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AustralianZircon
NL ABN 60 063 389 079

ANNUAL REPORT – 2014

TABLE OF CONTENTS

Contents

Directors' Report

The Directors of Australian Zircon NL ('the Company') submit their report for the year ended 30 June 2014.

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.

JEREMY D SHERVINGTON

B.Juris.LLB – Appointed 16 February 1998, Non-executive Chairman from 23 December 2008.
Mr Shervington is a solicitor specialising in laws regulating companies and the securities industry in Australia.
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, resigned 15 May 2014;Horseshoe Metals Limited - Non executive Chairman from 14 December 2006, resigned 23 June2014.
Former Directorships in the last 3 years: Papillon Resources: appointed 11 May 2006, resigned 27 May 2011; Prairie Downs Limited: appointed 11 October 2002, resigned 25 August 2011; Cokal Limited: appointed 8 August 2006, resigned 24 December 2010; Industrial Minerals Corporation Limited: appointed 17 January 2004, resigned 10 March 2011; Cardinal Resources Limited: appointed 11 November 2010, resigned 27 December 2012.
Age: 56

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 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 Limited - Non executive Director from 28 March 2012.
Former Directorships in the last 3 years: Swan Gold Mining Limited: appointed 14 September 2012, resigned 27 March 2013; Redbank Copper Limited: appointed 11 April 2012, resigned 23 April 2013.
Age: 46

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 Mondi Group.
Other current Directorships: Stirling Resources Limited - Non executive Director from 14 September 2012.
Former Directorships in the last 3 years: Swan Gold Mining Limited: appointed 25 July 2012, resigned 27 March 2013; Redbank Copper Limited: appointed 14 September 2012, resigned 23 April 2013.
Age 45

DIRECTORS' REPORT

JOHANN JACOBS

B.Acc, MBL, FCA, FAICD – Non-executive Director. Appointed 18 September 2012.

Mr Jacobs has more than 30 years experience in the resource sector where he has managed established companies and acquisitions, expansions or start-up mining operations in Australia, South Africa, and Indonesia.

Other current Directorships: King Island Scheelite Limited - Independent Non-executive Chairman from 30 November 2012, Uranex Limited – Non executive Chairman from 27 August 2010 until 4 June 2014, remains a Non executive director, TW Holdings Pty Ltd - Non executive director from 14 December 2012.

Former Directorships in the last 3 years: IMX Resources Limited: appointed 12 August 2007, resigned 10 February 2012; Coalworks Limited: appointed 20 June 2012, resigned 18 December 2012.

Age:60

Executives

MARTIN ADAMS

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

Resigned 1 February 2014

Company Secretary

GRAHAM SEPPELT

Company Secretary from 6 December 2011.

Mr Seppelt has 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, UXA Resources Limited and Legend Corporation Limited.

Director's 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	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. However, Dr G Kornfeld and Mr T Styblo are representatives of DCM DECOmetal GmbH, the Company's largest shareholder which holds 1,067,479,114 shares.

DIRECTORS' REPORT

Principal Activities

During the year, the Company completed, a Bankable Feasibility Study (BFS) pertaining to the WIM 150 mineral sands project in Western Victoria. Following completion of the BFS, the company has undertaken an optimization review of the project and that review is nearly complete.

Results and Dividends

The Company made a loss after tax of $6,497,996 (2013: $9,498,618), primarily due to the continuing work on the Optimisation Study pertaining to the WIM150 project.
No dividends were paid during the year to 30 June 2014 and the Directors have not recommended the payment of a dividend.

Corporate Performance

The performance of Australian Zircon NL 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
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
2013	(9,498,618)	(0.6)	(69,557,681)	N/A	N/A
2014	(6,497,996)	(0.4)	(76,055,677)	N/A	N/A

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

Tenements Held

Details of all Tenements held or which AZC has rights to as at 30 June 2014:

AUSTRALIAN ZIRCON NL							
Tenement Schedule - Victoria - 7 July 2014							
EL Number	**Tenement Name**	**Registered Holder**	**Area (sq km)**	**Grant Date**	**Expiry Date**	**Annual Tech Report Due Date**	**Australian Zircon Interest**
EL5446	Horsham	Australian Zircon NL	282	11/01/2013	10/01/2018	30/09/2014	100%
EL5460	Laharum	Australian Zircon NL	161	18/04/2013	17/04/2018	30/09/2014	100%
EL4521	WIM150	Orient Zirconic Resources (Australia) Pty Ltd	324	1/12/2000	1/12/2014	1/02/2015	80% of WIM150 Project area
RL2007	WIM150	Orient Zirconic Resources (Australia) Pty Ltd	146	26/07/2013	26/07/2018	30/07/2014	80%

Review of Operations and Likely Developments

During the year Australian Zircon NL made the following announcements to the ASX in respect of the WIM150 Mineral Sands Project in Western Victoria.

- **Determination of Ore Reserves**

Ore Reserves expert Optiro Pty Ltd delivered its opinion that the previously defined WIM150 Mineral Resources contains Proved and Reliable Reserves of **552 million tonnes containing 4.3% total heavy mineral.**

- **Completion and Independent Endorsement of Bankable Feasibility Study**

Independent Experts delivered a joint opinion to advise that the study completed by Australian Zircon NL on 26 July 2013 constitutes a Bankable Feasibility Study.

- **Australian Zircon NL earns 80% Project Interest, WIM150 Joint Venture formed**

Coincident with delivery of the Independent Experts' opinion Australian Zircon NL perfected its earning of an 80% interest in the WIM150 Project. Ownership of the Project now vests in the unincorporated WIM150 Joint Venture, owned as to 80% by Australian Zircon NL and as to 20% by Orient Zirconic Resources (Australia) Pty Ltd 'Orient Zirconic'. The Bankable Feasibility Study contemplates the mining and processing of 10 million tonnes of WIM150 Ore annually to produce a range of high quality zircon products for use in the ceramics industry. Titanium minerals, commonly used in the manufacture of pigments for use in paints, and rare earth minerals, used in the electronics industry, will be co-products. Pursuant to the provisions of the Farmin Agreement, the WIM150 Joint Venture came into being on 3 September 2013. Australian Zircon NL is Operator for the Joint Venture.

WIM150 Project Status

The Company has nominated 30 June as the annual date for reporting JORC compliant estimates of mineral resources and reserves and which will be stated within each year's annual report to shareholders.

Australian Zircon NL reported to the ASX (26 July 2013) that **Proved and Probable Ore Reserves of 552 million tonnes of 4.3% total heavy mineral** had been defined at WIM150.

The current WIM150 Ore Reserve estimate is shown in the table below.

Category	Ore Tonnes (Mt)	In Situ HM (Mt)	% THM (-75+20 µm)	HM Mineral Assemblage (%)					
				Zircon	Rutile	Ilmenite	Leucoxene	Monazite*	Xenotime*
Proved	268	12.0	4.5	22.0	11.7	32.7	5.9	2.4	0.4
Probable	283	12.0	4.2	21.3	11.6	30.8	5.9	2.2	0.4
Total	**551**	**24.0**	**4.3**	**21.6**	**11.7**	**31.7**	**5.9**	**2.3**	**0.4**

*Source: Australian Zircon NL. *Note: Rare earth minerals*

Notes accompanying the Ore Reserves statement are as follows:

- Ore Reserves are based upon a variable cut-off grade calculated by assessing the revenue of each block.
- Ore Reserves are based on a state royalty of 2.75%.
- Mineral Resources have been reported inclusive of Ore Reserves.
- Total Heavy Minerals is assessed on the +20 µm –75 µm size fraction.
- Total Heavy Minerals grade is reported as a percentage of in situ ore.
- Leucoxene includes altered leucoxene.
- The HM assemblage grades (zircon, ilmenite, and so on) are reported as a percentage of Total Heavy Minerals contained in the ore.
- Tonnes are reported to four significant figures and grades to two significant figures. Discrepancies in summations are due to rounding.
- The Ore Reserve statement was compiled in accordance with the guidelines of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC 2012).

The Ore Reserves statement was compiled by Andrew Law of Optiro, Fellow of The Australasian Institute of Mining and Metallurgy. Mr Law has sufficient experience in Ore Reserve estimation relevant to the style of mineralisation and type of deposit under consideration to qualify as a Competent Person as defined in the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC 2012).

The information above that relates to Ore Reserves, is a summary table and information released to the ASX on 26 July 2013 entitled 'Ore Reserve Statement'. There has been no subsequent change to this Ore Reserve Statement.

This Ore Reserve is included in a Measured, Indicated and Inferred **Mineral Resource base of 1,650 million tonnes of 3.7% total heavy mineral** as reported to the ASX on the 18 June 2013.

Classification	Million tonnes	% Total Heavy Minerals (-5 +20 µm)	Slimes (–20 µm)	Particle Classification % within –75+20 µm Total Heavy Minerals Zircon	Rutile	Ilmenite	Leucoxene	Monazite*	Xenotime*
St Helens									
Measured	415	4.3	18.0	21.7	11.5	32.2	5.8	2.3	0.41
Indicated	485	4.0	17.0	21.0	11.6	30.8	6.0	2.2	0.40
Inferred	410	2.9	21.1	20.9	11.9	30.9	6.1	2.2	0.39
Subtotal	1,310	3.8	18.6	21.2	11.6	31.3	6.0	2.2	0.40
Danube									
Measured	–	–	–	–	–	–	–	–	–
Indicated	95	4.1	25.6	17.2	11.7	31.7	6.4	1.3	0.26
Inferred	245	3.3	23.1	18.9	11.7	31.4	6.3	1.5	0.30
Subtotal	340	3.6	23.8	18.3	11.7	31.5	6.3	1.5	0.28
Total									
Measured	415	4.3	18.1	21.7	11.5	32.2	5.8	2.3	0.41
Indicated	580	4.0	18.4	20.4	11.6	31.0	6.1	2.0	0.37
Inferred	655	3.1	21.9	20.1	11.8	31.1	6.2	1.9	0.35
Total	1,650	3.7	19.6	20.7	11.7	31.4	6.0	2.1	0.38

***Note: Rare earth minerals**

The information in this Annual Report that relates to Mineral Resources, is a summary table of the WIM150 Resource Statement issued to the ASX on 18 June 2013. There has been no subsequent change to this Mineral Resource Statement. The information included in the mineral resource statement is based upon information compiled by Mrs Christine Standing, who is a Member of the Australasian Institute of Mining and Metallurgy, and a member of the Australian Institute of Geoscientists. Mrs Standing is an employee of Optiro Pty Ltd and has sufficient experience in the style of mineralisation and type of deposit under consideration to the activity which she is undertaking to qualify as a Competent Person as defined in the 2012 edition of the Australasian code of Reporting of exploration results, mineral resources and ore reserves.

Both the Ore Reserve and Mineral Resource estimates quoted in this announcement should be read as summaries of the original announcements. Australian Zircon NL confirms that the data contained in this release complies with the requirements of ASX Listing Rule 5.23.2:

> *"The entity confirms in the subsequent public report that it is not aware of any new information or data that materially affects the information included in the relevant market announcement and, in the case of estimates of* mineral resources *or* ore reserves, *that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed."*

The Project has an **Ore Reserve** mine-life of **55 years** and a Mineral Resource mine-life of more than **160 years** at the planned rate of production. Drilling has established a total contained Project Resource of 23 million tonnes of zircon plus rutile plus leucoxene.

In the course of its Ore Reserve studies, expert Optiro Pty Ltd determined that the 552 million tonne WIM150 Ore Reserve carries a waste: ore ratio, after removal of soil and subsoil, of 0.51:1. This ratio compares well with other zircon/titanium mineral producers.

The WIM150 Orebody is well located with respect to infrastructure. State Electricity Victoria mains power, a Gas Pipeline Victoria trunkline, a Grampian Wimmera Mallee Water trunkline, the Melbourne – Adelaide standard gauge rail line and the Melbourne – Adelaide Western Highway all pass adjacent to the centre of the planned development. A range of social and industrial amenities, including permanent and temporary accommodation healthcare, schooling, skilled labour and engineering facilities are available in the nearby regional centre of Horsham.

Project Optimisation

A complete review of the Project was undertaken under the following headings and as reported to the market on 1 October 2014:

- **Groundwater**
  An aquifer was identified by drilling which flowed water potentially suitable for use in the Process Plant. Definition of this aquifer and its properties will be undertaken during final design stage of the Project. Project water requirements are currently provided for under Memorandum of Understanding for surface water with the local water authority. Groundwater usage for ore processing is less expensive, both in capital and operating cost terms, than surface water.
- **Mine Scheduling**
  The results of Mineral Resource and Ore Reserve drilling undertaken late in Bankable Feasibility Studies were brought into account for mine scheduling purposes. A more efficient and more value creative sequence of mining schedules has been prepared.
- **Mining Method**
  Favourable results from stabilisation of co-deposited sand and slime tailings trials prompted redesign of the mining method which will now use scrapers for movement of overburden. Overburden will be picked up ahead of the mining face and replaced directly on top of stabilised tailings behind the mining void, with a consequent reduction in operating cost.
- **Ore-loading scrubbing and pumping**
  Capital equipment and operating practices pertinent to ore-loading, scrubbing and slurry pumping were reviewed. Value-accretive improvements were made to both equipment configuration and operating practices.
- **Tailings Stabilisation**
  Parameters which will permit a more efficient use of rheology modifier were established as a consequence of successful settling tests. The nett effect of these findings is to enable overburden to be replaced directly on top of consolidated tailings. A further benefit will be an increase in the amount of water to be recovered from tailings for reuse in the Process Plant.
- **Value Engineering**
  Engineering construction and practice across the full spectrum of operational activity was critically reviewed. Improvements to operational effectiveness and efficiency were identified.
- **Mineral Processing**
  Improvements in both recoveries to Product and Product Quality were achieved in mineral processing studies which made use of two bulk samples, one of 2.6 tonnes and one of 2.3 tonnes.

DIRECTORS' REPORT

The physical and chemical characteristics of each of the recovered products were determined.

Pilot Plant Zircon Upgrade Trials

Engineering trials to determine induction furnace load and discharge characteristics are underway. This work will be followed by production trials using 4 tonnes of Murray Basin zircon together with requisite reagents. Upon completion, WIM150 zircon will be trialled through the optimised configuration. Trialling WIM150 zircon through the Optimized zircon upgrade Pilot Plant will signal completion of the WIM 150 mineral processing testwork programme. Results are expected to confirm BFS testwork results.
The engineering design aspects of this work mark the beginning of Final Design namely – the development phase which precedes Construction.

Supply and Offtake Agreements

Marketing discussions are ongoing. The Company has previously announced execution of a contract to sell **37.5%** of Australian Zircon NL share of production to WIM150 partner Orient Zirconic Australia Pty Ltd for the life of the mine.

Environment and Community Engagement

Studies required for completion of a finalised Environmental Effects Statement are ongoing, together with engagement with the relevant Federal, State, and Local government agencies, landholders and the community generally. Seasonal surveys for federally listed species of fauna are underway, structured in accordance with Federal Government survey guidelines.

State of Affairs

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

Environmental Regulation

The Company 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 Company's operations.

No notices of any such breaches have been received from any authority.

Options

There are no unlisted options on issue as at the date of this report.

Significant Events after Balance Date

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 Company, the results of those operations or the state of affairs of the Company in future financial years.

DIRECTORS' REPORT

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 Company's corporate governance statement is contained in the section titled "Corporate Governance Statement". Where the Company has not followed the Corporate Governance guidelines, the reasons have been explained within the Corporate Governance Statement within this Annual Report.

Proceedings on Behalf of the Company

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

Business Risks

The material business risks faced by the Company that are likely to have an effect on the financial prospects of the Company, and how the Company manages these risks.

- **WIM150 Bankable Feasibility Study** - there are technical, marketing, permitting and financial modelling risks associated with the WIM150 Bankable Feasibility Study. The Company has utilised highly regarded industry consultants and advisors to obtain the best available advice as to appropriate inputs for the study. The study has been subjected to independent review by the Company's farm-in partner's representatives to ensure robustness of the study.

- **Financial position** - the Company's balance sheet, as shown hereunder in the accounts section of this report, reflects a significant negative equity position. This is primarily because of losses incurred in a previous mining venture resulting in the borrowings from the Company's major shareholder, DCM DECOmetal GmbH ("DCM"). DCM has undertaken to continue to support the Company whilst the WIM150 project is being evaluated, in full expectation that the Company's share in that project will enable repayment of the debt.

- **Working capital** - the Company is currently solely reliant on its largest shareholder and major creditor, DCM, to provide funding for ongoing activities. The Company has received an undertaking from DCM that it will continue to provide funding support for the next twelve months.

Remuneration Report (audited)

This report outlines the remuneration arrangements in place for key management personnel and Directors of the Company. 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 Company depends on the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled staff, Directors and Executives.

To this end, the Company embodies the following principle in its remuneration framework:

- Provide competitive rewards to attract high calibre executives

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

REMUNERATION COMMITTEE

Due to the relatively small size of the Company the Board has decided not to form a separate Remuneration Committee, and instead the Board of Directors is responsible for determining and reviewing compensation arrangements for the key management personnel.

The Board of Directors assesses the appropriateness of the nature and amount of remuneration of key management personnel 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 key management personnel remuneration is separate and distinct.

NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre and with the experience and qualifications appropriate to the development of the Company, 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.

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 remuneration of the Directors is listed below in this report.

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 company. However, Directors may be issued share based incentives 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. No share based incentives were issued during the year under review.

It is Board policy that an employment contract is entered into with the Chief Executive Officer. Whilst the company is in transition, a new CEO has not been appointed. Currently the company secretary is undertaking the role of Acting CEO.

REMUNERATION CONSULTANTS

No remuneration consultants were contracted to provide remuneration advice during the year.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

30 June 2014

	Short term		Post - employment		Total	Total performance related
	Directors fees	Executive Remuneration	Superannuation	Super Salary Sacrifice		
	$	$	$	$	$	%
JD Shervington	48,000		-	-	8000	-
T Styblo	39,000	-	-	-	39,000	-
G Kornfeld	80,589	-	-	-	80,589	-
J Jacobs	45,000	-	-	-	45,000	-
M Adams	-	61,100	-	-	61,100	-
G Seppelt	-	32,308	-	-	32,308	-
	212,589	93,408	-	-	305,997	-

30 June 2013

	Short term		Post - employment		Total	Total performance related
	Directors' fees	Executive Remuneration	Superannuation	Super Salary Sacrifice		
	$	$	$	$	$	%
JD Shervington	48,000	-	-	-	48,000	-
T Styblo	46,286	-	-	-	46,286	-
G Kornfeld	27,623	-	-	-	27,623	-
J Jacobs	18,863	-	-	-	18,863	-
M Adams	10,700	261,157	-	-	271,857	-
G Seppelt	-	-	-	-	-	-
	151,472	261,157	-	-	412,629	-

Director's 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 Company during the financial year were:

	Directors' meetings		Audit committee meetings	
	Number of meetings held while in office	Number of meetings attended	Number of meetings held while in office	Number of meetings attended
JD Shervington	12	11	2	2
T Styblo	12	11	2	2
G Kornfeld	12	11	2	2
J Jacobs	12	12	2	2

Due to the small size of the Company's Board of Directors, all members of the Board are also members of the Audit Committee. Mr J Jacobs is the chairman of the audit committee.

Auditor's Independence Declaration

An independence declaration form has been obtained from the Company's auditors Somes Cooke, a copy of which is on page 14 of this report.

Non-Audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The directors are satisfied that the services disclosed below did no compromise the external auditor's independence for the following reasons:

i) All non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

ii) The nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 100: *Code of Ethics for Professional Accountants* set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Somes Cooke for non-audit services provided during the year to 30 June 2014:

	$
Taxation Services	5,000

DIRECTORS’ REPORT

Indemnification and Insurance of Officers

During the previous financial year the Company entered into agreements to indemnify all Directors of the Company, 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 company 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 Company 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 or officer 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, 1 October 2014

AUDITORS INDEPENDENCE DECLARATION

Auditors Independence Declaration

SOMES COOKE
Profit from our Resources

35 Outram St
West Perth
WA 6005

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West Perth
WA 6872

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W somescooke.com.au
E info@somescooke.com.au

Chartered Accountants (Aus)
Business Consultants
Financial Advisors

Auditor's Independence Declaration

To those charged with the governance of Australian Zircon NL:

As auditor for the audit of Australian Zircon NL for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and

ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Somes Cooke

Somes Cooke

Nicholas Hollens

Nicholas Hollens
Partner

Perth

1 October 2014

STATEMENT OF PROFIT OR LOSS AND OTHER INCOME

Statement of Profit or Loss and Other Comprehensive Income
for the Year Ended 30 June 2014

	Note	Company 2014 $	Consolidated 2013 $
Other income	3	**862,235**	62,724
Employee benefits expense	4	**(17,499)**	(44,865)
Finance expenses	4	**(6,740,588)**	(6,446,351)
Corporate expenses		**(600,540)**	(1,172,179)
Other expenses	4	**(1,604)**	(3,203,382)
LOSS BEFORE INCOME TAX		**(6,497,996)**	(10,804,053)
Income tax benefit / (expense)	5	**-**	-
LOSS FROM CONTINUING OPERATIONS		**(6,497,996)**	(10,804,053)
Profit for the year from discontinuing operations after tax	6	**-**	1,305,435
LOSS FOR THE YEAR		**(6,497,996)**	(9,498,618)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO MEMBERS OF THE PARENT		**(6,497,996)**	(9,498,618)
EARNINGS PER SHARE FROM CONTINUING AND DISCONTINUING OPERATIONS			
Basic loss per share (cents)	19	**(0.4)**	(0.6)
Diluted loss per share (cents)	19	**(0.4)**	(0.6)
EARNINGS PER SHARE FROM CONTINUING OPERATIONS			
Basic loss per share (cents)	19	**(0.4)**	(0.7)
Diluted loss per share (cents)	19	**(0.4)**	(0.7)
EARNINGS PER SHARE FROM DISCONTINUING OPERATIONS			
Basic earnings per share cents)	19	**0.0**	0.1
Diluted earnings per share (cents)	19	**0.0**	0.1

STATEMENT OF FINANCIAL POSITION

Statement of Financial Position
as at 30 June 2014

	Note	Company 2014 $	Company 2013 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	7	**358,274**	406,696
Trade and other receivables	8	**179,269**	197,073
TOTAL CURRENT ASSETS		**537,543**	603,769
NON-CURRENT ASSETS			
Property, plant and equipment	10	**46,026**	68,075
Deferred exploration and evaluation expenses	11	**17,442,967**	14,232,088
TOTAL NON-CURRENT ASSETS		**17,488,992**	14,300,163
TOTAL ASSETS		**18,026,534**	14,903,932
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	12	**455,678**	1,227,218
Borrowings	13	**93,594,302**	83,210,284
Provisions	14	**32,233**	24,111
TOTAL CURRENT LIABILITIES		**94,082,213**	84,461,613
TOTAL LIABILITIES		**94,082,213**	84,461,613
NET LIABILITIES		**(76,055,677)**	(69,557,681)
ACCUMULATED LOSSES			
Issued capital	15	**110,816,025**	110,816,025
Reserves	16	**-**	899,095
Accumulated Losses		**(186,871,702)**	(181,272,801)
ACCUMULATED LOSSES		**(76,055,677)**	(69,557,681)

The above Statement of Financial Position should be read in conjunction with accompanying notes.

STATEMENT OF CHANGES IN EQUITY

Statement of Changes in Equity
for the Year Ended 30 June 2014

	Issued capital	Accumulated losses	Share based payments reserve	Total
	$	$	$	$
At 1 July 2012	110,816,025	(171,774,183)	899,095	(60,059,063)
Comprehensive Income				
Loss for the year	-	(9,498,618)	-	(9,498,618)
Total comprehensive income for the year	-	(9,468,618)	-	(9,468,618)
At 30 June 2013	110,816,025	(181,272,801)	899,095	(69,557,681)
At 1 July 2013	**110,816,025**	**(181,272,801)**	**899,095**	**(69,557,681)**
Comprehensive Income				
Total comprehensive income for the year	**-**	**(6,497,996)**	**-**	**(6,497,996)**
Total comprehensive income for the year	**-**	**(6,497,996)**	**-**	**(6,497,996)**
Transactions with owners, in their capacity as owners, and other transfers				
Expiry of options	**-**	**899,095**	**(899,095)**	**-**
Total transactions with owners and other transfers	**-**	**899,095**	**(899,095)**	**-**
At 30 June 2014	**110,816,025**	**(186,871,702)**	**-**	**(76,055,677)**

The above statement of Changes in Equity should be read in conjunction with accompanying notes.

STATEMENT OF CASHFLOWS

Statement of Cash Flows

for the Year Ended 30 June 2014

	Note	Company 2014 $	Consolidated 2013 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		**(436,946)**	(1,164,190)
Interest received		**10,447**	32,869
Sundry revenue from other activities		**-**	29,855
Net cash outflow from operating activities	21	**(426,499)**	(1,101,466)
CASH FLOWS FROM INVESTING ACTIVITIES			
Exploration and evaluation costs paid		**(4,085,304)**	(6,850,378)
Receipts from sale of 35% interest in Murray Zircon	6	**-**	11,040,000
Payments for acquisition of plant and equipment		**-**	(134)
Receipts from disposal of plant and equipment		**-**	3,636
Net cash (outflow) / inflow from investing activities		**(4,085,304)**	4,193,124
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan finance from the Company's controlling entity, DCM DECOmetal GmbH ('DCM')		**4,472,000**	5,540,000
Repayment of loan from DCM		**-**	(9,010,000)
Finance lease principal repayments		**(8,619)**	(7,738)
Net cash inflow / (outflow) from financing activities		**4,463,381**	(3,477,738)
Net (decrease) in cash and cash equivalents held		**(48,422)**	(386,079)
Cash and cash equivalents at the beginning of the financial year	7	**406,696**	792,776
Cash and cash equivalents at the end of the financial year	7	**358,274**	406,696

Notes To and Forming Part of The Financial Statements
for the Year Ended 30 June 2014

1. CORPORATE INFORMATION

These financial statements of Australian Zircon NL (or "the Company") for the year ended 30 June 2014 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 Company is located at Suite H4.6, Level 4 172 North Terrace, Adelaide, South Australia 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.

Except for cash flow information, 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 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 Company is dependent upon continuing financial support from its controlling shareholder, DCM DECOmetal GmbH ('DCM'), to pays its debts as and when they fall due.
As at 30 June 2014, the Company had net liabilities of $76,055,677 and $93,594,302 was owing to DCM. DCM confirmed they will continue to support the Company'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.

(b) Basis of consolidation

The consolidated financial statements (prior year only) comprise the financial statements of the Company and subsidiaries it controlled at the end of the relevant period ('the Group'). A controlled entity is an entity over which the Company 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.

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 the Company 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 Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. Where the recoverable amount cannot be reliably estimated, the Company endeavours to obtain the best estimate of market value for those assets.

Deferred exploration and evaluation expenses

The Company capitalises and carries exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current and 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.

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company 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. Any gain or loss arising on de-recognition 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 derecognized.

(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 Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company 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.

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.

(j) Interests in joint arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a joint venture and accounted for using the equity method. Under the equity method, the investment is initially recognised at cost (including transaction costs) and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the joint venture. In addition, the Company's share of the profit or loss of the joint venture is included in the Company's profit or loss.

Joint venture operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Company's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the financial statements.

(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 they are no longer recoverable.

(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 recorded with increases for interest charged, less any repayments made to the loan provider.

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

(m) Provisions

Provisions are recognised when the Company 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 Company 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 Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at 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.

(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.

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 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 the Company and its joint arrangement is Australian dollars ($). 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.

(v) Share based payments

From time to time, the Company provides benefits to Senior Executives of the Company 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 Company. The Company has decided not to early adopt any of the new and amended pronouncements. The Company's assessment of the new and amended pronouncements that are relevant to the Company 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).

These standards are applicable retrospectively and include revised requirements for the classification and measurement or financial instruments, as well as recognition and de-recognition 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 comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

These Standards are mandatorily applicable for annual reporting periods commencing on or after 1 January 2015. Although the directors anticipate that the adoption of AASB 9 and AASB 2010-7 may have a significant impact on the Company's financial instruments, it is impracticable at this stage to provide a reasonable estimate of such impact.

AASB 2012-3; Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (applicable for annual reporting periods commencing on or after 1 January 2014).

This Standard provides clarifying guidance relating to the offsetting of financial instruments, which is not expected to impact the Company's financial statements.

Interpretation 21: Levies (applicable for annual reporting periods commencing on or after 1 January 2014). Interpretation 21 clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of tale.
This Interpretation is not expected to significantly impact the Company's financial statements commencing on or after 1 January 2014).

This Standard amends the disclosure requirements in **AASB 136**: Impairment of Assets pertaining to the use of fair value in impairment assessment and is not expected to significantly impact the Company's financial statements.

AASB 2013-4: Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-4 makes amendments to **AASB 139:** Financial Instruments: Recognition and Measurement to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.

This Standard is not expected to significantly impact the Company's financial statements.

AASB 2013-5: Amendments to Australian Accounting Standards — Investment Entities (applicable for annual reporting periods commencing on or after 1 January 2014).

AASB 2013-5 amends AASB 10: Consolidated Financial Statements to define an "investment entity" and requires, with limited exceptions, that the subsidiaries of such entities be accounted for at fair value through profit or loss in accordance with AASB 9 and not be consolidated. Additional disclosures are also required.

As neither the parent nor its subsidiaries meet the definition of an investment entity, this Standard is not expected to significantly impact the Company's financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

3. OTHER INCOME

	Company 2014	Consolidated 2013
	$	$
Foreign exchange gain (i)	**819,951**	-
Other income	**42,284**	62,724
	862,235	62,724

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

4. LOSS BEFORE TAX FOR THE YEAR INCLUDES THE FOLLOWING EXPENSES FROM CONTINUING ACTIVITIES:

	Company 2014	Consolidated 2013
Employee benefit expenses:	$	$
Wages and salaries	**16,346**	41,730
Defined contribution superannuation expense	**1,153**	3,135
	17,499	44,865
Interest expense on financial liabilities not at fair value through profit and loss:		
Related parties (i)	**4,580,988**	6,445,412
Other persons	**-**	939
Withholding tax on loan interest (ii)	**2,159,600**	-
	6,740,588	6,446,351
Other expenses		
Foreign exchange loss (iii)	**-**	3,200,652
Loss on sale of non-current asset	**1,604**	2,730
	1,604	3,203,382

(i) Relates to interest on loan from the Company's controlling entity, DCM DECOmetal GmbH ('DCM') (Note 13).
(ii) Interest on loans to foreign domiciled entities is charged withholding tax at 10% of the balance payable.
(iii) Relates to exchange loss on the portion of amounts owing to DCM, an entity incorporated in Austria, that are denominated in US dollars (Note 13).

5. INCOME TAX EXPENSE

	Company 2014	Consolidated 2013
Recognised in the Statement of Profit or Loss and Other Comprehensive Income		
Current tax expense		
Current year	-	-
	-	-
Deferred tax expense		
Origination and reversal of temporary differences	-	-
Write back deferred tax losses previously recorded	-	-
	-	-
Total income tax expense/(benefit) in Statement of Profit or Loss and Other Comprehensive Income	-	-

Numerical reconciliation between tax expense and pre-tax net loss

	Company 2014	Consolidated 2013
Loss before tax	(6,497,996)	(9,498,618)
Income tax benefit at 30%	(1,949,399)	(2,849,585)
Foreign exchange (gain)/loss not subject to income tax	(245,985)	960,195
Losses not recognised	2,195,384	1,889,390
Income tax (benefit)/expense on pre-tax net loss	-	-

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

	Company 2014	Consolidated 2013
Tax losses (at 30%)	50,475,756	48,280,372
Capital losses	-	-
	50,475,756	48,280,372

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 Company can utilise such benefits.

6. DISCONTINUED OPERATIONS

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.
The gains from sale of discontinued operations, which are included in the profit from discontinued operations in the statement of profit and loss and other comprehensive income, are as follows:

	Company 2014	Consolidated 2013
PROFIT ON SALE OF DISCONTINUED OPERATIONS	$	$
Profit from sale of 35% interest in Murray Zircon Pty Ltd (i)	-	1,305,435
Total Profit after Tax Attributable to the Discontinued Operations	-	1,305,435

(i) 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 of 35% interest in Murray Zircon Pty Ltd	1,305,435

7. CASH AND CASH EQUIVALENTS

	Company 2014	Company 2013
	$	$
Cash at bank and in hand	358,274	406,696

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

8. TRADE AND OTHER RECEIVABLES

	Company 2014	Company 2013
	$	$
Other receivables	179,269	197,073

9. INTEREST IN JOINT ARRANGEMENTS

	2014	2013
	$	$
Current Assets		-
Cash at bank	1,245	
Other receivables	66,824	
TOTAL CURRENT ASSETS	68,069	
Non-current assets		-
Exploration & Evaluation - WIM150	2,092,537	
TOTAL NON CURRENT ASSETS	2,092,537	-
TOTAL ASSETS	2,160,606	
Current Liabilities		-
Other Payables	302,526	
NET ASSETS	**1,858,080**	-
Loss before income tax	(1,103)	-
Income tax expense	-	-
Loss after income tax	**1,103**	-

During the year to 30 June 2014, the Company acquired an 80% interest in the WIM150 Joint Venture. Based on the contractual conditions governing the arrangement, there is joint control between the partners in WIM150. Given that, the arrangement comes under the scope of AASB 11, joint arrangements. The project has been classified as a joint operation under AASB 11, because the joint operators have rights to the assets and liabilities, in proportion to their interest in the WIM150 Joint Venture, rather than the net assets, of the WIM Joint Venture.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

10. PROPERTY, PLANT AND EQUIPMENT

	Company 2014 $	Company 2013 $
Plant and equipment		
At cost	**240,551**	240,551
Accumulated depreciation	**(194,525)**	(172,476)
Net carrying amount	**46,026**	68,075
Opening carrying amount	**68,075**	102,006
Additions	**-**	134
Depreciation	**(20,444)**	(27,698)
Assets disposed	**(1,604)**	(6,367)
Closing carrying amount	**46,026**	68,075

11. DEFERRED EXPLORATION AND EVALUATION EXPENSES

	Company 2014 $	Company 2013 $
Balance at beginning of year	**14,232,088**	6,501,238
Deferred expenditure for the year	**3,210,879**	(730,850)
Balance at end of year (i)	**17,442,967**	14,232,088

(i) Deferred expenses as at 30 June 2013 and 2014 relate to the WIM 150 mineral sands deposit. Recoverability of the carrying amount is dependent upon the successful development and commercial exploitation, or alternatively, sale of the area of interest.

During the year the Company earned an 80% interest in the WIM150 Joint Venture, thus the majority of expenditure in the current year relates to that activity. Expenditure incurred in prior years relates to activities, such as completion of a bankable feasibility study, which allowed the Company to earn the 80% interest in the WIM150 project.

12. TRADE AND OTHER PAYABLES

	Company 2014	Company 2013
Current	**$**	$
Trade payables	**368,930**	1,199,667
Accrued expenses	**86,748**	27,551
	455,678	1,227,218

13. INTEREST BEARING LOANS AND BORROWINGS

	Company 2014	Company 2013
	$	$
Current		
Amounts owing to DCM (i)	**93,594,302**	83,201,665
Obligations under finance leases	**-**	8,619
	93,594,302	83,210,284

(1) Amounts owing to the Company's controlling entity, DCM, are secured by a fixed and floating charge over the assets of the Company.

Interest is charged on principal borrowings at LIBOR + 6% pa.

Amounts owing at 30 June 2014 comprise of US$24,766,709 and AUD$65,159,082 (2013: US$24,766,709 and AUD$56,106,093).

14. PROVISIONS

	Company 2014 $	Company 2013 $
Annual leave payable	**32,233**	24,111

15. CONTRIBUTED EQUITY

	Company 2014 $	Company 2013 $
(a) Share capital		
Fully paid ordinary shares	110,779,210	110,779,210
Partly paid ordinary shares paid to 0.5 cents each with 40 cents uncalled	36,815	36,815
	110,816,025	110,816,025

	Number	Number
Fully paid ordinary shares		
Balance at beginning and end of year	**1,474,715,121**	1,474,715,121
Partly paid ordinary shares		
Balance at beginning and end of year	**7,363,026**	7,363,026

The call outstanding on the partly paid shares is 40.0 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.

(b) Options

There were no options outstanding as at 30 June 2014:

Balance at 1 July 2013				Balance at 30 June 2014
39,000,000	(39,000,000)	-	-	-
39,000,000	**(39,000,000)**	-	-	**-**

16. RESERVES

	Company 2014 $	Company 2013 $
Share-based payments reserve		
Balance at beginning of the year	899,095	899,095
Movement	(899,095)	-
Balance at end of the year	**-**	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 key management personnel, and consultants.

17. AUDITORS' REMUNERATION

	Company 2014 $	Consolidated 2013 $
Audit and review of financial reports (Somes Cooke)	**27,500**	32,000
Taxation services	**5,000**	-
	32,500	32,000

18. EVENTS SUBSEQUENT TO BALANCE DATE

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 Company, the results of those operations or the state of affairs of the Company in future financial years.

19. EARNINGS PER SHARE

	Company 2014 $	Consolidated 2013 $
Earnings used to calculate basic and diluted earnings per share from continuing and discontinuing operations	**(6,497,996)**	(9,498,618)
Earnings used to calculate basic and diluted earnings per share from continuing operations	**(6,497,996)**	(10,804,053)
Earnings used to calculate basic and diluted earnings per share from discontinuing operations	**-**	1,305,435
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 Company's principal financial liabilities comprise of loans from DCM (Note 13).

The main purpose of these financial instruments is to manage short term cash flow and finance the Company's planned exploration and evaluation expenditure.

It is, and has been throughout the years ended 30 June 2013 and 2014, been the Company'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 Company's financial assets, liabilities or future cash flows are cash flow, interest rate risk, foreign currency risk, and liquidity risk. Management reviews and agrees policies for managing each of these risks which are summarized below.

The following discussion also includes a sensitivity analysis that is intended to illustrate the sensitivity to changes in market variables on the Company's financial instruments and show the impact on profit or loss and shareholders' equity, where applicable. The sensitivity analysis has been prepared for period ended 30 June 2014 using the amounts of debt and other financial assets and liabilities held as at the Statement of Financial Position date.

Foreign currency risk

The Company 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 Company'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 2014 $**	Effect on profit before tax for the year ended 30 June 2013 $
Increase 10%	**(2,381,958)**	(2,668,744)
Decrease 10%	**2,381,958**	2,668,744

Fair values
The fair values and carrying amounts for all of the financial assets of the Company as at 30 June 2013 and Company as at 30 June 2014 are the same.

Interest rate risk
The Company's Borrowings are subject to fixed interest rates (Note 13).

Liquidity risk
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company 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 Company. Currently the strategy is to reinvest in the Company as the Board is of the opinion this will lead to maximise return for shareholders over the medium to long term. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

21. RECONCILIATION OF LOSS AFTER TAX TO CASH FLOWS FROM OPERATIONS

a) Reconciliation to the Cash Flow Statement

	Company 2014	Consolidated 2013
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:	**$**	$
Cash at bank and in hand	**358,274**	406,696
	358,274	406,696

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

	Company 2014	Consolidated 2013
	$	$
Operating loss after income tax	(6,497,996)	(9,498,618)
Adjustment for non-cash items:		
Depreciation - Plant & equipment	20,444	27,698
Foreign exchange (gain)/loss	(819,951)	3,200,652
Gain on sale of discontinued operations	-	(1,305,435)
Loss on sale of Plant and Equipment	1,604	2,730
Share of net loss of joint venture entity		-
Interest accrued to DCM	4,580,989	6,446,351
Withholding tax	2,159,600	-
Changes in operating assets and liabilities		
Decrease in trade and other receivables	93,166	75,388
Increase/(decrease) in administrative payables	27,523	(4,975)
Increase in provisions	8,122	10,139
Net cash outflow from operating activities	**(426,499)**	(1,101,466)

22. INVESTMENT IN CONTROLLED ENTITIES

The company previously owned two wholly owned subsidiary companies, Steiner Holdings Pty Ltd and Mallee Mineral Separations Pty Ltd. Steiner Holdings Pty Ltd was deregistered in December 2012. Mallee Mineral Separations Pty Ltd was deregistered in November 2012.

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, the Company 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.

	2013	2014
Share based payment options outstanding at 30 June 2013 and 2014: (i)	39,000,000	-

(i) The outstanding options as at 30 June 2013 expired on 19 September 2013 and were not exercised.

No options were exercised during year ended 30 June 2014.

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.

24. KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

Compensation by category: Key Management Personnel	**Company**	Consolidated
	2014	2013
	$	$
Short term	**305,997**	412,629
Post - employment	**-**	-
	305,997	412,629

Compensation options

There were no compensation options granted during the years ended 30 June 2013 and 2014.

No shares were issued on exercise of compensation options during the years ended 30 June 2013 and 2014.

(b) Option holdings of Key Management Personnel

30 June 2014

No Key Management Personnel held options in the Company during the year ended 30 June 2014.

30 June 2013

No Key Management Personnel held options in the Company during the year ended 30 June 2013.

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

Full details of the shares held by Key Management Personnel can be found in the Director's Report.

25. RELATED PARTY TRANSACTIONS

As outlined in the Statement of Cash Flows, during the year the Company's controlling entity, DCM DECOmetal GmbH ('DCM') advanced loan finance of $4,472,000 (2013: $5,540,000) to the Company and the Company repaid $nil (2013: $9,010,000) to DCM. As outlined at Note 13, as at 30 June 2014, $93,594,302 (2013: $83,201,665) was owing to DCM.

Professional fees were paid to Drumgaghan Pty Ltd, a business associated with Mr Jeremy Shervington for legal services in the ordinary course of business during 2014 in the amount of $59,663 (2013: $74,391).

Professional fees were paid to Finmin Pty Ltd, a business associated with Mr Johann Jacobs for consulting services in the ordinary course of business during 2014 in the amount of $Nil (2013: $22,799).

Although Logistics Concepts Worldwide is not, the Company was advised, a related party of the Company, Logistics Concepts Worldwide has, the Company is informed, some contractual arrangement with a company with which Mr Thomas Styblo is connected. During the year fees amounting to $Nil (2013: $281,858) were paid to Logistics Concepts Worldwide.

Aside from the above transactions and transactions disclosed in the Remuneration Report (which are summarised in Note 24) there were no other related party transactions during the year.

26. SEGMENT INFORMATION

The Company operates in the mineral sands exploration and mining industry in Australia.
The Company 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.

27. COMMITMENTS

Exploration commitments

The Company has certain (contingent) commitments to meet minimum expenditure requirements on the mining exploration assets it has an interest in. Outstanding exploration commitments are as follows:

	2014	**2015**	*AZC 80%
	$	**$**	$
Within one year	2,090,000	**1,980,000**	1,585,000
Later than one year but no later than five years	6,820,000	**4,840,000**	3,872,000

*The company has commitments of 80% of the total minimum expenditure requirements in line with its interest in the mining exploration assets.

28. CONTINGENCIES

No contingent assets or liabilities exist as at 30 June 2014.

DIRECTOR'S DECLARATION

Directors Declaration

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

1. In the opinion of the Directors:

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

(i) Giving a true and fair view of the Company's financial position as at 30 June 2014 and of the Company's 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 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 2014.

On behalf of the Board.

J D Shervington
Chairman
Perth, 1 October 2014

Independent Auditors Report

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Chartered Accountants (Aus)
Business Consultants
Financial Advisors

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 statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity, and 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.

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*.

AUDIT REPORT

Opinion

In our opinion:

(a) the financial report of Australian Zircon NL is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; 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 to the financial report, which outlines that the entity is dependent upon continuing financial support from its controlling shareholder, DCM DECOmetal GmbH ('DCM'), to pay its debts as and when they fall due. As at 30 June 2014, the entity had net liabilities of $76,055,677, and had $93,594,302 in long term debt. DCM have confirmed that they will continue to support the entity's activities in relation to the WIM 150 mineral sands project.

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 assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 12 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Australian Zircon NL for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Somes Cooke

Somes Cooke

Nicholas Hollens

Nicholas Hollens
1 October 2014
Perth

CORPORATE GOVERNANCE STATEMENT

Corporate Governance

Australian Zircon NL is committed to a high level of corporate governance in accordance with the Corporations Act and the ASX Listing Rules.

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 Company's compliance with those Principles and Recommendations for the year ending 30 June 2014 is detailed in the Corporate Governance

The Company Secretary has assured the board that the declaration provided in accordance with section 295A of the Corporations Act is founded on internal control that is operating effectively in all material respects in relation to financial reporting risks.
The names and qualifications of the members of the audit committee and the number of audit committee meetings attended are provided in this annual report.

Two of the Company's four employees are female. There are no females in senior executive positions or on the board.

The Company 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.	X
1.2	Companies should disclose the process for evaluating the performance of senior executives.	X
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	X
Principle 2	*Structure the board to add value*	
2.1	A majority of the Board should be independent directors.	X
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.	X
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	X

CORPORATE GOVERNANCE STATEMENT

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:	
	• the practices necessary to maintain confidence in the company's integrity	X
	• the practices necessary to take into account their legal obligations and the reasonable expectations of their shareholders	X
	• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	X
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.	X
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.	√
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	X
Principle 4	*Safeguard integrity in financial reporting*	
4.1	The Board should establish an audit committee.	√
4.2	The audit committee should be structured so that it:	
	• consists only of non-executive Directors	√
	• consists of a majority of independent Directors	X
	• is chaired by an independent chair, who is not chair of the board	√
	• has at least three members	√
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.	X
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.	X
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	X
Principle 6	*Respect the rights of shareholders*	
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.	X
6.2	Companies should provide the information indicated in the Guide to reporting on	X

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.	X
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.	X
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.	X
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:	
	• consists of a majority of independent directors	X
	• is chaired by an independent chair, who is not chair of the board	X
	• has at least three members	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.	X

Reasons for non-adoption of Corporate Governance Principles

Principle 1.1

The Company has not established the functions reserved to the Board and those delegated to senior executives nor disclosed those functions. It is the intention of the Company to comply with this principle at a time when the size of the Company and its activities warrant establishment of these functions.

Principle 1.2

The Company has not disclosed the process for evaluating the performance of senior executives.

It is the intention of the Company to comply with this principle at a time when the size of the Company and its activities warrant establishment of performance evaluation of its senior executives.

Principle 1.3

A statement of matters reserved for the board, or the board charter or the statement of areas of delegated authority to senior executives have not been made publicly available.

It is the intention of the Company to comply with this principle at a time when such statements and charter have been completed.

Principle 2.1

The Company comprises four directors, only two of whom are considered independent.
It is the intention of the Company to comply with this principle at a time when the size of the Company and its activities warrant such a structure.

Principle 2.4

The Company 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.
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 2.5

The Company has not disclosed the process for evaluating the performance of the board, its committees and individual directors. It is the intention of the Company to comply with this principle at a time when the size of the Company and its activities warrant establishment of these processes.

Principle 3.1

The Company has not established and disclosed a code of conduct or the summary of a code. It is the intention of the Company to comply with this principle at a time when the size of the Company and its activities warrant establishment of a code.

Principle 3.2

The Company has not established a policy concerning diversity and disclosed the policy or a summary of that policy. It is the intention of the Company to comply with this principle at a time when the size of the Company and its activities warrant establishment of a policy.

Principle 3.3

The Company has not disclosed in this annual report the measurable objectives for achieving gender diversity and progress towards achieving them. It is the intention of the Company to comply with this principle at a time when the size of the Company and the level of operations warrant reporting on

Principle 3.5

The Company has not made publicly available a code of conduct or a diversity policy.
It is the intention of the Company to comply with this principle at a time such a code and policy have been formulated.

Principle 4.2

The audit committee comprises four directors, only two of whom are considered independent.

It is the intention of the Company to comply with this principle at a time when the size of the Company and its activities warrant a majority of independent directors.

Principle 4.3

The audit committee does not have a formal charter.

It is the intention of the Company to comply with this principle at a time when the size of the Company and its activities warrant a majority of independent directors.

Principle 4.4

The audit committee charter and the information on procedures for selection and appointment of the external auditor, and for the rotation of the external audit engagement partners have not been made publicly available.

It is the intention of the Company to comply with this principle at a time when such a charter and procedures have been published.

Principle 5.1

The Company has not established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance, or disclosed those policies or a summary of those policies.

It is the intention of the Company to comply with this principle at a time when the size of the Company and the level of operations warrant formulation of those policies.

Principle 5.2

The Company has not made publicly available the policies or a summary of those policies designed to guide compliance with Listing Rule disclosure compliance.

It is the intention of the Company to comply with this principle at a time when such policies have been formulated.

Principle 6.1

The Company has not designed a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings or disclosed such a policy or a summary of that policy.

It is the intention of the Company to comply with this principle at a time when the size of the Company and the level of operations warrant formulation of such a policy.

Principle 6.2

The Company has not described how it will communicate with its shareholders publicly.

It is the intention of the Company to comply with this principle at a time when a communication policy has been formulated.

Principle 7.1

The Company has not established policies for the oversight and management of material business risks or disclosed a summary of those policies.

It is the intention of the Company to comply with this principle at a time when the size of the Company and the level of operations warrant formulation of those

CORPORATE GOVERNANCE STATEMENT

Principle 7.2
The board has not required 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 has not disclosed that management has reported to it as to the effectiveness of the Company's management of its material business risks. It is the intention of the Company to comply with this principle at a time when the size of the Company and the level of operations warrant formalisation of risk management and internal control systems.

Principle 7.4
A summary of the Company's policies on risk oversight and management of material business risks has not been made publicly available. It is the intention of the Company to comply with this principle at a time when such policies have been formulated.

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.

Principle 8.4
The Company has not made publicly available the charter of a remuneration committee or a summary of the Company's policy on equity-based remuneration schemes. It is the intention of the Company to comply with this principle at a time when such charter and policy have been formulated.

Subject to the above exceptions, the Company believes it has complied with the ASX Corporate Governance Principles and Recommendations for the year ending 30 June 2014.

DIRECTORS MEETINGS

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	15.6 years
J Jacobs	Independent	2.0 years
T Styblo	Non - Independent	2.6 years
Dr G Kornfeld	Non - Independent	2.1 years

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 25 July 2014.

SHAREHOLDERS' INFORMATION

Shareholders Information as at 4 September 2014

	Number of Holders - Fully paid shares	Number of Holders - Partly paid shares
0 - 1,000	260	168
1,001 - 5,000	484	63
5,001 - 10,000	376	5
10,001 - 100,000	1,546	33
100,001 - 999,999,999	433	16
1,000,000,000 - 9,999,999,999	1	0
	3,100	285

Shareholders holding less than a marketable parcel

Fully Paid Shares	Partly paid Shares	Unlisted Options
2,666	269	N/A

The percentage held by the 20 largest shareholders

Fully Paid Shares	Partly paid shares	Unlisted Options
88.33%	84.27%	N/A

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.

SHAREHOLDERS' INFORMATION

4. Twenty Largest Holders of Quoted Equity Securities

Rank	Ordinary fully paid shareholders	Number	%
1	DCM DECOmetal International Trading GmbH	1,067,479,114	72.39%
2	HSBC Custody Nominees (Australia) Limited	82,427,819	5.59%
3	Kabininge Nominees Pty Ltd (Kabininge Superannuation Fund)	48,191,451	3.27%
4	Mr. Christopher Michael Williamson	36,558,048	2.48%
5	HSBC Custody Nominees (Australia) Limited – A/C 3	23,587,895	1.60%
6	JP Morgan Nominees Australia Limited	8,195,444	0.56%
7	National Nominees Limited	5,408,560	0.37%
8	Taycol Nominees Pty Limited (211 A/C)	4,413,770	0.30%
9	HSBC Custody Nominees (Australia) Limited – A/C 2	4,166,667	0.28%
10	Spy Glass Nominees Pty Ltd (The Bale Family A/C)	2,839,420	0.19%
11	Mr. Robert Hastings Smythe (Super Fund A/C)	2,380,000	0.16%
12	Leet Investments Pty Limited	2,300,000	0.16%
13	Professor Alan Jonathan Berrick	2,000,000	0.14%
14	Crawley Investments Pty Limited (Crawley A/C)	2,000,000	0.14%
15	Taycol Nominees Pty Limited	1,997,399	0.14%
16	Dr. Peter Frederick Isaac	1,905,362	0.13%
17	Loquela Pty Limited	1,840,000	0.12%
18	E & P Services Pty Ltd	1,816,986	0.12%
19	Mr Craig Peter Ball & Mrs Suzanne Katherine Ball	1,679,827	0.11%
20	Commonwealth Bank of Australia	1,489,772	0.10%

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%

CORPORATE DIRECTORY

Registered and Head Office

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Email info@auzircon.com.

Auditors

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

Solicitor

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

Share Registry

Share Registry Australian Zircon NL
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Adelaide
South Australia 5000

Home Securities Exchange

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ASX Code: AZC

Website

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