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AUSTRALIAN ZIRCON NL

**INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

ASX Code: AZC

INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2012
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INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2012 DIRECTORS' REPORT

The directors present their report together with the consolidated financial report of Australian Zircon NL (**Australian Zircon or the Company**) for the six months ended 31 December 2012 and the auditor's review report thereon.

1. Directors

The directors of the Company at any time during or since the end of the interim period are as follows.

Name	Period of directorship
Jeremy D Shervington	Appointed 16 February 1998, Chairman from 23 December 2008
Thomas Styblo	Appointed 22 February 2012
Dr Gerhard Kornfeld	Appointed 23 August 2012
Johann Jacobs	Appointed 18 September 2012
Martin Adams	Appointed 24 June 2011, Resigned 17 September 2012
Graham Seppelt	Company Secretary from 6 December 2011

2. Review of Operations

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 Orient Zircon Resources (Australia) Pty Ltd, Australian Zircon NL will earn an 80% interest in the WIM150 project.

On 27 September 2012, the Company completed the sale of its 35% shareholding of Murray Zircon Pty Ltd, the owner and operator of the Mindarie mineral sands project, to a Hong Kong based company, for \$11.5 million.

3. Financial Position

For the six months ended 31 December 2012, Australian Zircon NL recorded a loss of \$3,589,410 and, as at 31 December 2012, had cash and cash equivalents of \$855,078.

4. Events subsequent to reporting date

There has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years

5. Auditor's Independence Declaration

The auditor's independence declaration is set out on page 4 and forms part of the directors' report for the six months ended 31 December 2012.

This report is made with a resolution of the directors:



Jeremy Shervington
CHAIRMAN

5th day of March 2013.

AUDITOR'S INDEPENDENCE DECLARATION

To those charged with governance of Australian Zircon NL

As auditor for the review of Australian Zircon NL for the period ended 31 December 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 review; and
- b) No contraventions of any applicable code of professional conduct in relation to the review.



Somes Cooke



Kevin Somes
Perth
5 March 2013

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**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

	Note	31 Dec 2012 \$	31 Dec 2011 \$
Revenue – Sale of 35% interest in Murray Zircon Pty Ltd	7	1,305,435	-
Other income		52,391	302,806
Finance costs	6	(4,396,660)	(2,035,690)
Other expenses		(550,576)	(607,631)
Loss before income tax		(3,589,410)	(2,340,515)
Income tax expense		-	-
Loss after income tax for the period		(3,589,410)	(2,340,515)
Other comprehensive income for the period		-	-
Total comprehensive income for the period attributable to members of the Company		(3,589,410)	(2,340,515)
Earnings (loss) per share			
Basic earnings (loss) per share (cents)		(0.24)	(0.16)
Diluted earnings (loss) per share (cents)		(0.24)	(0.16)

The consolidated interim statement of comprehensive income is to be read in conjunction with the accompanying notes.

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

	Note	31 Dec 2012 \$	30 June 2012 \$
Assets			
Cash and cash equivalents		855,078	792,775
Trade and other receivables		34,899	272,461
Total current assets		889,977	1,065,236
Interest in joint venture entity	7	-	9,734,565
Deferred exploration and evaluation costs	8	8,719,466	6,501,238
Property, plant and equipment		88,273	102,006
Total non-current assets		8,807,739	16,337,809
Total assets		9,697,716	17,403,045
Liabilities			
Trade and other payables		497,819	416,178
Borrowings	9	72,788,649	77,031,958
Provisions		59,721	13,972
Total current liabilities		73,346,189	77,462,108
Total liabilities		73,346,189	77,462,108
Net assets		(63,648,473)	(60,059,063)
Equity			
Share capital	10	110,816,025	110,816,025
Reserves		899,095	899,095
Accumulated losses		(175,363,593)	(171,774,183)
Total Equity		(63,648,473)	(60,059,063)

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

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

	Issued capital \$	Share Based Payments Reserve \$	Accumulated losses \$	Total \$
For the six months ended 31 December 2012				
Opening balance at 1 July 2012	110,816,025	899,095	(171,774,183)	(60,059,063)
Total comprehensive income of the period	-	-	(3,589,410)	(3,589,410)
Balance as at 31 December 2012	110,816,025	899,095	(175,363,593)	(63,648,473)
For the six months ended 31 December 2011				
Opening balance at 1 July 2011	110,816,025	899,095	(167,845,360)	(56,130,240)
Total comprehensive income of the period	-	-	(2,340,515)	(2,340,515)
Balance as at 31 December 2011	110,816,025	899,095	170,185,875)	(58,470,755)

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

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

	Note	31 Dec 2012 \$	31 Dec 2011 \$
Cash flows from operating activities			
Cash paid to suppliers and employees		(954,495)	(272,292)
Interest received		22,537	109,617
Sundry revenue		217,286	74,594
Net cash (outflow) from operating activities		(714,672)	(88,081)
Cash flows from investing activities			
Payments for exploration and evaluation assets		(2,118,296)	(1,488,954)
Payments for property, plant and equipment		(919)	(14,658)
Receipts from sale of 35% interest in JV	7	11,500,000	-
Net cash inflow/(outflow) from investing activities		9,380,785	(1,503,612)
Cash flows from financing activities			
Loan finance from DCM	9	400,000	1,750,000
Repayment of loan from DCM	9	(9,000,000)	-
Finance lease principal repayments		(3,810)	(3,509)
Net cash (outflow)/inflow from financing activities		(8,603,810)	1,746,491
Net increase in cash and cash equivalents		62,303	154,798
Cash and cash equivalents at the beginning of the period		792,775	2,152,331
Cash and cash equivalents at the end of the period		855,078	2,307,129

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

CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

1. Reporting entity

Australian Zircon NL (the Company) is a company domiciled and incorporated in Australia. The address of the Company's registered office is Station Arcade Suite 2, Level 2, 52 Hindley Street, Adelaide SA 5000. The consolidated interim financial report as at and for the six months ended 31 December 2012 comprises the Company and its subsidiaries (together referred to as the Group). The Group is primarily involved in the exploration and evaluation of heavy mineral sands in Victoria, Australia.

2. Statement of compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group and for the year ended 30 June 2012.

This consolidated interim financial report was approved by the Board of Directors on 27th February 2013.

3. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2012.

Certain comparative amounts have been reclassified to conform with the current period's presentation.

4. Estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated annual financial report as at and for the year ended 30 June 2012.

5. Going concern

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

At the date of signing the financial report, the Company is dependent upon continuing financial support from its controlling shareholder, DCM DECOMetal ("DCM"), to pay its debts as and when they fall due. As at 31 December 2012, the Group had net liabilities of \$63,648,473 and \$72,776,103 was owing to DCM. DCM has indicated that it will continue to support the group's activities in relation to the WIM150 mineral sands project.

At the date of signing the financial report, the directors are confident that DCM will continue to financially support the Company to enable it to pay its debts as and when they fall due for 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 will be able to continue as a going concern. The financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, or the amounts or classification of liabilities, which might be necessary should the Company not be able to continue as a going concern.

6. Finance costs

During the period to 31 December 2012, it was determined that DCM had been previously undercharging the Company interest on loan amounts owing to DCM (Note 9). Finance costs of \$4,396,660 for the period to 31 December 2012 include a one-off charge of \$2,444,244, being the total amount undercharged in prior periods.

**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

7. Investment in joint venture entity

Consolidated	
31 Dec 2012	30 June 2012
\$	\$
-	9,734,565

On 27 September 2012, the Company completed the sale of its 35% shareholding of Murray Zircon Pty Ltd to a Hong Kong based company, for \$11.5 million.

	\$
Sales proceeds	11,500,000
Carrying value of shareholding sold	(9,734,565)
Costs of sale (commission)	(460,000)
Profit on sale	<u>1,305,435</u>

8. Deferred exploration and evaluation costs

	\$
Balance at beginning of period	6,501,238
Exploration costs incurred in the period	<u>2,218,228</u>
Balance at end of period	<u>8,719,466</u>

Deferred exploration and evaluation costs relate to the WIM 150 project. The interest to be earned by the Group in the WIM 150 project is subject to the completion of a Bankable Feasibility Study. Recovery of the carrying amount is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective area of interest.

9. Borrowings

	31 Dec 2012	30 June 2012
	\$	\$
Amounts owed to DCM (i) (ii)	72,776,103	77,015,602
Obligations under finance leases	12,546	16,356
	<u>72,788,649</u>	<u>77,031,958</u>

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

**CONDENSED NOTES TO THE INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

(ii) Movement in DCM loan balance:

	\$
Balance at beginning of period	77,015,602
Loan funds from DCM	400,000
Repayment of loans from DCM	(9,000,000)
Interest accrued during period (Note 6)	4,396,660
Other movements	(36,159)
Balance at end of period	<u>72,776,103</u>

10. Issued capital

Movement in ordinary shares

	31 Dec 2012	31 Dec 2011	31 Dec 2012	31 Dec 2011
	No.	No.	\$	\$
Fully paid:				
On issue at beginning of period	1,474,715,121	1,474,715,121	110,779,210	110,779,210
On issue at end of period	<u>1,474,715,121</u>	<u>1,474,715,121</u>	<u>110,779,210</u>	<u>110,779,210</u>
Partly paid:				
On issue at beginning of period	7,363,026	7,363,026	36,815	36,815
On issue at end of period	<u>7,363,026</u>	<u>7,363,026</u>	<u>36,815</u>	<u>36,815</u>
Total			<u>110,816,025</u>	<u>110,816,025</u>

The Company has 39 million options on issue, exercisable at 9.47 cents, that expire on 19 September 2013.

11. Events subsequent to reporting date

There has not arisen in the interval between the end of the period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years

**DIRECTORS' DECLARATION
FOR THE SIX MONTHS ENDED 31 DECEMBER 2012**

In the opinion of the directors of Australian Zircon NL ("the Company"):

1. the financial statements and notes, as set out on pages 5 to 11, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the Group's financial position as at 31 December 2012 and of its performance for the interim period ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Jeremy Shervington
CHAIRMAN

5th day of March 2013.

Independent Auditor's Review Report

To the members of Australian Zircon NL

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Australian Zircon NL, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Australian Zircon NL's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian Zircon NL, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

- (a) giving a true and fair view of the Australian Zircon NL's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

Without modifying our opinion, we draw attention to Note 5, which outlines that the group is dependent upon continuing financial support from its controlling shareholder, DCM DECOmetal ("DCM"), to pay its debts as and when they fall due. As at 31 December 2012, the Group had net liabilities of \$63,648,473 and \$72,776,103 was owing to DCM.

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.



Somes Cooke



Kevin Somes

5 March 2013

Perth
Western Australia