employee accepts;

(ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and

(iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

3. OTHER INCOME

	<u>Consolidated</u> 2012	<u>Consolidated</u> 2011
	\$	\$
Foreign exchange gain (i)	30,038	5,877,544
Other income	653,630	35,518
	<u>683,668</u>	<u>5,913,062</u>

(i) Relates to exchange gain on the portion of amounts owing to the Group's controlling entity, DCM DECOMetal GmbH, an entity incorporated in Austria ('DCM'), that are denominated in US dollars (Note 13).

4. (LOSS) / PROFIT BEFORE TAX FOR THE YEAR INCLUDES THE FOLLOWING SPECIFIC EXPENSES FROM CONTINUING ACTIVITIES:

	<u>Consolidated</u> 2012	<u>Consolidated</u> 2011
	\$	\$
Employee benefit expenses:		
Wages and salaries	132,502	416,842
Defined contribution superannuation expense	14,291	37,468
	<u>146,793</u>	<u>454,310</u>

Interest expense on financial liabilities not at fair value through profit and loss:

Related parties (i)	4,073,435	4,318,214
Other persons	1,523	1,826
	<u>4,074,958</u>	<u>4,320,040</u>

(i) Relates to interest on loan from Orient Zirconic Resources (Australia) Pty Ltd ('OZ') of \$752,301 (2011: \$951,233) and interest on loan from DCM of \$3,321,134 (2011: \$3,366,981) (Note 13).

5. INCOME TAX EXPENSE

	<u>Consolidated</u> 2012	<u>Consolidated</u> 2011
Recognised in the Statement of Comprehensive Income	\$	\$
<u>Current tax expense</u>		
Current year	-	-
<u>Deferred tax expense</u>		
Origination and reversal of temporary differences	-	-
Write back deferred tax losses previously recorded	-	-
	<u>-</u>	<u>-</u>
Total income tax expense/(benefit) in Statement of Comprehensive Income	<u>-</u>	<u>-</u>

Numerical reconciliation between tax expense and pre-tax net loss

(Loss) / profit before tax	<u>(3,928,823)</u>	28,960,385
Income tax expense/(benefit) at 30%	<u>(1,178,647)</u>	8,688,116
Foreign exchange gain not subject to income tax	<u>(9,011)</u>	<u>(1,763,263)</u>
Losses not recognised	-	-
Carried forward tax losses utilized	<u>1,187,658</u>	<u>(6,924,853)</u>
Income tax (benefit)/expense on pre-tax net loss	<u>-</u>	<u>-</u>

Deferred tax assets have not been recognised in respect of the following items:

Tax losses	27,054,922	25,867,264
Capital losses	30,000	30,000
	<u>27,084,922</u>	<u>25,897,264</u>

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise such benefits.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

6. DISCONTINUED OPERATIONS:

Pursuant to agreements entered into by the Group with Orient Zircon Resources (Australia) Pty Ltd ('OZ') in November 2010:

In June 2011, the Group completed the sale all of its assets, except its interest in the WIM 150 project and its Pine Valley tenements, to Murray Zircon Pty Ltd ('MZ'), a joint venture entity established by the Group and OZ; and

In April 2012, the Group completed the sale of its Pine Valley tenements to MZ.

In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, operations associated with the sale have been classified as 'discontinuing operations' on the basis the Group lost control of the operations on the date of sale. The financial performance of the discontinued operations to the date of sale, which is included in the profit from discontinued operations in the statement of comprehensive income, is as follows:

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Debts forgiven through Deed of Company Arrangement (DOCA) (i)	-	7,445,814
Depreciation	-	(481,765)
Other expenses	-	(720,000)
PROFIT / (LOSS) BEFORE INCOME TAX	-	6,244,049
Income tax benefit / (expense)	-	-
PROFIT / (LOSS) ATTRIBUTABLE TO MEMBERS OF THE ENTITY	-	6,244,049
 PROFIT ON SALE OF DISCONTINUED OPERATIONS		
Proceeds from sale of discontinued operations (ii)	715,000	15,535,000
Fair value adjustment on sale of discontinuing operations (ii) (Note 9)	385,000	8,365,000
Carrying amount of net assets sold (ii)	-	(2,030,117)
Profit on disposal of discontinued operations (ii)	1,100,000	21,869,883
 TOTAL PROFIT AFTER TAX ATTRIBUTABLE TO THE DISCONTINUED OPERATIONS	1,100,000	28,113,932

(i) On 1 September 2009, the Company was suspended from quotation on the ASX at the request of the Company. On 9 October 2009, the Group appointed Pitcher Partners as Administrator pursuant to section 436A of the Corporations Act 2001. Upon recommendation of the Administrator and DCM, on 18 February 2010 the Group's creditors resolved that the Company execute Deeds of Company Arrangements ("DOCA's"). On 30 July 2010, the DOCA's were finalised and approved by the creditors, under which all of the Group's Administration liabilities and unsecured creditors were settled for approximately \$8 million. Subsequently the Creditor's Trust was executed and the DOCA's were effectuated on the same day.

(ii) Consideration received in the year to 30 June 2011 was \$15,535,000 from OZ plus a 35% interest in MZ. The remaining 65% interest in MZ is held by OZ. The carrying value of net assets transferred to MZ at the time of settlement was \$2,030,117, comprising:

	\$	
Property, plant and equipment	1,352,970	(Note 10)
Deferred exploration and evaluation expenses	3,161,150	(Note 11)
Rehabilitation provisions	(2,484,003)	(Note 14)
	<u>2,030,117</u>	

7. CASH AND CASH EQUIVALENTS

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Cash at bank and in hand	792,775	2,152,332

Cash at bank earns interest at floating rates based on daily bank deposit rates.

8. TRADE AND OTHER RECEIVABLES

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
PIRSA bond receivable (i)	0	930,000
Other receivables	272,461	325,084
	272,461	1,255,084

(i) The bond held by Primary Industries and Resources South Australia relating to the Mindarie Project was transferred to MZ during the financial year.

9. INTEREST IN JOINT VENTURE ENTITY

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Balance at beginning of year	8,365,000	-
Acquisition of 35% interest in MZ (i)	-	8,365,000
Contribution of equity (ii)	1,912,091	-
Share of net loss of joint venture entity	(542,526)	-
Balance at end of year (i)	9,734,565	8,365,000

(i) As outlined in Note 6, in June 2011 the Group acquired a 35% interest in Murray Zircon Pty Ltd ('MZ'). MZ is a joint venture entity subject to a Shareholders Agreement between the Group and OZ, under which material decisions made by MZ require unanimous approval by the MZ Board, which is represented by both OZ and the Company's directors. The interest in the joint venture entity is accounted for in these financial statements using the equity method of accounting. The 35% interest was valued at \$8,365,000 on the date of sale (Note 6), based on consideration received from OZ of \$15,535,000 for the other 65% interest.

(ii) During the year to 30 June 2012, the Pine Valley tenements were transferred to MZ, for which the 35% interest was valued at \$385,000 (Note 6). In addition, the Group made cash contributions (which includes the PIRSA bond transferred (Note 8)), totalling \$1,527,091.

The Group's share of the joint venture entity's results and financial position are as follows:

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Current assets	4,329,685	-
Non-current assets	14,364,216	8,365,000
Total Assets	18,693,901	8,365,000
Current Liabilities	(8,959,336)	-
Net Assets	9,734,565	8,365,000
Loss before income tax	(542,526)	-
Income tax expense	-	-
Loss after income tax	(542,526)	-

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

10. PROPERTY, PLANT AND EQUIPMENT

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Plant and equipment		
At cost	293,132	263,414
Accumulated depreciation	(191,126)	(171,089)
Net carrying amount	<u>102,006</u>	<u>92,325</u>
Opening carrying amount	92,325	1,907,157
Additions	29,718	-
Depreciation	(20,037)	(481,765)
Assets disposed to Joint venture entity (Note 6)	-	(1,333,067)
Closing carrying amount	<u>102,006</u>	<u>92,325</u>

11. DEFERRED EXPLORATION AND EVALUATION EXPENSES

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Balance at beginning of year	2,495,033	4,444,854
Deferred expenditure for the year	4,006,205	1,211,329
Less - Deferred exploration relating to tenements sold to JV entity (Note 6)	-	(3,161,150)
Balance at end of year (i)	<u>6,501,238</u>	<u>2,495,033</u>

(i) Deferred expenses as at 30 June 2011 and 2012 relate to the WIM 150 mineral sands deposit. Recoverability of the carrying amount is dependent upon the successful development and commercial exploitation, or alternatively, sale of the area of interest.

12. TRADE AND OTHER PAYABLES

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Trade payables (i)	383,652	434,703
Accrued expenses	32,526	34,531
Total current trade and other payables	<u>416,178</u>	<u>469,234</u>

13. INTEREST BEARING LOANS AND BORROWINGS

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Current		
Amounts owing to DCM (i)	77,015,602	64,833,088
Amounts owing to OZ (ii)	-	5,152,215
Obligations under finance leases	16,356	23,508
	<u>77,031,958</u>	<u>70,008,811</u>

(i) Amounts owing to the Group's controlling entity, DCM, are secured by a second ranking fixed and floating charge over the assets of the Group. Interest is charged on amounts owing at 5% pa. Amounts owing at 30 June 2012 comprise of US\$28,608,174 and AUS\$49,422,426 (2011: US\$25,284,905 and AUS\$40,979,404).

(ii) Amounts owing to OZ were secured by a first ranking fixed and floating charge over the assets of the Group. Interest was charged on the amount owing at 15% pa. As outlined at Note 9, OZ has a joint venture arrangement with the Group. The loan was settled in full by the group on 4 June 2012 as follows:

	\$
Balance at beginning of financial year	5,152,215
Interest to 4 June 2012 on amounts owing to OZ (Note 4)	752,301
Transfer of Pine Valley tenements (Note 6)	(715,000)
Loan balance paid out on behalf of the Group by DCM	<u>(5,189,516)</u>
Balance at end of financial year	-

14. PROVISIONS

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Current		
Annual leave payable	<u>13,972</u>	<u>11,969</u>
Non-current		
Provision for environmental restoration	-	-
At beginning of the year	-	3,500,082
Provision made during the year	-	-
Amount used during the year	-	(1,016,079)
Provision assigned to joint venture entity on sale of operations (Note 6)	-	(2,484,003)
At the end of the year	<u>-</u>	<u>-</u>

Environmental Restoration

Provisions for future removal and restoration costs are recognised where there is a present obligation as a result of exploration, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The future obligations include the costs of removing facilities, abandoning mined strands and restoring the affected areas.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

15. CONTRIBUTED EQUITY

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
(a) Share capital		
Fully paid ordinary shares	110,779,210	110,779,210
Partly paid ordinary shares paid to 0.5 cents each	36,815	36,815
	110,816,025	110,816,025
	<u>Number</u>	<u>Number</u>
<u>Fully paid ordinary shares</u>		
Balance at beginning and end of each year	1,474,715,121	1,474,715,121
<u>Partly paid ordinary shares</u>		
Balance at beginning and end of each year	7,363,026	7,363,026

Effective 1 July 1998, the Corporations legislation abolished concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

The call outstanding on the partly paid shares is 19.5 cents.

Fully paid and partly paid ordinary shares have the right to receive dividends as declared in proportion to the number of shares held.

Fully paid and partly paid ordinary shares have the right, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held. However, partly paid shareholders may only participate in a distribution on winding up if there are no calls outstanding.

Fully paid and partly paid ordinary shares entitle their holders to vote, either in person or by proxy, at a meeting of the Company. On a poll each fully paid ordinary share is entitled to one vote, and each partly paid share is entitled to the fraction of a vote that the paid up amount of the share bears to the total amount which would be payable on each share to make the share fully paid.

Franking Account

The Group has not been in a tax paying position since inception and therefore has unrecognised carried forward tax losses as outlined in Note 5. For this reason the franking account has a nil balance at 30 June 2012 (2011: \$nil). There has been no movement through the franking account during the financial year.

(b) Options

The following options granted to Directors, senior staff and consultants were outstanding as at 30 June 2012:

	<u>Options lapsed / cancelled</u>	<u>Options exercised</u>	<u>Options granted</u>	<u>30 June 2012</u>	<u>Expiry Date</u>	<u>Exercise Price</u>
1 July 2011				39,000,000		
39,000,000	-	-	-	39,000,000	19-Sep-13	9.47 cents
39,000,000	-	-	-	39,000,000		

16. RESERVES

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
<u>Share-based payments reserve</u>		
Balance at beginning and end of the year	899,095	899,095

Nature and purpose of the reserve:

The employee share option and share plan reserve is used to record the value of share-based payments provided to employees, including management personnel, as part of their remuneration.

17. AUDITORS' REMUNERATION

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Audit and review of financial reports	40,000	45,000
Other services	-	-
	40,000	45,000

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

18. EVENTS SUBSEQUENT TO BALANCE DATE

Except as mentioned below, in the opinion of the Directors there has not arisen in the interval between the end of the financial year and the date of this report any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

On the 15th August 2012, the Company announced that it has entered into conditional arrangements with a company based in Hong Kong in the Peoples Republic of China (the Purchaser). Pursuant to these arrangements, the Company has agreed to sell its 35% shareholding in Murray Zircon Pty Ltd to the Purchaser for a consideration of AUD 11,500,000.

On the 15th August 2012, Austpac announced that it would transfer the EL4521 to Orient Zircon Resources (Australia) Pty Ltd subject to the consent of AZC.

On the 16th August 2012, the Company informed APG that it does not consent to the transfer of the EL 4521. The Company also referred to its announcement to the ASX dated 10 November 2010 regarding an option held by the group from the People's Republic of China to call for a transfer to a joint venture company of the company's WIM150 assets. The above described option was not exercised within the prescribed time and has lapsed.

On the 21st August 2012, the Company announced that it had been informed by the group from the People's Republic of China that the group disputes that the above described option has lapsed. The Company reiterates that the correct position is as it announced on the 16th August 2012 and will take whatever action is required to maintain that position legally. The Company and the group have agreed to hold "without prejudice" discussions in an effort to try and find a mutually acceptable resolution and, pending those discussions, to refrain from commencing any legal action.

19. EARNINGS PER SHARE

	<u>Consolidated</u> <u>2012</u> \$	<u>Consolidated</u> <u>2011</u> \$
Earnings used to calculate basic and diluted earnings per share from continuing and discontinuing operations	(3,928,823)	28,960,385
Earnings used to calculate basic and diluted earnings per share from continuing operations	(5,028,823)	846,453
Earnings used to calculate basic and diluted earnings per share from discontinuing operations	1,100,000	28,113,932
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,474,715,121	1,474,715,121
Weighted potential ordinary shares on issue	46,363,026	46,363,026

The calculation of diluted earnings per share does not include weighted potential ordinary shares on issue as they were not in the money at any time during the financial period.

20. FINANCIAL INSTRUMENTS and FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise loans from related entities (Note 13). The main purpose of these financial instruments is to manage short term cash flow and finance the Group's planned exploration and evaluation expenditure.

It is, and has been throughout the year ended 30 June 2012 and 2011, the Group's policy that no speculative trading in derivatives shall be undertaken

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial liability and equity instrument are disclosed in Note 2 to the financial statements.

The main risks that could adversely affect the Group's financial assets, liabilities or future cash flows are cash flow interest rate risk, foreign currency risk, and liquidity risk. The management reviews and agrees policies for managing each of these risks which are summarised below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Group's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable.

The sensitivity has been prepared for period ended 30 June 2012 using the amounts of debt and other financial assets and liabilities held as at the Statement of Financial Position date.

Foreign currency risk

The Group has amounts owing to DCM that are denominated in US dollars (Note 13). All other financial liabilities and financial assets are denominated in AUS dollars. The following table demonstrates the sensitivity to a reasonably possible change in the foreign exchange rate, with all other variables held constant, of the Group's profit before tax due to changes in the carrying value of monetary assets and liabilities.

Increase / decrease in foreign exchange rate	Effect on profit before tax for the year ended 30 June 2012 \$	Effect on profit before tax for the year ended 30 June 2011 \$
Increase 10%	(2,860,117)	(2,745,022)
Decrease 10%	2,860,117	2,745,022

Fair values

The fair values and carrying amounts for all of the financial assets of the Group as at 2011 and 2012 balance dates are the same.

Interest rate risk

The Group's debts are subject to fixed interest rates (Note 13).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group is currently reliant on the continual financial support of its controlling entity, DCM, to pay its debts as and when they fall due.

CAPITAL MANAGEMENT

In order to maintain a solid capital base it is the Board's policy to maintain market, creditor, and investor confidence and meet growth demands of the Group. Currently the strategy is to reinvest in the Group as the Board is of the opinion this will lead to maximise return for shareholders over the medium to long term. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012

21. RECONCILIATION OF (LOSS) / PROFIT AFTER TAX TO CASH FLOWS FROM OPERATIONS

	<u>Consolidated</u>	<u>Consolidated</u>
a) Reconciliation to the Cash Flow Statement	<u>2012</u>	<u>2011</u>
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:	\$	\$
Cash at bank and in hand	792,775	2,152,332
	792,775	2,152,332

b) Reconciliation of (loss) / profit after tax to cash flows from operations

	<u>Consolidated</u>	<u>Consolidated</u>
	<u>2012</u>	<u>2011</u>
	\$	\$
Operating (loss) / profit after income tax	(3,928,823)	28,960,385
Adjustment for non-cash items:		
Depreciation - Plant & equipment	20,037	481,765
Foreign exchange gain	(30,038)	(5,877,544)
Gain on sale of discontinued operations	(1,100,000)	(21,869,883)
Debts forgiven	-	(7,445,814)
HP interest	1,523	-
Share of net loss of joint venture entity	542,525	-
Borrowing costs	4,074,958	4,318,214
Changes in operating assets and liabilities		
Decrease / (increase) in trade and other receivables	982,623	(204,696)
less transfer of bond to MZ	(930,000)	-
Decrease in inventories	-	29,705
(Decrease) in trade and other payables	(53,056)	(897,788)
Increase / (decrease) in provisions	2,003	(1,043,183)
Net cash outflow from operating activities	(418,248)	(3,548,839)

c) Non-cash financing and investing activities

During the year, the Group's controlling entity, DCM, paid \$5,189,516 to Orient Zirconic Resources (Australia) Pty Ltd to settle amounts owed by the Australian Zircon NL (Note 13).

22. INVESTMENT IN CONTROLLED ENTITIES

<u>Name of Entity</u>	<u>Country of incorporation</u>	<u>Class of shares</u>	<u>Equity interest</u>	<u>Investment</u>
\$				
Steiner Holdings Pty Ltd				
2012	Australia	Ordinary	100%	-
2011	Australia	Ordinary	100%	-
Mallee Mineral Separations Pty Ltd				
2012	Australia	Ordinary	100%	-
2011	Australia	Ordinary	100%	-

23. SHARE-BASED PAYMENTS

The fair value of equity settled options granted is measured at the date of the grant using the Black-Scholes option pricing model taking into account the terms and conditions upon which the instruments were granted. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Where parties other than employees are issued share based payments, Australian Zircon in accordance with Australian Accounting Standards has valued these options with reference to the fair value of the good or service received where this can be reliably estimated.

Share based payment options outstanding at 30

June 2010, 2011 and 2012: (i) **39,000,000**

(i) The outstanding options as at 30 June 2012 expire on 19 September 2013, have an exercise price of 9.47 cents, had a fair value at grant date of 0.000256 cents, and fully vested on their grant date, which was 19 September 2008.

Share options are granted to senior executives and key management personnel on a discretionary basis in accordance with approval by the Board of Directors. Options may also be issued in exchange for a good or service to counter parties that are not employees. Options issued vary in terms and conditions with some vesting immediately on grant date and others over longer periods (usually two years from grant date). The options are designed to align participants' interests with those of shareholders by increasing the value of the Company's shares. The exercise prices of options are set at market prices prevailing at the time of granting the options. When an employee ceases employment prior to vesting their options, the share options are forfeited to the extent stipulated in their employment contract.

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
for the Year Ended 30 June 2012**

24. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

Directors during the year ended 30 June 2012

JD Shervington	Chairman
T Styblo	Non-Executive Director
S McEwen	Finance Director
MP Adams	Executive Director
G Bedineishvili	Director (non-executive)

The appointment and retirement dates, where applicable of the above Directors are set out in the Directors Report.

Compensation by category: Key Management Personnel

	<u>Consolidated</u> <u>2012</u>	<u>Consolidated</u> <u>2011</u>
	\$	\$
Short term	411,929	446,186
Post employment	9,815	17,250
	<u>421,744</u>	<u>463,436</u>

Compensation options

There were no compensation options granted during the years ended 30 June 2011 and 2012.
No shares were issued on exercise of compensation options during the years ended 30 June 2011 and 2012.

(b) Option holdings of Key Management Personnel

30 June 2012

No Key Management Personnel held options in the Company during the year ended 30 June 2012.

30 June 2011

No Key Management Personnel held options in the Company during the year ended 30 June 2011.

(c) Ordinary Fully Paid Share holdings of Key Management Personnel

Directors	Balance at 30 June 2010, 2011 and 2012
JD Shervington	1,216,230

No fully paid shares were held by Key Management Personnel during the year ended 30 June 2012 other than those stated above.
Mr JD Shervington held 900,000 partly paid shares throughout 2010, 2011 and 2012.
No shares were granted in either the years ended 30 June 2011 or 2012 as compensation.
During the financial years ended 30 June 2011 and 2012 there were no loans or other transactions between the consolidated group and Key Management Personnel.

25. SEGMENT INFORMATION

The Group operates in the mineral sands exploration and mining industry in Australia. The Group operates predominantly in one geographical area. On this basis, the entire operations are considered to be those of only one segment for financial reporting purposes as all sales are to international customers.

26. CONTINGENCIES

No contingent assets or liabilities exist as at 30 June 2012.

DIRECTORS' DECLARATION

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

1. In the opinion of the Directors:

(a) The financial statements, notes and the additional disclosures included in the Directors' report designated as audited are in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Company's and Group's financial position as at 30 June 2012 and of their performance for the year ended on that date;

(ii) Complying with Accounting Standards and *Corporations Regulations 2001*, which as stated in Note 2 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards

(b) There are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable. At the date of the signing of the financial statements, the Directors are confident that the financial support of its major shareholder will continue.

2. This declaration has been made after receiving the declarations required to be made by the Directors in accordance with Section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2012.

On behalf of the Board.



J D Shervington
Chairman
Perth, 14 September 2012

Independent Auditor's Report
To the members of Australian Zircon NL

Report on the Financial Report

We have audited the accompanying financial report of Australian Zircon NL, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

We 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*, which has been given to the directors of Australian Zircon NL, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Australian Zircon NL is in accordance with the *Corporations Act 2001*, including:
giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of matter - Inherent uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to Note 2, which outlines that the group is dependent upon continuing financial support from its controlling shareholder, DCM, to pay its debts as and when they fall due. As at 30 June 2012, the Group had net liabilities of \$60,059,063 and \$77,015,602 was owing to DCM. DCM have indicated that they will continue to support the group's activities in relation to the WIM 150 mineral sands project, but have not confirmed this in writing, nor have they indicated that they will provide any other financial support to the group.

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

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 4 to 5 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Australian Zircon NL for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



Somes Cooke



Kevin Somes
14 September 2012
Perth

CORPORATE GOVERNANCE STATEMENT

Australian Zircon is committed to a high level of corporate governance in accordance with the Corporations Act and the ASX Listing Rules. The Group's principles and practices are detailed in the Corporate Governance Statement posted on the Company's web-site (www.australianzircon.com.au).

The Chief Executive Officer has assured the Board that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Management has also reported to the Board that the Group's management of material business risks is effective.

This Corporate Governance Statement outlines the Company's system of governance during the Financial Year and the extent of the Company's compliance, as at the end of the Financial Year, by reference to the second edition of the ASX Corporate Governance Principles and Recommendations published in August 2007 by the ASX Corporate Governance Council (as amended in 2010) with 2010 amendments and to the Corporations Act 2001. The Group's compliance with those Principles and Recommendations for the year ending 30 June 2012 is detailed in the Corporate Governance Scorecard which follows.

The Group has not adopted all of the recommendations of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations. These recommendations and the reasons for non-adoption are also detailed below at the foot of the Scorecard.

Corporate Governance Scorecard

Principle 1	Lay solid foundations for management and oversight	
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	√
1.2	Companies should disclose the process for evaluating the performance of senior executives.	√
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	√
Principle 2	Structure the board to add value	
2.1	A majority of the Board should be independent directors.	√
2.2	The chair should be an independent Director.	√
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	√
2.4	The Board should establish a nomination committee.	X
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	√
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	√
Principle 3	Promote ethical and responsible decision-making	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • the practices necessary to maintain confidence in the Company's integrity 	√
	<ul style="list-style-type: none"> • the practices necessary to take into account their legal obligations and the reasonable expectations of their shareholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices 	√
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	√
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	X
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	X
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	√
Principle 4	Safeguard integrity in financial reporting	
4.1	The Board should establish an audit committee.	X
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> • consists only of non-executive Directors • consists of a majority of independent Directors • is chaired by an independent chair, who is not chair of the board • has at least three members 	X X X X
4.3	The audit committee should have a formal charter.	X
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	√
Principle 5	Make timely and balanced disclosure	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies.	√
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	√
Principle 6	Make timely and balanced disclosure	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	√
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	√
Principle 7	Recognise and manage risk	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	√
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	√
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	√
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	√

CORPORATE GOVERNANCE STATEMENT - (continued)

Corporate Governance Scorecard - (continued)

Principle 8	Remunerate fairly and responsibly	
8.1	The Board should establish a remuneration committee.	X
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none">• consists of a majority of independent directors• is chaired by an independent chair, who is not chair of the board• has at least three members	X X X
8.3	Companies should clearly distinguish the structure of non-executive Directors' remuneration from that of executive Directors and senior executives.	√
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	√

Reasons for non-adoption of Corporate Governance Principles

Principle 2.4

The Group does not have a Nomination Committee. The Board considers the size and level of operations of the Company is not sufficient to warrant a separate Committee. In the event a new or a replacement Director was considered necessary, the full Board of Directors would be canvassed for their views and recommendations. The Company considers that its current size does not warrant the establishment of a nomination committee.

In the absence of a Nomination Committee, the full Board conducts the functions and considers the issues that would otherwise be considered by a Nomination Committee.

If the Board determines that there is a need to appoint another Director for any reason, they will:

- determine the skills, experience, qualifications appropriate, having regard to those of the existing Directors
- agree the process to seek such a person
- set a timetable to appoint, having regard to the timing of the AGM and requirements of the Constitution
- prepare a short list and meet the candidates.

Principle 3.3 & 3.4

The Company has not disclosed each of these principles in the annual report as the Board considers the size and level of operations of the Company is not sufficient to warrant a separate disclosure and has therefore not done so this year.

Principle 4

The Board has not established an audit committee as it is considered its current size does not warrant the establishment of an audit committee. Matters that might be considered by an audit committee are reviewed by the full board.

Principle 8.1 & 8.2

The Board has not established a remuneration committee as it is considered its current size does not warrant the establishment of a remuneration committee. Matters that might be considered by a remuneration committee are reviewed by the full board.

The full Board reviews recommendations from management in respect of the Company's remuneration, recruitment, retention and termination policies and procedures for all staff, including long and short term incentives and superannuation arrangements. Appropriate external advice is sought where necessary.

Subject to the above exceptions, the Group believes it has complied with the ASX Corporate Governance Principles and Recommendations for the year ending 30 June 2012.

The status of, and term in office held by, each Director in office at the date of this report is as follows:

Name	Status	Term in Office
JD Shervington	Independent	12.5 years
MP Adams		1.0 years
T Styblo		0.5 years
Dr G Kornfeld		0.1 years

SHAREHOLDERS' INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 26 August 2012.

1. Distribution of equity securities

	Number of Holders Fully paid shares	Number of Holders partly paid shares	Number of Holders Unlisted options
0 - 1,000	262	168	-
1,001 - 5,000	491	63	-
5,001 - 10,000	386	5	-
10,001 - 100,000	1,558	33	-
100,001 - 999,999,999	435	16	11
1,000,000,000 - 9,999,999,999	1	0	-
	3,133	285	11

Shareholders holding less than a marketable parcel

Fully Paid Shares	Partly paid Shares	Unlisted Options
2,904	269	N/A

The percentage held by the 20 largest shareholders

Fully Paid Shares	Partly paid shares	Unlisted Options
87.98%	82.59%	100%

2. Substantial Shareholders

Ordinary fully paid shareholders	Number	%
DCM DECOmetal International Trading GmbH	1,067,479,114	72.39

3. Statement of quoted securities

All of the 1,474,715,121 ordinary fully paid shares and 7,363,026 shares partly paid to 0.5 cents each (40 cents to pay) are listed on the Australian Securities Exchange Limited. Application for quotation of fully paid ordinary shares will be made to Australian Securities Exchange Limited when unlisted options are exercised or when partly paid shares have become fully paid.

4. Twenty largest holders of quoted equity securities

Rank	Ordinary fully paid shareholders	Fully paid	
		Number	%
1	DCM DECOmetal International Trading GmbH	1,067,479,114	72.39%
2	HSBC Custody Nominees (Australia) Limited	82,442,819	5.59%
3	Mr. Christopher Michael Williamson	34,842,357	2.36%
4	HSBC Custody Nominees (Australia) Limited – A/C 3	23,587,895	1.60%
5	Goddard Development Pty Limited	22,012,566	1.49%
6	Kabinige Nominees Pty Ltd (Kabinige Superannuation Fund)	13,063,885	0.89%
7	Barossa Vintage Pty Limited (Milton Park A/C)	12,500,000	0.85%
8	National Nominees Limited	9,756,179	0.66%
9	Taycol Nominees Pty Limited (211 A/C)	4,413,770	0.30%
10	HSBC Custody Nominees (Australia) Limited – A/C 2	4,166,667	0.28%
11	ANZ Nominees Limited (Cash Income A/C)	3,301,620	0.22%
12	Spy Glass Nominees Pty Ltd (The Bale Family A/C)	2,839,420	0.19%
13	JP Morgan Nominees Australia Limited	2,640,205	0.18%
14	Mr. Robert Hastings Smythe (Super Fund A/C)	2,380,000	0.16%
15	Leet Investments Pty Limited	2,300,000	0.16%
16	Professor Alan Jonathan Berrick	2,000,000	0.14%
17	Crawley Investments Pty Limited (Crawley A/C)	2,000,000	0.14%
18	Taycol Nominees Pty Limited	1,997,399	0.14%
19	Dr. Peter Frederick Isaac	1,905,362	0.13%
20	Loquela Pty Limited	1,840,000	0.12%

5. Twenty largest holders of partly paid shares

Rank	Ordinary partly paid shareholders	Partly paid	
		Number	%
1	Panga Pty Limited	900,000	12.22%
2	Mr. Ronald Stanley Punch and Mrs. Beverley Punch (Westralia Trading A/C)	775,000	10.53%
3	Mr. Murray James McGill and Mrs. Suzanne Appel McGill (Saint Moritz A/C)	592,041	8.04%
4	Grange Consulting Group Pty Limited	575,000	7.81%
5	Mr. David John Newman	500,091	6.79%
6	Wilhaja Pty Limited (Riekie Family A/C)	287,500	3.90%
7	Bayonet Investments Pty Limited (South Point A/C)	274,821	3.73%
8	Miss. Kathleen Mary Eddington (Kathie Eddington No 2 S/F A/C)	252,000	3.42%
9	Bayonet Investments Pty Limited (South Point A/C)	250,000	3.40%
10	Surfboard Pty Limited (ARW Super Fund No 1 A/C)	250,000	3.40%
11	Mr. Greg Hancock	200,000	2.72%
12	Mr. William Irvin	200,000	2.72%
13	Mr. Brian Thomas Ryan	196,830	2.67%
14	Hadley Park Pty Limited	163,320	2.22%
15	Mrs. Beverley Ruth Deamer	153,371	2.08%
16	Vern Investments Pty Limited	134,324	1.82%
17	Dawngold Investments Pty Limited	100,000	1.36%
18	Jalina Nominees Pty Limited	98,415	1.34%
19	Mrs. Kay Irvin	90,000	1.22%
20	Cornerstone Capital Pty Limited (Investment A/C)	88,760	1.21%

Registered Office & Head Office

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West Perth WA 6872

Solicitor

Jeremy Shervington
Barrister & Solicitor
52 Ord St
WEST PERTH WA 6005

Share Registry

Share Registry
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Adelaide SA 5000

Home Stock Exchange

Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
Perth WA 6000
ASX Code: AZC

Website

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