



# 2017 Annual Report



*Celebrating*  
**C150**  
CLONCURRY 1867-2017

**“Cloncurry is 150 years old and while CuDeco is only a relative newcomer, we are all building our own piece of history at Rocklands”**

(CuDeco CEO, Mark Gregory)





Governor-General Sir Peter Cosgrove delivers his address to commemorate the arrival of the C150 steam train into Cloncurry on 15 June 2017









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# Company Overview

CuDeco's flagship is the Rocklands Copper Mine, located in Cloncurry, north-west Queensland, while the Company's corporate head office is located in Brisbane.

Officially opened in October 2016, Rocklands has created significant new employment opportunities for the Cloncurry region, together with substantial investment and other economic benefits as one of Queensland's newest mines.

Milestones reached during fiscal 2017 included the first production of sulphide copper concentrates and the first deliveries of native copper and sulphide concentrates to the Port of Townsville for export to customers overseas.

In February 2017, CuDeco awarded a mining contract for Stage 1 of the Rocklands Copper Mine, with a contract for Phase 2 awarded in September 2017.

At the end of June 2017, the Rocklands workforce totalled 332, comprising 113 CuDeco employees and 219 contractors, with the majority residing locally.





Consul Jiang, Director of the Economic and Commercial Office of the Chinese Consulate in Brisbane, delivers her speech at the Rocklands Copper Mine opening event

# Key achievements FY17

- Successful transition from commissioning to production
- Official opening of Rocklands Copper Mine
- First production of sulphide copper concentrates
- First deliveries of native copper and sulphide concentrates to the Port of Townsville for export to customers overseas
- Award of mining contracts for Phase 1 and Phase 2 mining operations.

# Goals FY18

- Upgrade of the Rocklands fixed plant crusher with the installation of two new C400 Cone crushers in October/November 2017
- Installation of partial Gravity Circuit Bypass in November 2017 to decrease operating costs
- Achieve consistent monthly production at nameplate capacity
- Pursue further growth in shareholder value through development and exploration.





Crushed ore on CV11 on its way to the fines screen



# Greatest asset

It is often said that our people are our greatest asset and nothing could be closer to the truth for CuDeco people.

**PETER HUTCHISON**  
INTERIM CHAIRMAN



## Dear Fellow Shareholders

2017 has been a year of challenges and hurdles and I have personally witnessed the significant impact of dedicated people striving to ensure the success of Rocklands. This has been a feature of the year amongst both employees and shareholders.

I would like to acknowledge and thank all CuDeco Board members for the support they have given to the Company and to myself, particularly over the latter half of the year, and for their hard work behind the scenes.

Whilst challenging, this year has also been very exciting, starting with the commencement of commissioning of the Rocklands processing plant in July 2017. Commissioning is never entirely smooth sailing and Rocklands was no exception to experiencing the trials of commissioning.

Nevertheless, it is pleasing to reflect on a significant milestone being achieved with the official opening of the Rocklands Copper Mine in October 2016, and also to note that the processing plant has frequently operated at nameplate throughput rates and is now close to achieving the 3 million tonne per annum rate consistently. Record production was achieved in June 2017 and this was again surpassed post year-end in July 2017.

There have been some significant changes to the Board and senior management during the year. This brings its challenges as people adjust to new management styles, but I believe that the team is growing stronger by the day with an improved culture and work ethic evident on site.

Both Managing Director and Chief Executive Officer (CEO) Dr Dianmin Chen, and Chairman Dr Noel White

resigned in February 2017. I wish to thank both Dr White and Dr Chen for their positive contributions to the Company.

Welcomed to the Board during the year as Non-Executive Directors were Mr Wang Chiwei and Mr Benjamin Zhai. Both Mr Wang and Mr Zhai have brought extensive financial experience in the resources and financial sectors, respectively.

The Board decided to become wholly non-executive and Mr Mark Gregory was appointed CEO, commencing in February 2017. In welcoming Mark to the Company I noted his broad experience across the resources, professional services, property and media industry sectors, both in private and public companies. In the short time he has been with us he has made a valuable contribution to the operations and profile of CuDeco.



Mark has been ably supported by the other members of the executive, comprising Mr Gongyang Jiang and Mr David Wilson.

Jiang was appointed to the position of Chief Operating Officer in February 2017 and brought to the Company a detailed knowledge of the processing plant through his previous role as Sinosteel Project Manager for the construction and commissioning phases of the Rocklands processing plant. Jiang's extensive network of contacts in China has also proven beneficial in the Company's processing and financial activities.

David now has the honour of being the longest serving employee at Rocklands. His detailed knowledge of the project and in particular the Rocklands orebody and historical mining practices is an important yardstick for the more recent members of the Rocklands team.

As we look forward to the coming year I believe that based on the recent improvements post year-end, we will witness steady production that leads to a profitable year as indicated in the CEO's budget forecasts. This will be a pleasing turnaround from the loss reported for the current year.

In 2017 we saw the copper price lift substantially by approximately 23% to around US\$5,900 per tonne, and post year-end reaching above US\$7,000 per tonne. All the forecasts I have read predict a strong outlook for copper, which should boost the profitability of our flagship mine.

A heartening change to the potential fortunes of Rocklands has been the incredible surge in the year-end cobalt price by some 130% to approximately US\$55,000 per tonne.

The Company has reviewed its position regarding the extraction of cobalt/pyrite concentrate and following encouraging discussions with one interested processor has been preparing samples to be trial-processed for cobalt and sulphur recovery.

The extraction of the cobalt/pyrite concentrate was well established during CuDeco's metallurgical testwork and pilot plant programme and by switching the cobalt/pyrite circuit on the Company could generate considerable additional revenue. There is a high level of confidence of the success of processing trials by the potential customer.

The Company has also been recently reviewing its position in relation to the exploration programme. We will be looking to introduce a more intensive programme to focus on site-based targets previously identified, with the aim of producing a mining reserve from those orebodies, as well as continuing the ongoing programme associated with existing EPM's.

It is significant that we commence this early in the coming year to further enhance the available resource of good grade as we head into fiscal 2018.

CuDeco's planned debt restructuring should further enhance the profitability of Rocklands and in this regard I would like to acknowledge the support of our major shareholders, particularly Oceanwide, Rich Lead and Sinosteel and thank them for their unwavering confidence in the Company.

I also would like to thank shareholders that have contacted us during the year with words of encouragement,

positive suggestions and support, as this feedback is important for the Company's consideration.

The Company sincerely thanks all its hard-working employees for meeting the many operational challenges facing them and for their valuable contribution to the success of continued improvement.

The Board looks forward to its continuing close working relationship with the Company's management team. We trust that by building on this we will deliver to our shareholders a successful and profitable outcome for the coming year.



**Peter Hutchison**  
Chairman



# Challenges and Opportunities

It seems like barely months ago that I accepted the challenge of building a team to help revitalise CuDeco and ensuring the Rocklands Copper Mine delivers on its potential. I took up the position with eyes wide open as to the challenge and the opportunity that awaited.

**MARK GREGORY**  
CEO



Now as we approach calendar year-end, it is obvious when I walk around Rocklands and our corporate office, talking to staff, management, Directors, contractors and members of the local community, how much progress we have made.

The milestones have racked up in regular succession over the past financial year, and for these achievements I would like to thank everyone associated with Rocklands.

## Milestone events

Fiscal 2017 started with a bang, with the inaugural shipment of native copper concentrate produced by our new processing plant delivered to customers. This was quickly followed by the first production of high quality sulphide copper concentrates, with their initial shipment occurring in October 2016 via the Port of Townsville.

During the same month, we proudly announced the official opening of Rocklands, a truly historic occasion for Queensland's mining industry. This event was marked not only by the Company, but by a range of stakeholders including suppliers, shareholders and VIPs. The special guests included representatives from both state and local government, along with the Chinese Consulate in Brisbane.

Rocklands' establishment has helped cement Queensland's status as Australia's leading copper producer and exporter and is worthy of celebration, particularly for the hundreds of new jobs created, both directly and indirectly.

However, any new mine comes with its share of challenges and Rocklands has been no different.

My appointment as Chief Executive Officer in February came at a critical juncture in the mine's development, with the key task of guiding it through the last key stages necessary to achieve nameplate production.

Having been associated with Rocklands during its development at my previous role, I am very familiar with the plant and its processes, including areas for improvement.

In February, we started a new phase at Rocklands with the appointment of Andy's Earthmovers for the first phase of mining of the Las Minerale Stage-2 Pit. This involved the mining of around 1.2 million tonnes (Mt) of ore and 3.8Mt of waste from the pit.

March saw a major uptick, with the recommencement of mining at Rocklands and the appointment of a new and highly capable Chief Operating Officer, Mr Jiang Gongyang.



Jiang's long experience at Rocklands has stood him in good stead, having been the project manager for major contractor Sinosteel, in the plant's design and construction.

As noted by our Chairman, we have also strengthened our Board with the appointment as Non-Executive Directors of Mr Wang Chiwei and Mr Benjamin Zhai.

The last few months of the financial year saw some ups and downs. April was a record month of production and copper shipments, but May in comparison was somewhat disappointing due to unscheduled plant shutdowns.

### Strong start

Pleasingly we finished the last month of the financial year with a record shipment of copper concentrate. This was followed by July's largest single shipment of copper to date of some 8,620 wet metric tonnes, providing a robust start to the new financial year.

In September 2017, we awarded Phase-2 of the Rocklands mining contract to Oz Mining, on essentially the same terms as the original contract formed in February. The same month saw us enter into a copper concentrate sales agreement with Japanese trading house Mitsui, helping to further broaden our sales relationships.

Subsequent improvements in the reliability of the process plant, coupled with enhanced copper grades from the pit, have provided a solid platform for further improvement in production for the remainder of fiscal 2018.

Needless to say, achieving regular, ongoing monthly production at nameplate capacity is our number one priority and one we are committed to achieving.

Maintaining a stable funding platform is crucial and I am thankful to our major financing stakeholders for their ongoing support through the initial production phase at Rocklands. As we now approach nameplate production, we are looking to secure a longer term financing facility, and I am confident of a successful outcome to our negotiations with a range of parties.

### Robust fundamentals

Looking ahead, I am very confident of the outlook for fiscal 2018, based on the robust fundamentals of our business. We have a good quality and well defined ore body; a process plant that we know can operate at and above nameplate capacity on a consistent basis; a committed and united Board and management team and staff; and a strong market for our products, particularly in an environment of rising commodity prices.

At time of writing, copper prices had reached six-year highs of around US\$7,134 a tonne, and with increasing demand from electrified transportation and energy storage, the future is looking bright for the red metal.

Having joined Cloncurry in celebrating its 150th anniversary celebrations in September, it is obvious how much community spirit exists and how we are building on that at Rocklands.

CuDeco may only be a relative newcomer to Cloncurry, but we are all building our own piece of history at our mine.

On behalf of the management team I would like to thank all our staff, contractors, suppliers and other stakeholders for your efforts over the past year, and our shareholders for your loyal support.

We know we have the right assets in the right part of the world, and we are targeting the right commodities. Our task is to deliver consistent revenue and earnings for the benefit of all stakeholders and it is a responsibility we will not shirk from.



**Mark Gregory**  
CEO



Mining activities in LM2 Pit at an approximate depth of 90 metres







## BOARD OF DIRECTORS

### **PETER HUTCHISON** INTERIM CHAIRMAN

Mr Peter Hutchison is a process chemist and hydrometallurgist with over 40 years industry experience involving chemical, mineral processing and water treatment businesses.

During the early days of CuDeco, Peter was responsible for the development and operation of the Company's Mt Norma copper project. The Company subsequently sold the Mt Norma operations to focus all efforts on the Rocklands Project and Peter was appointed Senior Executive responsible for the Rocklands site. Responsibilities include development of metallurgical programmes and concept process flowsheets, and for the definitive feasibility studies including environmental and other project approvals.



### **BENJAMIN ZHAI** NON-EXECUTIVE DIRECTOR

Mr Min (Benjamin) Zhai was appointed as a Non-Executive Director of CuDeco on 18 May 2017. Mr Zhai is a nominee Director of Valuestone Global Resources Fund I, further to its subsidiary Gemstone 101 Ltd's investment in CuDeco on 21 April 2017.

Mr Zhai currently serves as a partner of Valuestone Global Resources Fund I. He has over 20 years of experience in the natural resources investment and TMT industry, including serving as director of a Toronto Stock Exchange listed company. Mr Zhai has a Bachelor of Science degree from the South China University of Technology and an MBA from the University of Minnesota.



### **ZHAOHUI WU** NON-EXECUTIVE DIRECTOR

Mr. Zhaohui Wu is an executive director of Natsun Australia Pty Ltd and was nominated as a representative of New Apex Asia Investment Pty Ltd. Mr Wu graduated from Xiamen University in China with the degree of Bachelor of Economics.

He has worked in the international trading sector since 1989. He was involved in the export business during his career at both state owned and private mineral companies in China, and kept working on the import and export of alumina, aluminium, wool and wine when he moved to Australia in 2002. He also has been involved in the acquisition of golf resorts and farms and related activities from 2008.



### **WANG CHIWEI** NON-EXECUTIVE DIRECTOR

Mr Wang is a graduate from Central South University, China and has extensive experience in financial management including holding the position of the Deputy Chief Economist of Guixi Smelter and Vice Director of Sales Distribution Department for Jiangxi Copper Corporation.

Mr Wang was formerly the General Manager of Hainan Marketing Company & Vice-President of Shanghai Smelter, China Nonferrous-Metals Corporation. He was the Vice President of Jiangxi Copper Corporation, the largest copper producer in China and the Executive Director and Vice President of Jiangxi Copper Company Limited, the listed platform in Hong Kong for Jiangxi Copper Corporation. Mr Wang is currently a Senior Advisor for the International Copper Association.





**PAUL KERAN**  
**NON-EXECUTIVE DIRECTOR**

Mr Keran is a chemical engineer with more than 30 years' experience in the resource sector in Australia and internationally.

He was previously with MIM Holdings as MIM Group Metallurgical Manager and has also completed technical assessment and development of the Alumbrera copper project in Argentina. Mr Keran is a member of the audit committee and the human resources, remuneration and nominations committee.



**HONGWEI LIU**  
**NON-EXECUTIVE DIRECTOR**

Mr Hongwei Liu is a graduate from Mechanical Design and Manufacturing Dalian Ocean University with a bachelor degree, and holds a masters degree of Management from Massey University, New Zealand.

He specialises in professional management and administration and during his career has been involved in a number of major investment projects covering a wide range of areas including finance and energy. Mr Liu is a director of Oceanwide International Resources Investment Co Ltd and is responsible for this Company's investments in overseas projects especially within the finance, energy and resource sectors.

Mr Liu is also currently the Managing Director of Minsheng Investment Management Holdings Co Limited.



**ZHIJUN MA**  
**NON-EXECUTIVE DIRECTOR**

Mr Zhijun Ma is a graduate of Engineering Management from Tianjin University with a bachelor's degree. Mr Ma is a professional economist and during his career has been involved in a number of major investment projects covering a wide range of areas including finance, energy and real estate.

(ABSENT)

**ZHU MU PO**  
**(ALTERNATE DIRECTOR TO MR ZHIJUN MA)**

Mr Zhu Mu Po was educated in the accounting and finance department of Macquarie University. He is a specialist in professional management and investment. During his career, he has been involved in a number of major investment projects within the finance sector.

(ABSENT)

# ROCKLANDS OPERATIONS REPORT

## GONGYANG JIANG

CHIEF OPERATING OFFICER



### SUMMARY

The year commenced with the transition from construction to commissioning of the Processing Plant and ended with stable copper concentrate production. The first copper product shipment in October of native copper was followed by seven more shipments during the year.

The Company's first copper concentrate export was successfully shipped on 14 November 2016, and by financial year-end a total of 40,278 dry metric tonnes of copper concentrate had been shipped, containing 8,973 tonnes of copper metal.

The Rocklands Copper Mine was officially opened at a ceremony onsite on 28 October 2016, with guests including employees, suppliers, major shareholders, politicians and other VIPs.

Mining at Rocklands recommenced on 15 March 2017 with the award of a mining contract to Andy's Earthmovers (AEM). AEM was acquired by Emeco International (Emeco) on 1 April 2017. Mining output continued to ramp up throughout the financial year.

Onsite metal assaying (and sample preparation) became available with the SGS contract laboratory in April 2017.

Significant Activities Planned for FY2018:

- Upgrade of the Rocklands Fixed Plant Crusher with the installation of two new C400 cone crushers in October/November 2017. This will remove the need to utilise the additional transportable crushing unit to supplement Process Plant Feed;
- Installation of a partial Gravity Circuit Bypass in November 2017 to decrease operating costs when no gravity copper ore is being processed;
- Steady state Processing Plant operation at nameplate throughput and within budgeted costs per tonne of ore processed.

### MINING

Mining activities resumed on 15 March 2017 under the general mining contract awarded to AEM. Drill and blast activities were subcontracted to Roc-drill Pty Ltd under the same contract.

Mining recommenced in the LM2 pit (Las Minerale Stage 2) at an average mining rate of 880kt per month (ore and waste) for the first six months of the mining contract (Phase 1).

Ore mined was primary sulphide ore (chalcopyrite) and supergene ore (native copper/chalcocite), both of which were mined concurrently.

There was no other mining performed outside LM2 before 30 June 2017, except for a small trial of about 10kt of waste mined from RS1 (Rocklands South Stage 1) in mid-June, to assess the risks of mining of fibrous material.

Drilling and blasting costs increased in the ore zones. This was due to increasing powder factors, which was required to minimise crusher ore feed sizing to both the fixed plant primary crusher and the smaller contractor owned-and-operated mobile crusher used to supplement mill feed.

The rescheduling of mining activities accelerated the delivery of ore to the processing plant to meet budgeted high-grade feed requirements in April. This rescheduling also increased total movement from May to approximately 1.6 million tonnes per month. This resulted in an increase in the mining fleet and Phase 2 mining rates.

### PROCESSING PLANT

The processing plant completed the commissioning phase for the native copper and copper concentrate products and by the end of Q2 ramped up production and progressed towards achieving nameplate throughput rates. Copper recoveries on sulphide ore increased with 88.9% copper recovery achieved in Q4. By June, the plant was achieving 84% of nameplate capacity (3 Mtpa).

During the year there were a total of nine shipments of copper concentrates, commencing with shipment CC1 on 15 October. In addition, there were eight shipments of native copper, commencing with NC-1 on 9 August. The majority of the shipments were in the range of 60% to 65% contained copper, however final umpire assays on the last two shipments were yet to be received at time of writing.



## ROCKLANDS OPERATIONS REPORT continued

| Production Statistics                           | March Quarter<br>2017 | June Quarter<br>2017 | Half Year<br>2017 |
|---|-----------------------|----------------------|-------------------|
| Ore Mined (tonnes)                              | 94,595                | 749,313              | 843,908           |
| Ore Processed (tonnes)                          | 316,708               | 580,680              | 897,388           |
| Copper Grade %                                  | 1.16%                 | 0.99%                | 1.07%             |
| Recovery Cu %                                   | 77.83%                | 78.3%                | 78.06%            |
| Copper Produced (tonnes)                        | 9,515                 | 17,441               | 26,956            |
| Native Copper Shipped (Contained Cu Metal)      | 691                   | 0                    | 691               |
| Copper Concentrate Shipped (Contained Cu Metal) | 2,457                 | 4,188                | 6,645             |

Major activities during the year included:

- Reduction in contractor numbers and more focus on the recruitment of permanent employees;
- Establishment of an onsite SGS laboratory;
- Mobilisation and operation of a contract mobile crushing plant to supplement the fixed crushing plant;
- Design of gravity circuit bypass, the first stage of which will be operational in November 2017.

Major activities planned for fiscal 2018 comprise:

- Achieving design crusher capacity after the fixed crusher plant upgrade in November 2017;
- Reduced cost and higher plant availability in November with the installation of Phase 1 of the Gravity Bypass Circuit;
- Implementation of effective Planned Maintenance (PM) and reliability engineering systems;
- Reduction of plant spillage with both the redesign of high wear areas and improved conveyor belt performance;
- Improved plant efficiencies with the completion of the Metallurgical Laboratory building and effective use of laboratory scale flotation testing of plant feed;

- Completion of test work to determine if an economically viable cobalt concentrate can be produced and shipped from site;
- Commissioning of the onsite Ore Sorter and reduced penalties on shipping native copper with high levels of magnetite and sulphide rock.



Crushed ore being taken to the feed tunnel

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## ROCKLANDS OPERATIONS REPORT continued

All six new water bores were completed during the year, with three out of the six equipped with box pumps and generators.

### Fixed Plant Crusher Upgrade

The project to replace the existing roll crusher and tertiary crusher with two new C400 Cone Crushers is scheduled for completion in October/November 2017.

### Gravity Bypass

The first stage of the gravity bypass is scheduled for completion in November 2017, enabling savings in both equipment wear and power during periods when non-gravity ore is being processed.

## SAFETY

CuDeco's priorities have revolved around the production of a quality product and the safety and wellbeing of its employees. The Company acknowledges the valuable contribution from its employees to this effort, and has recognised their work in building a world-class copper project, whilst encapsulating the efforts of all to achieve its objective of zero harm.

During 2017 the Rocklands operations were twice suspended by the Queensland Department of Natural Resources and Mines (DNRM) for the following identified areas of concern:

- No system in place to establish the integrity of any rim/wheel > 24 inch in diameter for all rubber tyred earth moving equipment and other rubber tyred equipment. This was rectified by:
  - › Reviewing and updating the site rim register; risk assessments completed for the removal and installation of earthmoving tyres
  - › Non-destructive testing (NDT) of rims and tyre handler attachment
  - › Tyre management processes improved to ensure all activities are maintained to industry standards as a minimum.
- The Rocklands site had an ineffective Safety and Health Management (SHM) system, with no current safety and health (S&H) policy in use, outdated Organisational Chart and an outdated site-wide risk assessment.

These issues have also been proactively addressed and continue to improve through the following actions:

- › Supplying the resources within Safety and Training to implement and maintain an effective and auditable SHM system;
- › Completing an audit of the SHM system by an external auditor to identify system gaps and apply a manageable action plan;
- › Reviewing risk management procedures;
- › Reviewing current site-wide risk assessments to ensure validity and that such risk assessments capture the activities and tasks associated with mining and processing activities onsite;
- › Ensuring that a site-wide organisational chart is in place for all persons allocated roles and responsibilities onsite for the implementation and communication of the SHM plan.

The review of the SHM system is an ongoing aspect of continuous improvement for the HSEC and Training team and has taken priority for fiscal 2017.

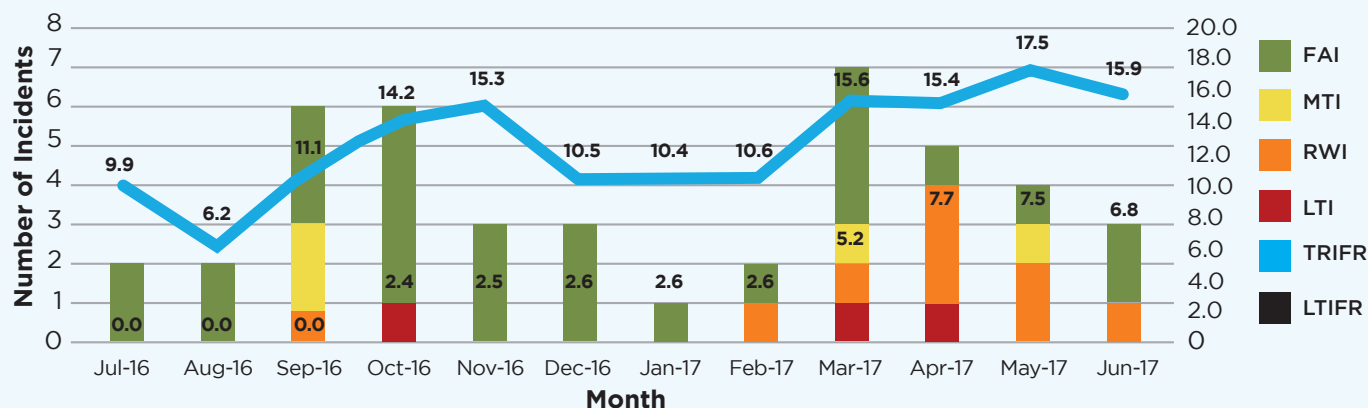
To assist in this continuous improvement process, the following initiatives have been implemented:

- Increase of safety and training personnel to ensure that the transitions from exploratory mining to Processing Plant construction to mining and processing have been completed with minimal interruption;
- Introduction of the INX – Incontrol safety and Intuition training databases, allowing the site to manage a range of tasks and activities across the specialised areas of health, safety, environment, training and emergency response as an integrated solution which shares the same database, and which facilitates the management of these tasks in a simpler and more user-friendly manner;
- Increased Emergency Response capabilities with 2 x Emergency Response Coordinators for 24/7 coverage onsite, with 10 Emergency Response team members completing Cert III in Emergency Response and Road Rescue;



## ROCKLANDS OPERATIONS REPORT continued

### ROCKLANDS SAFETY PERFORMANCE - 12 MMA



- Development of the Rocklands site compliance register, which includes Safety, Health and Environmental compliance requirements for the DNRM and the Environmental Protection Authority;
- Reviewed and updated the relevant Principal Management plans for the site;
- Development and review of training modules for the processing of the copper ore and a selection of mineral processing activities;
- Election of site Health Safety Representatives for each area of the mine and processing, with regularly scheduled meetings;
- Development of 14 Structured Inspection Guides (SIG) as a self-auditing tool to demonstrate alignment with the Qld Mining Act, Regulations and associated Australian Standards.

There were 3 recorded Lost Time Injuries (LTI) at a frequency rate of 6.8, with the site's Total Recordable Injury Frequency Rate (TRIFR) rising from 9.1 to 15.9.

### HUMAN RESOURCES

CuDeco continues to promote and foster community engagement through our workforce, with an emphasis on local employment participation and encouraging employees to live locally in Cloncurry.

At the end of June 2017, the Rocklands workforce stood at approximately 332, consisting of 113 CuDeco employees and 219 contractors.

We are committed to working with Cloncurry and the surrounding communities with active interaction and engagement of local suppliers of goods and services, and continuing to expand our working relationships with, and provide various opportunities for local employment providers.

We value the relationship with our local employment stakeholders and appreciate the benefits in securing the necessary skills and experience locally as a foundation for a strong workforce.

We are focused on investing in our people to build a sustainable workforce. We are committed to training and developing our people to enhance their careers, improve operational effectiveness and support the business in providing continued employment opportunities.

CuDeco looks forward to continuing to foster and develop stronger partnerships with the Cloncurry and surrounding communities and to share in the achievements of the Rocklands Copper Mine.

# ROCKLANDS OPERATIONS REPORT continued

## ENVIRONMENT AND COMMUNITY

CuDeco's environmental and community initiatives in fiscal 2017 focused on improving systems to ensure compliance with Rockland's regulatory obligations in the full operation (mining and processing) phase.

Highlights included:

- Community open day held for recommencement of mining in late 2016 at Rocklands;
- Building a new environmental team including an Environmental Superintendent, Environmental Advisor and Environmental Field Officer;
- Development and implementation of an environmental monitoring database using Monitor Pro software for all current and historical environmental data for the Rocklands site;
- Installation of two stream gauge monitoring stations in the Morris Creek and Marathon Creek catchments for monitoring of stream flow;
- Installation of a fifth DustTrak™ air quality monitoring station at the mine site for real-time monitoring;
- Replacement Plan of Operations approved by the Department of Environment and Heritage Protection (EHP) on 20 April 2017, including approval of reduction in Financial Assurance;
- Minor Environmental Authority Amendment approved by EHP on 17 February 2017;
- Completion and reporting of all routine environmental monitoring including receiving water, onsite water storages, groundwater, dust and air quality, rehabilitation, stream sediment and tailings;
- Progressive review and update of existing procedures and management plans in line with current requirements for operations;
- Installation of four new groundwater monitoring bores in line with regulatory requirements;
- Proposal for site-specific trigger levels and contaminant limits for groundwater prepared for submission to EHP;
- Annual Returns completed for Environmental Authorities for Rocklands, Camelvale Exploration Area and Morris Creek Exploration Area.



A field of copper grass and gum trees in the vicinity of the Las Minerale orebody



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## CORPORATE DIRECTORY

### DIRECTORS

Peter Hutchison (Interim Chairman appointed 16 February 2017)  
Paul Keran  
Zhijun Ma  
Hongwei Liu  
Zhaohui Wu  
Zhu Mu Po (Alternate Director to Zhijun Ma)  
Wang Chiwei  
Benjamin Zhai

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### COMPANY SECRETARY

Leni Stanley

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### ADMINISTRATION AND REGISTERED OFFICE

Suite 11A, Level 11, 100 Edward Street,  
Brisbane, Qld, 4000

Telephone: (617) 32 10 5900  
Facsimile: (617) 3210 5999

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### PRINCIPAL PLACE OF BUSINESS

Rocklands Mine  
Corella Park Road,  
Cloncurry, Queensland 4824

Telephone: (617) 4742 4800  
Facsimile: (617) 4742 4898

Website: [www.cudeco.com.au](http://www.cudeco.com.au)

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### AUDITOR

KPMG  
Level 11, Corporate Centre One,  
Cnr Bundall Road and Slatyer Avenue,  
Bundall, Qld, 4217

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### SHARE REGISTRY

Advanced Share Registry Services  
110 Stirling Highway,  
Nedlands, Western Australia, 6009

Telephone: (618) 9389 8033  
Facsimile: (618) 9262 3723

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### STOCK EXCHANGE LISTING

The Company's securities are quoted on the Australian Securities Exchange.

**ASX Codes**  
CDU - ordinary shares

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### STATE OF INCORPORATION

New South Wales

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### WEBSITE ADDRESS

[www.cudeco.com.au](http://www.cudeco.com.au)

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# REVIEW OF OPERATIONS

## PRINCIPAL ACTIVITIES

The principal continuing activities of the Consolidated Entity during the course of the financial year were mineral exploration, evaluation, mine development and construction, mining production and processing of copper concentrate, native copper and gold in Cloncurry, Queensland, Australia.

## RESULTS AND DIVIDENDS

The result for the period ended 30 June 2017 was a gross loss of \$6.4m (2016: Nil) and net loss after tax of \$135.6m (2016:\$127.2m).

The loss after tax for the period includes non-cash depreciation and amortisation of \$27.0m (2016:\$4.0m), impairment losses of \$76.9m (2016:\$99.3m), ore inventory write down of \$19.5m (2016: Nil) and foreign exchange gains of \$3.0m (2016: \$2.6m loss), relating mainly to the foreign exchange currency movement on the Company's loan facility which is denominated in US dollars (\$US). The Company has chosen not to hedge this loan for foreign currency movements as current and future copper sales will also be denominated in \$US and provide a natural hedge to the loan.

No dividends were paid during the year and the Directors do not recommend payment of a dividend.

## Review of Operations

During the year ended 30 June 2017, the Company completed development and construction of the Rocklands Copper mine ('Rocklands') based in Cloncurry, Queensland. The mine was commissioned on 1 October 2016 and has been gradually ramping up production towards nameplate capacity. As a result of below budget performance and increased processing costs, the group completed an impairment test of the Rocklands mining operation (note 27) and recorded impairment of \$76.0m at 30 June 2017. In addition the group recorded impairment of exploration and evaluation assets of \$0.9m and ore inventory write down of \$19.5m. The following is a detailed review of the operation, including significant events up to the date of this report:

### Mining Operations & Mine Planning

- Mining operations recommenced on 15 March 2017 having been suspended to allow effective and efficient operation of the newly commissioned processing plant. During this period the Group had adequate ore stockpiles to process.
- A total of 891,849 tonnes of ore and 2,407,215 tonnes of waste were mined for the period ended 30 June 2017.
- The mine plan and schedule were provided to five (5) separate mining contractors for tender and the most cost effective and efficient contractor was selected.
- The mine contractor full service model was selected for a Stage 1, 4.25-year mining contract to minimise capital requirements and operating risk.
- The phase 1 mining contract is for a total of 5,100,000 tonnes of ore and waste from LM2. At the end of June, a total of 3,300,000 tonnes had been mined with the remaining 1,800,000 tonnes moved during the period to 12 September. Phase 2 commenced immediately thereafter.

### Processing Plant

The processing plant was officially commissioned on 1 October 2016. The commissioning phase test runs for the native copper and copper sulphide concentrate facilities of the plant was undertaken during the quarter ended 30 September 2016. Since then, the Company has been ramping up production and is planning to achieve consistent nameplate capacity by 31 December 2017.

A total of 1,395,231 dry metric tonnes of ore was processed during the year with a head grade of 1.39% Cu. Total copper metal produced was 13,447 dry metric tonnes, 3,011 dry metric tonnes in native copper and 10,436 dry metric tonnes of copper metal in sulphide concentrates equivalent to 46,223 dry metric tonnes of total copper concentrate.

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## REVIEW OF OPERATIONS continued

Copper flotation recovery for the year ended 30 June 2017 was 72.5%. This was lower than the initial feasibility study rate of 93% due to conflicting processing methodologies of primary (CPY) and partially-weathered (CC) ore types.

Existing high grade stockpiles were rapidly depleted for processing during the year ended 30 June 2017. Considerable volumes of oversize ore were identified in high grade primary stockpiles which caused restrictions on crusher throughput. This was overcome by better management of the crusher unit. Management are upgrading the crusher unit for a longer term solution.

### Sales and Marketing

The Company achieved nine (9) shipments totalling 40,276 dry metric tonnes of sulphide copper concentrates and eight (8) shipments totalling 3,305 dry metric tonnes of native copper concentrates to our customers during the period ended 30 June 2017.

### Exploration

The Company made a strategic decision to scale down its exploration activities to concentrate its efforts and resources towards completing construction and commissioning of the processing plant. Limited exploration activity during the period included Bedrock RAB and RC drilling on EPM18054 and EPM25426.

Management remains committed to increasing the Company's resources and reserves assets and have in place a plan to expand current exploration activities throughout the year 2018 and 2019 within and outside the current mining lease areas.

### Corporate

During the period ended 30 June 2017 the Company:

- Completed a rights issue announced in May 2016, having raised in total approximately \$63.0m (before costs). \$53.1m was raised prior to 30 June 2016 with the remaining \$10.0m raised in August 2016. It was announced on 15 August 2016 that the sub-underwriters to the Company's recent Rights Issue had subscribed for the remaining 12,500,000 ordinary shares at \$0.80 per share (representing \$10.0m in issue proceeds before costs) pursuant to the underwriting agreement. \$2.0m of the issue proceeds were received prior to 30 June 2016 with allotment of shares being undertaken on 16 August 2016.
- Relocated its corporate office from Southport to Brisbane on 19 September 2016 for strategic and logistical reasons. Officially opened Rocklands Copper Mine with an event on 28 October 2016.
- Sold 4,000,000 shares at \$0.44 per share valued at \$1.8m in the Employee Share Plan unit trust on 22 December 2016.
- On 24 March 2017, the Company signed a Deed of Remediation ('the Deed') with a major supplier for amounts owing of \$31.83m for construction and commissioning of the processing plant. Under the terms of the Deed an extended repayment period has been agreed, ending 31 December 2018. Principal repayments of \$20.1m are due within 12 months with the remaining principal of \$9.4m due by 31 December 2018 in accordance with an agreed payment schedule. Interest is payable at the rate of 6% per annum on the outstanding balance.
- The Company executed a Convertible Note Subscription Agreement with Gemstone 101 Ltd ('Subscriber') to raise \$22.0m through the issuance of 44 million convertible notes at \$0.50 each, plus 4.4m free options. The Convertible Note Subscription Agreement was executed on 31 March 2017 and the funds were received by the Company on 21 April 2017.
- The Company entered into two (2) short-term facilities of HKD\$80.0m and USD\$4.8m equivalent of USD\$15.0m with maturity dates of 10 July 2017 and 26 July 2017 respectively, the proceeds of which were used to settle the Minsheng loan principal repayment of USD\$15.0m due on 30 June 2017.



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## DIRECTORS' REPORT

The Directors present their report together with the financial report of CuDeco Limited (the "Company") and its controlled entities (the "Consolidated Entity") for the year ended 30 June 2017. CuDeco Limited is a listed public company incorporated in and domiciled in Australia.

### DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

**Peter Robert Hutchison** MRACI Ch Chem  
Interim Chairman  
(Director since 2004)

Mr Hutchison (68 years) is a process chemist and hydro metallurgist with over 40 years industry experience involving chemical, mineral processing and water treatment businesses.

From 2004 until 24 July 2015, Mr Hutchison was an Executive Director of the Company and on 24 July 2015 was appointed as an interim Managing Director. Throughout this time Mr Hutchison was responsible for the operations of the Rocklands Project including the metallurgical development work. From 24 May 2016, Mr Hutchison was replaced in the role of Managing Director but agreed to remain on as a Non-Executive Director. On 16 February 2017, he was appointed Interim Chairman of the Board.

**Vitie Paul Keran** B.App.Sc., B.E. (Chemical), Dip. B.A.  
Independent, Non-Executive Director  
(Director since 2007)

Mr Keran (73 years) is a chemical engineer with more than 30 years of experience in the resource sector in Australia and internationally, in senior operations management and project development roles in base metals mineral processing, smelting and technology development. He was previously with MIM Holdings as General Manager - Group Metallurgical Development and Metallurgical Works Manager at Mt Isa and also completed technical assessment and development of the US\$1 billion Alumbrera copper/gold project in Argentina.

**Zhijun Ma**  
Independent Non-Executive Director  
(Director since 2011)

Mr Zhijun Ma (45 years) is a graduate from Engineering Management Tianjin University with a Bachelors degree. Mr Ma is a specialised professional economist and during his career has been involved in a number of major investment projects covering a wide range of areas including finance, energy and real estate.

**Hongwei Liu**  
Non-Executive Director  
(Director since 2012)

Mr Liu (49 years) is a graduate from Mechanical Design and Manufacturing Dalian Ocean University with a Bachelor's degree, and a Master's degree of Management from Massey University New Zealand. He is specialised in professional management and administration and during his career has been involved in a number of major investment projects covering a wide range of areas including finance and energy. Mr Liu is a director of Oceanwide International Resources Investment Co., Ltd and is responsible for this company's investments for overseas projects especially within the finance, energy and resource sectors. He is also currently the Managing Director of Minsheng Investment Management Holdings Co Limited.

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## DIRECTORS' REPORT

### continued

#### **Zhaohui Wu**

Non-Executive Director  
(Director since 2014)

Mr Wu (49 years) is an executive director of Natsun Australia Pty Ltd and was nominated as a representative of New Apex Asia Investment Pty Ltd. Mr Wu graduated from Xiamen University in China with the degree of Bachelor of Economics. He has worked in the international trading sector since 1989. He was involved in the export business during his work in China either state owned or private mineral companies, and kept working on import & export of alumina, aluminium, wool and wine when he moved to Australia in 2002. He also has been involved in acquisition of golf resort & farms and related activities from 2008.

#### **Zhu Mu Po**

Alternate director to Mr Z Ma  
(Appointed 3 September 2015)

Mr Po (34 years) was educated in the Accounting and Finance Department of Macquarie University. He specialised in professional management and investment. During his career, he has been involved in a number of major investment projects within the finance sectors.

#### **Benjamin Zhai**

Non-Executive Director  
(Appointed 18 May 2017)

Mr Zhai (44 years) currently serves as Director of the Valuestone Global Resources fund. He has over 20 years' experience in natural resources investment and TMT industry, including serving as director of a Toronto Stock Exchange listed company.

He has a Bachelor of Science degree from the South China University of Technology and an MBA from the University of Minnesota.

#### **Chiwei Wang**

Non-Executive Director  
(Appointed 16 January 2017)

Mr Wang (62 years) is a graduate from Central South University, China and has extensive experience in financial, the management, including holding the position of the Deputy Chief Economist of Guixi Smelter and Vice Director of Sales Distribution Department for Jiangxi Copper Corporation.

#### **Dr Noel White**

Independent, Non-Executive Chairman  
(Chairman since 28 January 2016, resigned 16 February 2017)

Dr White (69 years) is an award-winning geologist, experienced company director and researcher. Dr White has worked on resource projects across the globe and brought to CuDeco a wealth of detailed technical knowledge and international contacts across the resource industry. He resigned on 16 February 2017.



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## DIRECTORS' REPORT

### continued

#### **Dr Dianmin Chen**

Managing Director

(Appointed Director on 14 December 2015 and Managing Director on 20 May 2016. Resigned 21 February 2017)

Dr Chen (58 years) holds a Bachelor of Science in Mining Engineering (China) and a PhD in Mining Geomechanics (Australia).

After working as a mining engineer in China, Dr Chen joined Rio Tinto in Australia in 1994 following which he spent 10 years with Barrick Gold. Dr Chen was General Manager of Sino Jinfeng Mining, a subsidiary of Sino Gold (now Eldorado Gold Corp), responsible for the Jinfeng Gold Mine in China. In 2009, Dr Chen joined CITIC Pacific Mining as COO, and subsequently held senior positions with Minco Silver and CaNickel Mining.

None of the Company's Directors have held office as directors of other public listed companies in the three year period ended 30 June 2017 (except as disclosed above).

#### **COMPANY SECRETARY**

#### **Leni Stanley**

(Appointed 18 May 2017)

Ms Stanley has been a member of the Institute of Chartered Accountants for more than 20 years and is the principal of SYA Corporate Services Pty Ltd, a company that focuses on the provision of company secretarial services mainly to resource companies.

#### **Bruno Joseph Bamonte**

(Resigned 18 May 2017)

Mr Bamonte (aged 58 years) is an Australian chartered accountant and has more than 19 years of experience with listed companies in roles ranging from company secretary to finance director.

#### **BOARD COMPOSITION**

The Board comprises eight (8) Directors including the Chairman of the Board, six (6) of whom are considered non-executive and two (2) of whom meet the board's criteria to be considered independent. An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the independent exercise of their judgement. For a director to be considered independent, they must meet all the following materiality thresholds:

- is not or does not represent a substantial shareholder of the company or an officer of or otherwise associated directly with, a substantial shareholder of the Company;
- does not benefit, directly or through a related person or entity, from any sales to or purchases from the Company or any of its related entities;
- does not derive significant income (more than 10% of the director's total income) either directly or indirectly through a related person or entity from a contract with the Company or any of its related entities.

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# DIRECTORS' REPORT

## continued

### SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 1 October 2016, the Company commissioned its Rockland project and commenced production of copper concentrate, native copper concentrate and gold. Other than as detailed in other parts of the Directors Report there were no significant changes in the state of the consolidated entity.

### MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity, in future financial years other than:

- The Company secured a six (6) month term facility of HKD\$40m which expires on 10 January 2018. The proceeds were used to repay the short-term facility of USD\$4.8m secured on 26 June 2017.
- The Company was granted an extension to its short-term facility (Loan No.1) of HKD\$80m (approx. US\$10m) to 31 October 2017 from the initial repayment date of 21 July 2017. This was further extended on 13 October 2017 with a new maturity date of 31 December 2017.
- The Company is currently negotiating with various parties, including a major Australian bank, to secure a long-term restructured finance facility.
- The Company entered into a copper concentrate sales agreement with Mitsui & Co., Ltd (Mitsui). Under the agreement Mitsui prepaid USD\$20m to CuDeco. The funds were used to repay the USD\$15.0m due to Minsheng Banking Corporation Limited on 31 October 2017 with the balance of USD\$5.0m being applied to working capital.
- The Company was in breach of the Second Amendment Deed with Minsheng Bank as its audited accounts were not lodged within 90 days of the financial year ended 30 June 2017. In addition, the Company was also in breach of its borrowing facility with Quam as the Company's shares have been suspended from trading for longer than 5 days. The Company has received acknowledgement of the breach from both financiers and confirmation that no further actions are being taken at this time.

### LIKELY DEVELOPMENTS

The Consolidated Entity will continue exploration and evaluation activities with its focus being on mining production and processing of ore at its Rocklands mining operations located in Cloncurry, Queensland. Further commentary on likely developments over the forthcoming year is provided in the "Review of Operations".

The National Greenhouse and Energy Reporting Act 2007 requires the group to report its annual greenhouse gas emissions and energy use. The group has implemented systems and processes for the collection and calculation of the data required and submitted its 2016/17 report to the Greenhouse and Energy Data Officer on 7 September 2017.



# DIRECTORS' REPORT

## continued

### DIRECTORS' MEETINGS

The number of meetings of the Company's Directors and the number of meetings attended by each Director during the year ended 30 June 2017 are:

|                          | Full meetings of directors |    | Meetings of committees |   |   |   |
|--------------------------|----------------------------|----|------------------------|---|---|---|
|                          |                            |    | Audit and Risk         |   | Human Resources, Remuneration & Nominations |   |
|                          | A                          | B  | A                      | B | A   | B |
| <b>Current Directors</b> |                            |    |                        |   |   |   |
| P Hutchison              | 12                         | 13 | 2                      | 2 | *   | * |
| P Keran                  | 12                         | 13 | 2                      | 2 | -   | - |
| H Liu                    | 11                         | 13 | *                      | * | -   | - |
| Z Ma                     | -                          | 13 | *                      | * | *   | * |
| Z Po (Alternate)         | 11                         | 13 | *                      | * | *   | * |
| Z Wu                     | 13                         | 13 | 2                      | 2 | *   | * |
| C Wang                   | 3                          | 4  | *                      | * | *   | * |
| B Zhai                   | 1                          | 1  | *                      | * | *   | * |
| <b>Past Directors</b>    |                            |    |                        |   |   |   |
| N White                  | 10                         | 10 | *                      | * | -   | - |
| D Chen                   | 10                         | 10 | *                      | * | *   | * |

A = Number of meetings attended

B = Number of meetings held during the time the Director held office or was a member of the committee during the year

\* = Not a member of the relevant committee

In addition to the above Directors' meetings held during the year, matters of Board business have also been resolved by circular resolutions of Directors, which are a record of decisions made at a number of informal meetings of the Directors.

The Audit and Risk Committee at year end consists of Zhaohui Wu, Peter Hutchison, and Paul Keran.

The Human Resources, Remuneration and Nominations Committee consists of H Liu and P Keran. N White resigned from the committee on 16 February 2017. The committee did not meet during the financial year ended 30 June 2017.

## DIRECTORS' REPORT

### continued

#### DIRECTORS' INTERESTS

The relevant interest of each Director in the shares, options or other instruments issued by the Company, as notified by the Directors to the ASX Ltd in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

|                  | Fully Paid<br>ordinary shares | Fully Paid ordinary shares<br>held as part of loan funded<br>employee share plan | Options |
|------------------|-------------------------------|--|---------|
| P Hutchison      | 1,097,284                     | 291,666  | -       |
| P Keran          | 102,082                       | 116,666  | -       |
| H Liu            | 124,000                       | 100,000  | -       |
| Z Ma             | -                             | -  | -       |
| Z Wu             | -                             | -  | -       |
| Z Po (Alternate) | -                             | -  | -       |
| C Wang           | -                             | -  | -       |
| B Zhai           | -                             | -  | -       |

#### LISTED SHARE OPTIONS

As at the date of this report, there were nil (2016: nil) unissued ordinary shares under option. No new options exercisable were granted during or since the end of the financial year. No option holder has any right to participate in any other share issue of the Company or of any other entity.

#### UNDER THE LOAN FUNDED EMPLOYEE SHARE PLAN

In November 2011 the Company was granted approval for the setting up of a Loan Funded Employee Share Plan. For accounting purposes shares allocated to employees pursuant to this plan will be treated and valued as options.

During or since the end of the financial year:

- The Company has issued no new loan shares to employees.
- 291,666 loan shares have been forfeited by employees due to the termination of their employment with the Company.



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## REMUNERATION REPORT - AUDITED

This report outlines the remuneration arrangements in place for the following Key Management Personnel (“KMP”) of CuDeco Limited during or since the end of the financial year.

### Executive Directors

**Dianmin Chen** – Resigned 21 February 2017

### Non-Executive Directors

**Peter Hutchison** – Appointed Interim Chairman 16 February 2017

**Paul Keran**

**Hongwei Liu**

**Zhaohui Wu**

**Zhijun Ma**

**Zhu Mu Po** – Alternate Director to Mr Z Ma

**Chiwei Wang** – Appointed 16 January 2017

**Benjamin Zhai** – Appointed 18 May 2017

**Noel White** – Resigned 16 February 2017

### Other Senior Management

**Mark Gregory** – Chief Executive Officer (Appointed 21 February 2017)

**Jiang Gongyang** – Chief Operating Officer (Appointed 1 March 2017)

**Levy Mwanza** – Financial Controller (Appointed 4 May 2017)

**Joe Skrypnik** – Acting General Manager (Appointed 17 February 2017)

**Bruno Bamonte** – Chief Financial Officer (up to 22 August 2016) and Company Secretary (Resigned 18 May 2017)

**David Wrigley** – Chief Financial Officer (Appointed 22 August 2016, Resigned 4 May 2017)

**Mark Roberts** – Rockland Project General Manager (Resigned 21 January 2017)

### Principles of compensation

Remuneration may also be referred to as compensation in this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors of the Company and other executives.

Key management personnel comprise the directors of the Company and the senior executives for the Group that are named in this report.

Compensation levels for key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced directors and executives. The remuneration committee may obtain independent advice on the appropriateness of compensation packages of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group’s compensation strategy.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

## REMUNERATION REPORT - AUDITED

### continued

- the capability and experience of the key management personnel
- the key management personnel's ability to control the relevant segment/s' performance
- the Group's performance.

Compensation packages include a mix of fixed and variable compensation, and short-term and long-term performance-based incentives.

For other KMP, the vesting of certain shares issued under the loan funded share plan were conditional upon the successful commissioning of the process plant and certain other performance conditions.

The table below represents the remuneration mix for group executives in the current year. The short-term incentive relates to bonuses payable to executives whereas the long-term incentive relates to loan funded shares.

|                  | Fixed remuneration | At risk              |                     |
|------------------|--------------------|----------------------|---------------------|
|                  |                    | Short-term incentive | Long-term incentive |
| CEO              | 100%               | 0%                   | 0%                  |
| CFO              | 100%               | 0%                   | 0%                  |
| Other executives | 100%               | 0%                   | 0%                  |

### Remuneration Policy

The Board is responsible for determining remuneration policies applicable to the key management personnel. The remuneration must be commercially reasonable to attract, retain and motivate these people in order to achieve the Consolidated Entity's objectives. When considered necessary, independent advice on the appropriateness of remuneration packages is obtained. No recommendations were made by independent remuneration consultants during the year.

The remuneration of key management personnel is primarily settled with cash. At times remuneration may be by way of shares or options over shares. Remuneration of this kind helps motivate key management personnel in line with the Consolidated Entity's objectives.

Incentives may be provided to reward key management personnel for achievement of targets aligned with the Consolidated Entity's objectives. These incentives are likely to consist of shares in the Company, options for shares to align their interests with the medium to long-term interests of shareholders, or cash bonuses.

### Human Resources, Remuneration and Nominations Committee (formerly Remuneration Committee)

The Human Resources, Remuneration and Nominations Committee ("the Committee") (formerly the Remuneration Committee) is a formally constituted committee, comprising Non-Executive Directors Paul Keran and Hongwei Liu. The committee's terms of reference include reviewing and as appropriate making recommendations to the board on:

- the remuneration guidelines for executive Directors, including base salary, bonuses, share options, salary packaging and final contractual agreements
- Non-Executive Directors' fees and costs by seeking external benchmarks
- the Consolidated Entity's incentive schemes, such as the Employee Loan Funded Share Plan and on the Company's superannuation arrangements
- strategic human resources and practices
- board appointments, re-elections and performance



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## REMUNERATION REPORT - AUDITED

### continued

- directors' induction programs and continuing development
- succession planning
- the suitability of the current levels of skills, knowledge and experience on the Board such that they continue to be relevant and effective to the Company's present and future requirements.

Equity components of remuneration for any of the Directors, including the issue of shares and/or options, are required to be approved by shareholders prior to award.

The Committee assesses the appropriateness of the nature and amount of remuneration of key management personnel on a periodical 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 management team. The Committee did not meet during the year ended 30 June 2017.

### Directors and Executives Remuneration

#### **Objective**

The Consolidated Entity aims to reward the Directors and executives with a level of remuneration commensurate with their position and responsibilities within the Consolidated Entity and so as to:

- align the interests of the Directors and executives with those of shareholders;
- link reward with the strategic goals and performance of the Consolidated Entity; and
- ensure total remuneration is competitive by market standards.

#### **Structure**

Remuneration may consist of the following key elements:

- Fixed remuneration
- Variable Remuneration

### Fixed Remuneration

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

Fixed remuneration of executive Directors and other executives is generally reviewed annually by the Committee and the process consists of a review of company, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practice. When considered necessary independent advice on the appropriateness of remuneration packages is obtained.

Shareholders have approved a pool of \$600,000 per annum for Non-Executive Directors' fees. After an initial qualifying period, the annual remuneration of Non-Executive Directors is set at \$60,000 plus superannuation at the statutory guarantee level.

Any services provided to the Consolidated Entity outside the scope of their duties as Directors will be entitled to receive fees at a commercial hourly rate.

In addition, Non-Executive Directors who are members of various Board committees or who act as Chairman or Deputy Chairman may receive additional fees.

The Committee generally reviews the remuneration packages applicable to the Non-Executive Directors on an annual basis. The Board considers fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

# REMUNERATION REPORT - AUDITED

## continued

### Variable Remuneration – Short-Term Incentive (STI) and Long-Term Incentive (LTI)

#### Objective

The objective of the STI and LTI plans is to reward executive Directors and other executives in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such LTI grants are only made to Directors and key executives as their performance will influence the generation of shareholder wealth and thus have a direct impact on the Consolidated Entity's performance.

#### Structure

In prior years STI grants to executive Directors and or Officers was made in the form of bonuses and LTI grants were delivered in the form of options or share issues through a loan funded share plan. No bonuses or options were granted to any of the Directors or Executive officers during the year.

This financial year the Company has not proposed any share issue through a loan funded share plan. The issue of equity as part of the remuneration packages of Directors and executives is an established practice of public listed companies and, in the case of the Consolidated Entity, has the benefit of conserving cash whilst properly rewarding each of the Directors and executives.

### Employment Contracts – Chief Executive Officer

A formal employment contract for the Chief Executive Officer (CEO) is in place effective from 21 February 2017. Under this contract the annual base salary of the CEO for the financial year is as follows:

|                  | Base Salary<br>\$ | Superannuation<br>\$ |
|------------------|-------------------|----------------------|
| M. Gregory (CEO) | 355,385           | 19,615               |

### Employment Contracts – Executive Officers

The executive officer is entitled to 20 days annual leave and an entitlement to long service leave calculated in accordance with the provisions of the relevant legislation. Employment contracts are unlimited in term however either party may elect to terminate the agreed arrangements by the giving of three (3) months' notice.

In the case of the Consolidated Entity terminating employment, causing redundancy or change in the employees' job content, status or responsibility due to a change in control, the executive employee is entitled to a termination payment equivalent to 25% of the Annual Base Salary applicable at the time of the termination. The current employment contract does not provide for any other remuneration benefits other than as disclosed herein.

The executive officers are also entitled to receive bonuses based on their performance during each year. The maximum amount of the bonus payable each year is the equivalent of 50% of their base salary for that year. The Remuneration committee generally reviews the performance of the Executives and make recommendations to the Board as to the quantum of the bonuses to be paid. For the year ended 30 June 2017, no bonuses were agreed to be paid.

### Employment Contracts – Other Executives

Jiang Gonyang was appointed the new Chief Operating Officer on 1 March 2017. A contract was agreed upon providing for remuneration of \$375,000 inclusive of superannuation p.a. The appointment can be terminated by either party by providing three months' notice. There are no further entitlements to the executive on the termination of his agreement.

Joseph Skrypniuk was appointed acting General Manager on 17 February 2017. A contract was agreed upon providing for remuneration of \$240,000 inclusive of superannuation p.a. The appointment can be terminated by either party by providing two months' notice. There are no further entitlements to the executive on the termination of his agreement.



## REMUNERATION REPORT - AUDITED

### continued

Levy Mwanza was appointed Financial Controller on 4 May 2017. A contract was agreed upon providing for a remuneration of \$186,150 inclusive of superannuation p.a. The appointment can be terminated by either party by providing one month's notice. There are no further entitlements to the executive on the termination of his agreement.

Bruno Bamonte has been the Company Secretary and Chief Financial Officer of the Company since 6 June 2011 and resigned 18 May 2017. A contract was entered into effective from 1 April 2015 and provides for remuneration of \$180,000 p.a. The appointment can be terminated by either party by providing one month's notice. There are no further entitlements to the executive on the termination of his agreement.

David Wrigley was appointed the Chief Financial Officer of the company on 22 August 2016 and resigned 4 May 2017. A contract was entered into effective 16 August 2016 and provides for remuneration of \$280,000 p.a. The appointment can be terminated by either party by providing three (3) months' notice. There are no further entitlements to the executive on termination of his agreement.

Dianmin Chen was appointed Managing Director of the Company on 20 May 2016 and resigned 21 February 2017. A contract was entered into effective 20 May 2016 and provided for remuneration of \$650,000 inclusive of superannuation p.a. The appointment can be terminated by either party by providing three (3) months' notice. There are no further entitlements to the executive on termination of his agreement.

Peter Hutchison was an Executive Director. A formal employment contract was in place since 31 March 2008. Under this contract the annual base salary was \$648,900 plus superannuation of \$35,000 p.a. The appointment can be terminated by either party by providing three (3) months' notice. In the case of the Consolidated Entity terminating employment, causing redundancy or change in the employees' job content, status or responsibility due to a change in control, the executive employee is entitled to the maximum amount of compensation allowable under the Corporations Act or relevant legislation. The contract did not provide for any other remuneration benefit. The contract also provided for the Executive Director to receive bonuses based on their performance during each year. The maximum amount of the bonus payable each year is the equivalent of 50% of their base salary for that year. For the years ended 30 June 2016 and 2015, no bonuses were paid. This contract was terminated during the year ended 30 June 2016. Peter Hutchison now serves as Interim Chairman of the Board effective 16 February 2017.

### Consequences of performance on shareholder wealth

The share price and profitability of the Consolidated Entity over the past five years is summarised as follows:-

|               | 30 June 2017    | 30 June 2016    | 30 June 2015    | 30 June 2014  | 30 June 2013  |
|---------------|-----------------|-----------------|-----------------|---------------|---------------|
| Share price   | \$0.24          | \$0.465         | \$1.70          | \$1.71        | \$2.00        |
| Profit (loss) | \$(135,585,000) | \$(127,198,000) | \$(131,455,000) | \$(4,545,899) | \$(3,993,189) |
| Dividends     | -               | -               | -               | -             | -             |

As the Consolidated Entity is still in the early production stages it is not considered appropriate to link remuneration to company profitability and shareholder wealth. The Company is not expected to be profitable, and therefore the performance of the executives was assessed against the milestones needed to advance the Company's Rocklands Project to nameplate capacity, after which time the main criteria that the executive will be assessed will be the profitability of the Consolidated Entity.

## REMUNERATION REPORT - AUDITED

### continued

The remuneration for the key management personnel, including Directors, of the Company during the year was as follows:

| Director/<br>Executive | Note |             | Salary /<br>Fees | Cash<br>Bonuses | Termi-<br>nation<br>Payments | Super-<br>annuation | Value of<br>options (1) | Increase/<br>(decrease)<br>in Long<br>Service Leave<br>Provision | Total            | Perfor-<br>mance<br>related | Paid as<br>Options |
|------------------------|------|-------------|------------------|-----------------|------------------------------|---------------------|-------------------------|--|------------------|-----------------------------|--------------------|
| P Hutchison            | (2)  | <b>2017</b> | <b>87,791</b>    | -               | -                            | <b>8,340</b>        | -                       | -  | <b>96,131</b>    | 0.00%                       | 0.00%              |
|                        |      | 2016        | 585,205          | -               | 894,386                      | 37,690              | 2,505                   | (114,046)  | 1,405,740        | 0.00%                       | 0.18%              |
| N White                | (3)  | <b>2017</b> | <b>68,750</b>    | -               | -                            | <b>6,531</b>        | -                       | -  | <b>75,281</b>    | 0.00%                       | 0.00%              |
|                        |      | 2016        | 55,000           | -               | -                            | 4,354               | -                       | -  | 59,354           | 0.00%                       | 0.00%              |
| D Chen                 | (4)  | <b>2017</b> | <b>442,548</b>   | -               | <b>115,312</b>               | <b>35,022</b>       | <b>(11,256)</b>         | -  | <b>581,626</b>   | 0.00%                       | 0.00%              |
|                        |      | 2016        | 71,775           | -               | -                            | 6,819               | 11,256                  | -  | 89,850           | 12.53%                      | 12.53%             |
| P Keran                |      | <b>2017</b> | <b>60,000</b>    | -               | -                            | <b>5,700</b>        | -                       | -  | <b>65,700</b>    | 0.00%                       | 0.00%              |
|                        |      | 2016        | 65,000           | -               | -                            | 5,700               | 1,002                   | -  | 71,702           | 1.40%                       | 1.40%              |
| Z Ma                   |      | <b>2017</b> | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
|                        |      | 2016        | 50,000           | -               | -                            | -                   | -                       | -  | 50,000           | 0.00%                       | 0.00%              |
| H Liu                  |      | <b>2017</b> | <b>60,000</b>    | -               | -                            | -                   | -                       | -  | <b>60,000</b>    | 0.00%                       | 0.00%              |
|                        |      | 2016        | 44,583           | -               | -                            | -                   | 24,987                  | -  | 69,570           | 35.92%                      | 35.92%             |
| Z Wu                   |      | <b>2017</b> | <b>60,000</b>    | -               | -                            | <b>5,700</b>        | -                       | -  | <b>65,700</b>    | 0.00%                       | 0.00%              |
|                        |      | 2016        | 44,583           | -               | -                            | 4,038               | -                       | -  | 48,621           | 0.00%                       | 0.00%              |
| W. Chiwei              | (5)  | <b>2017</b> | <b>27,500</b>    | -               | -                            | -                   | -                       | -  | <b>27,500</b>    | 0.00%                       | 0.00%              |
|                        |      | 2016        | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
| B Zhai                 | (6)  | <b>2017</b> | <b>7,068</b>     | -               | -                            | -                   | -                       | -  | <b>7,068</b>     | 0.00%                       | 0.00%              |
|                        |      | 2016        | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
| M Gregory              | (7)  | <b>2017</b> | <b>109,349</b>   | -               | -                            | <b>10,388</b>       | -                       | -  | <b>119,737</b>   | 0.00%                       | 0.00%              |
|                        |      | 2016        | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
| J Gongyang             | (8)  | <b>2017</b> | <b>106,614</b>   | -               | -                            | <b>8,550</b>        | -                       | -  | <b>115,164</b>   | 0.00%                       | 0.00%              |
|                        |      | 2016        | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
| L Mwanza               | (9)  | <b>2017</b> | <b>26,548</b>    | -               | -                            | <b>2,522</b>        | -                       | -  | <b>29,070</b>    | 0.00%                       | 0.00%              |
|                        |      | 2016        | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
| J Skrypniuk            | (10) | <b>2017</b> | <b>143,308</b>   | -               | -                            | <b>13,614</b>       | -                       | -  | <b>156,922</b>   | 0.00%                       | 0.00%              |
|                        |      | 2016        | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
| B Bamonte              | (11) | <b>2017</b> | <b>129,500</b>   | -               | -                            | -                   | <b>(4,250)</b>          | -  | <b>125,250</b>   | 0.00%                       | 0.00%              |
|                        |      | 2016        | 175,500          | -               | -                            | -                   | 4,250                   | -  | 179,750          | 2.36%                       | 2.36%              |
| D Wrigley              | (12) | <b>2017</b> | <b>227,108</b>   | -               | <b>154,736</b>               | <b>24,941</b>       | -                       | -  | <b>406,785</b>   | 0.00%                       | 0.00%              |
|                        |      | 2016        | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
| M Roberts              | (13) | <b>2017</b> | <b>175,704</b>   | -               | -                            | <b>15,665</b>       | -                       | -  | <b>191,369</b>   | 0.00%                       | 0.00%              |
|                        |      | 2016        | 136,634          | -               | -                            | 13,875              | -                       | -  | 150,509          | 0.00%                       | N/A                |
| W McCrae               | (14) | <b>2017</b> | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
|                        |      | 2016        | 432,968          | -               | 251,727                      | 35,000              | 2,505                   | (188,645)  | 533,555          | 0.27%                       | 0.27%              |
| G Lambert              | (15) | <b>2017</b> | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
|                        |      | 2016        | 12,959           | -               | -                            | 1,231               | 1,002                   | -  | 15,192           | 6.60%                       | 6.60%              |
| D Taylor               | (16) | <b>2017</b> | -                | -               | -                            | -                   | -                       | -  | -                | N/A                         | N/A                |
|                        |      | 2016        | 70,000           | -               | -                            | 6,650               | 1,002                   | -  | 77,652           | 1.29%                       | 1.29%              |
| <b>Total</b>           |      | <b>2017</b> | <b>1,731,788</b> | -               | <b>270,048</b>               | <b>136,973</b>      | <b>(15,506)</b>         | -  | <b>2,123,303</b> |                             |                    |
| Total                  |      | 2016        | 1,744,207        | -               | 1,146,113                    | 115,357             | 48,509                  | (302,691)  | 2,751,495        |                             |                    |



## REMUNERATION REPORT - AUDITED

### continued

#### Notes to Remuneration Table:

- (1) Shares issued pursuant to the loan funded employee share plan are treated as in-substance options.
- (2) P. Hutchison – appointed as Interim Chairman of the Board on 16 February 2017
- (3) N White – resigned as Chairman of the Board on 16 February 2017
- (4) D Chen – resigned as Managing Director on 21 February 2017
- (5) C. Wang – appointed Non-Executive Director on 16 January 2017
- (6) B Zhai – Appointed Non-Executive Director on 18 May 2017.
- (7) M Gregory – appointed as CEO on 21 February 2017.
- (8) J Gongyang – appointed as COO on 1 March 2017.
- (9) L. Mwanza – appointed as Financial Controller on 4 May 2017.
- (10) J. Skrypniuk – appointed acting General Manager 17 February 2017.
- (11) B Bamonte – resigned as CFO on 22 August 2016.
- (12) D Wrigley – appointed as CFO on 22 August 2016 and resigned as CFO on 4 May 2017.
- (13) M Roberts – resigned 21 January 2017.
- (14) W McCrae – resigned 24 July 2015
- (15) G Lambert – resigned 18 September 2015
- (16) D Taylor – resigned 20 January 2016

#### Compensation options exercised during the year

No equity instruments were issued during the year to key management personnel as a result of options exercised that had previously been granted as compensation.

#### Options (Loan Funded Shares) granted during the year-end

Shares were issued pursuant to the Loan Funded Share Plan (“Share Plan”). Under the terms and conditions of the Share Plan the participants are loaned the value of the shares at the date of their allocation and the shares are held in trust until the loan is repaid. The loan is a non-interest bearing loan and any recourse is limited to the value of the shares. The shares are issued at the weighted average of the share price over the five trading days before the shares were allocated. The loan funded shares for accounting purposes are considered to be in-substance options and are treated as such in the accounts.

During the year the Company did not issue any employee shares under the Loan Funded Share plan to KMP.

The number of Options (Loan Funded Shares) allocated to KMP is as follows:

|             | No of<br>Shares<br>Allocated | No of<br>Shares<br>Vested | Average<br>Exercise<br>Price | Weighted<br>Average fair<br>value per<br>share <sup>(1)</sup> | Total<br>amount of<br>Loan | Expiry<br>date | Estimated<br>Vesting<br>dates |
|-------------|------------------------------|---------------------------|------------------------------|---|----------------------------|----------------|-------------------------------|
| P Hutchison | 291,666                      | 291,666                   | \$3.60                       | \$2.25  | \$1,050,321                | 23/12/17       | n/a – fully<br>vested         |
| P Keran     | 116,666                      | 116,666                   | \$3.60                       | \$2.25  | \$378,000                  | 23/12/17       | n/a – fully<br>vested         |
| H Liu       | 100,000                      | 100,000                   | \$1.86                       | \$1.05  | \$185,564                  | 10/12/18       | n/a – fully<br>vested         |

<sup>(1)</sup> The weighted average fair value of the shares has been calculated by using the Black-Scholes valuation method.

## REMUNERATION REPORT - AUDITED

### continued

The movement in the holdings of Shares issued to KMP under the Share Plan are summarised as follows:

|             | Held at 30 June 2016 | Granted as Compensation 2017 | Forfeited in 2017 | Vested during the year 2017 | Held at 30 June 2017 | Vested and Exercisable at 30 June 2017 |
|-------------|----------------------|------------------------------|-------------------|-----------------------------|----------------------|--|
| P Hutchison | 291,666              | -                            | -                 | -                           | 291,666              | 291,666                                |
| P Keran     | 116,666              | -                            | -                 | -                           | 116,666              | 116,666                                |
| H Liu       | 100,000              | -                            | -                 | -                           | 100,000              | 100,000                                |
| B Bamonte   | 291,666              | -                            | (291,666)         | -                           | -                    | -                                      |

No Shares issued under the Share Plan were exercised during the above periods.

Shares have been issued under the Share Plan to other KMP that have left the Company. These shares have been cancelled and the former KMP have no further rights to those shares under the Share Plan.

### Shareholdings

The number of Ordinary Shares in the Company held by KMP at 30 June 2017, including shares held by related parties, are set out below:

| KMP               | Opening Balance 30 June 2016 (or date started with the Company) | Received as Remuneration | Options Exercised | Net Change Other - shares acquired on market | Balance 30 June 2017 |
|-------------------|---|--------------------------|-------------------|--|----------------------|
| P Hutchison       | 1,097,284   |                          |                   |  | 1,097,284            |
| N White           | -   | -                        | -                 | -  | -                    |
| D Chen            | -   | -                        | -                 | -  | -                    |
| P Keran           | 102,082   | -                        | -                 | -  | 102,082              |
| Z Ma              | -   | -                        | -                 | -  | -                    |
| H Liu             | 124,000   | -                        | -                 | -  | 124,000              |
| Z Wu              | -   | -                        | -                 | -  | -                    |
| C Wang            | -   | -                        | -                 | -  | -                    |
| Z Po (altenative) | -   | -                        | -                 | -  | -                    |
| B Zhai            | -   | -                        | -                 | -  | -                    |
| M Roberts         | -   | -                        | -                 | -  | -                    |
| L Mwanza          | -   | -                        | -                 | -  | -                    |
| D Wrigley         | -   | -                        | -                 | -  | -                    |
| M Roberts         | -   | -                        | -                 | -  | -                    |
| B Bamonte         | 13,139  | -                        | -                 | -  | 13,139               |

## REMUNERATION REPORT - AUDITED

### continued

#### Option holdings

The numbers of options in the Company held by key management personnel at 30 June 2017, including options held by their related entities, are set out below.

|                          | Balance<br>30 June<br>2016 | Movement during the year |          |           |                    | Balances as at 30 June 2017 |                  |                            |
|--------------------------|----------------------------|--------------------------|----------|-----------|--------------------|-----------------------------|------------------|----------------------------|
| Key management personnel | Total Options              | Granted as remuneration  | Acquired | Exercised | Forfeited/ Expired | Total Options               | Options Unvested | Total Vested & Exercisable |
| N White                  | -                          | -                        | -        | -         | -                  | -                           | -                | -                          |
| D Chen                   | 3,000,000                  | -                        | -        | -         | (3,000,000)        | -                           | -                | -                          |
| P Hutchison              | 291,666                    | -                        | -        | -         | -                  | 291,666                     | -                | 291,666                    |
| P Keran                  | 116,666                    | -                        | -        | -         | -                  | 116,666                     | -                | 116,666                    |
| Z Ma                     | -                          | -                        | -        | -         | -                  | -                           | -                | -                          |
| H Liu                    | 100,000                    | -                        | -        | -         | -                  | 100,000                     | -                | 100,000                    |
| Z Wu                     | -                          | -                        | -        | -         | -                  | -                           | -                | -                          |
| M Roberts                | -                          | -                        | -        | -         | -                  | -                           | -                | -                          |
| B Bamonte                | 291,666                    | -                        | -        | -         | (291,666)          | -                           | -                | -                          |
|                          | <b>3,799,998</b>           | <b>-</b>                 | <b>-</b> | <b>-</b>  | <b>(3,291,666)</b> | <b>508,332</b>              | <b>-</b>         | <b>508,332</b>             |

All shares issued pursuant to the loan funded employee share plan are treated as in-substance options and included above.

Under the terms of the agreement with D Chen, the Options:

- Are exercisable at \$0.80 each
- Will vest as follows:
  - › 1,000,000 options on 20 May 2017
  - › 1,000,000 options on 20 May 2018
  - › 1,000,000 options on 20 May 2019
- Have an expiry date of 20 May 2021.

The inputs used in the measurement of the fair values at grant date of the Share Plan were as follows:

|   | 20 May 2016 |
|---|-------------|
| Fair value at grant date                            | \$0.26      |
| Share price at grant date                           | \$0.55      |
| Exercise price                                      | \$0.80      |
| Expected volatility (weighted average)              | 64.24%      |
| Expected dividends                                  | -           |
| Risk-free interest rate (based on government bonds) | 2.50%       |

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term.



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## REMUNERATION REPORT - AUDITED

### continued

#### Options (Loan Funded Shares) granted since year-end

The Company has not granted any options over unissued ordinary shares in CuDeco Limited since the end of the financial year to any key management personnel or executives as part of their remuneration.

#### Transactions with Directors and Director-Related Entities

A number of Directors of the Company, or their personally related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. The terms of the transactions with Directors and their personally related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis, unless otherwise noted.

The results for the year include the following expenses that resulted from transactions with Directors of the Company and their personally related entities:

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Rents paid or payable to Mr McCrae and his director-related entities. <sup>1</sup> | -              | 25             |

*There were no balances due to Directors and Director Related Entities at period end.*

<sup>1</sup> Mr McCrae resigned 24 July 2015.

#### Other Transactions with Key Management Personnel

In the 2017 and 2016 financial years there were no other transactions between the Consolidated Entity and Key Management Personnel.

**This is the end of the audited remuneration report**

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## DIRECTORS' REPORT

### continued

#### ENVIRONMENTAL REGULATION

There are significant regulations under the environmental and mining laws and regulations of Queensland that apply to the exploration tenements and mining licences the Consolidated Entity holds in that State, including license requirements relating to ground disturbance, rehabilitation and waste disposal.

The Directors believe that the Consolidated Entity has adequate systems in place for management of its environmental requirements in relation to all its tenement and licence holdings and are not aware of any significant breaches of these environmental requirements during the period covered by this report.

#### INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, CuDeco Ltd paid a premium of \$83,437 (2016:\$61,142) to insure the Directors and officers of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company.

The Company has not indemnified or insured its auditor.

#### CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance, except where disclosed in the corporate governance statement.

#### PROCEEDINGS ON BEHALF OF THE COMPANY

Other than the matters listed below, no person has applied for leave of Court to bring proceedings on behalf of the Consolidated Entity, or to intervene in any proceedings to which the Consolidated Entity is a party, for the purpose of taking responsibility on behalf of the Consolidated Entity for all or part of those proceedings. The Consolidated Entity was not a party to any such proceedings during the year.

There were no contingent liabilities or contingent assets as at 30 June 2017 other than an ongoing case in which a former Company Managing Director commenced legal action for alleged unpaid entitlements of \$5.7m. Management are confident that the named Director was compensated according to his legally binding employment agreement. Management are confident of successfully defending the claim.

During the financial year KPMG, the Consolidated Entity's auditor performed certain other services in addition to their statutory duties.

## DIRECTORS' REPORT

### continued

#### NON-AUDIT SERVICES

The Board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

|   | 2017<br>\$ | 2016<br>\$ |
|---|------------|------------|
| Statutory audit and review services<br>Auditors of the Group<br>- audit and review of financial reports | 226,840    | 225,854    |
|   | 226,840    | 225,854    |
| Services other than statutory audit<br>- tax compliance services  | 23,778     | 26,888     |
|   | 23,778     | 26,888     |
| Other auditors<br>Other assurance, taxation and due diligence services                                  | -          | 44,794     |

#### Rounding off

The Consolidated Entity is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the Directors' Report and the consolidated financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

#### Auditor's Independence Declaration

The auditor, KPMG, has provided the Board of Directors with an independence declaration in accordance with section 307C of the *Corporations Act 2001*.

The independence declaration is attached to and forms part of this Directors' Report.

Signed in accordance with a resolution of the Board of Directors



Peter Hutchison  
Interim Board Chairman  
25 October 2017



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## LEAD AUDITOR'S INDEPENDENCE DECLARATION



### ***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To the Directors of CuDeco Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of CuDeco Limited for the financial year ended 30 June 2017 there have been:

- (i) no contraventions of the auditor independence requirements as set out in 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.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to be 'Adam Twemlow'.

**Adam Twemlow**  
Partner

Bundall  
25 October 2017

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

|  | Notes | 2017<br>\$'000   | 2016<br>\$'000 |
|--|-------|------------------|----------------|
| <b>CONTINUING OPERATIONS</b>   |       |                  |                |
| Revenue  |       | 79,608           | -              |
| Costs of sales   | 9     | (86,040)         | -              |
| <b>GROSS PROFIT/(LOSS)</b>   |       | <b>(6,432)</b>   | -              |
| Other income   |       | 9                | 202            |
| Selling and distribution costs   | 9     | (4,260)          | -              |
| Administrative costs   | 9     | (18,397)         | (28,037)       |
| Exploration costs  |       | (1,101)          | (318)          |
| Inventory write down   | 15    | (19,491)         | -              |
| Impairment loss mining assets  | 27    | (76,000)         | (99,276)       |
| Impairment of exploration and evaluation assets                            | 19    | (931)            | -              |
| <b>OPERATING PROFIT/(LOSS)</b>   |       | <b>(126,603)</b> | (127,429)      |
| Finance income   | 8     | 374              | 231            |
| Finance costs  | 8     | (9,356)          | -              |
| <b>Net finance income/(costs)</b>  |       | <b>(8,982)</b>   | 231            |
| <b>PROFIT/(LOSS) BEFORE INCOME TAX</b>                                     |       | <b>(135,585)</b> | (127,198)      |
| Income tax benefit / (expense)   |       | -                | -              |
| <b>PROFIT/(LOSS) AFTER INCOME TAX</b>                                      |       | <b>(135,585)</b> | (127,198)      |
| <b>OTHER COMPREHENSIVE INCOME</b>  |       |                  |                |
| <b>Total items that will not be reclassified to profit or loss</b>         |       | -                | -              |
| <b>Total items that may be reclassified subsequently to profit or loss</b> |       | -                | -              |
| <b>TOTAL COMPREHENSIVE INCOME/(LOSS)</b>                                   |       | <b>(135,585)</b> | (127,198)      |
|  |       |                  |                |
|  |       | Cents            | Cents          |
| <b>EARNINGS PER SHARE:</b>   |       |                  |                |
| Basic earnings / (loss) per share  | 12    | (34.9)           | (42.2)         |
| Diluted earnings / (loss) per share  | 12    | (34.9)           | (42.2)         |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

|                                      | Notes | 2017<br>\$'000 | 2016<br>\$'000 |
|--------------------------------------|-------|----------------|----------------|
| <b>CURRENT ASSETS</b>                |       |                |                |
| Cash and cash equivalents            | 13    | 3,922          | 16,400         |
| Trade and other receivables          | 14    | 12,799         | 334            |
| Inventories                          | 15    | 13,158         | 21,730         |
| Other assets                         | 16    | 152            | 836            |
| <b>TOTAL CURRENT ASSETS</b>          |       | <b>30,031</b>  | 39,300         |
| <b>NON-CURRENT ASSETS</b>            |       |                |                |
| Inventories                          | 15    | 4,690          | 5,143          |
| Property, plant and equipment        | 17    | 156,016        | 213,124        |
| Development expenditure              | 18    | 97,884         | 139,247        |
| Exploration and evaluation assets    | 19    | 8,555          | 9,386          |
| Other assets                         | 16    | 11,692         | 12,842         |
| <b>TOTAL NON-CURRENT ASSETS</b>      |       | <b>278,837</b> | 379,742        |
| <b>TOTAL ASSETS</b>                  |       | <b>308,868</b> | 419,042        |
| <b>CURRENT LIABILITIES</b>           |       |                |                |
| Trade and other payables             | 20    | 53,740         | 39,806         |
| Loans and borrowings                 | 21    | 59,723         | 88,371         |
| Provisions                           | 22    | 667            | 547            |
| <b>TOTAL CURRENT LIABILITIES</b>     |       | <b>114,130</b> | 128,724        |
| <b>NON-CURRENT LIABILITIES</b>       |       |                |                |
| Trade and other payables             | 20    | 9,406          | -              |
| Loans and borrowings                 | 21    | 22,000         | -              |
| Provisions                           | 22    | 11,621         | 12,790         |
| <b>TOTAL NON-CURRENT LIABILITIES</b> |       | <b>43,027</b>  | 12,790         |
| <b>TOTAL LIABILITIES</b>             |       | <b>157,157</b> | 141,514        |
| <b>NET ASSETS</b>                    |       | <b>151,711</b> | 277,528        |
| <b>EQUITY</b>                        |       |                |                |
| Contributed Equity                   | 23    | 572,880        | 561,120        |
| Equity to be issued                  |       | -              | 2,000          |
| Reserves                             | 25    | 60,464         | 60,457         |
| Accumulated losses                   |       | (481,633)      | (346,049)      |
| <b>TOTAL EQUITY</b>                  |       | <b>151,711</b> | 277,528        |

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

|   | Contributed<br>Equity<br>\$'000 | Equity to<br>be Issued<br>\$'000 | Accumulated<br>Losses<br>\$'000 | Option<br>Reserve<br>\$'000 | Capital<br>Realisation<br>Reserve<br>\$'000 | Capital<br>Redemption<br>Reserve<br>\$'000 | Total<br>Equity<br>\$'000 |
|---|---------------------------------|----------------------------------|---------------------------------|-----------------------------|---|--|---------------------------|
| <b>BALANCE AT 1 JULY 2015</b>               | <b>478,535</b>                  | <b>-</b>                         | <b>(218,851)</b>                | <b>58,252</b>               | <b>95</b>                                   | <b>432</b>                                 | <b>318,463</b>            |
| Profit (Loss) for the year                  | -                               | -                                | (127,198)                       | -                           | -   | -  | (127,198)                 |
| Total comprehensive loss                    | -                               | -                                | (127,198)                       | -                           | -   | -  | (127,198)                 |
| Shares issued                               |                                 |                                  |                                 |                             |   |  |                           |
| Share Placements                            | 30,000                          | -                                | -                               | -                           | -   | -  | 30,000                    |
| Rights Issue                                | 53,084                          | -                                | -                               | -                           | -   | -  | 53,084                    |
| Conversion of Options                       | 1                               | -                                | -                               | -                           | -   | -  | 1                         |
| Share issue costs                           | (500)                           | -                                | -                               | -                           | -   | -  | (500)                     |
| Equity to be issued                         | -                               | 2,000                            | -                               | -                           | -   | -  | 2,000                     |
| Share based payment expense                 | -                               | -                                | -                               | 1,678                       | -   | -  | 1,678                     |
| <b>BALANCE AT 30 JUNE 2016</b>              | <b>561,120</b>                  | <b>2,000</b>                     | <b>(346,049)</b>                | <b>59,930</b>               | <b>95</b>                                   | <b>432</b>                                 | <b>277,528</b>            |
| Profit (Loss) for the year                  | -                               | -                                | (135,585)                       | -                           | -   | -  | (135,585)                 |
| Total comprehensive loss                    | -                               | -                                | (135,585)                       | -                           | -   | -  | (135,585)                 |
| Rights issue                                | 8,000                           | -                                | -                               | -                           | -   | -  | 8,000                     |
| Share issue allotment                       | 2,000                           | (2,000)                          | -                               | -                           | -   | -  | -                         |
| Sale of shares under<br>employee share plan | 1,760                           | -                                | -                               | -                           | -   | -  | 1,760                     |
| Share based payment expense                 | -                               | -                                | -                               | 7                           | -   | -  | 7                         |
| <b>BALANCE AT 30 JUNE 2017</b>              | <b>572,880</b>                  | <b>-</b>                         | <b>(481,634)</b>                | <b>59,937</b>               | <b>95</b>                                   | <b>432</b>                                 | <b>151,711</b>            |

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

## CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 30 JUNE 2017

|   | Notes | 2017<br>\$'000  | 2016<br>\$'000 |
|---|-------|-----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                       |       |                 |                |
| Receipts in the course of operations                              |       | 69,644          | 202            |
| Payments in the course of operations                              |       | (51,989)        | (20,654)       |
| Interest paid   |       | (7,960)         | -              |
| Interest received   |       | 378             | 201            |
| NET CASH INFLOWS/(OUTFLOWS) FROM OPERATING ACTIVITIES             | 29    | 10,073          | (20,251)       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                       |       |                 |                |
| Payments for property, plant and equipment                        |       | (14,234)        | (38,013)       |
| Payments for exploration and evaluation assets                    |       | (346)           | (171)          |
| Payments for mine development costs                               |       | (14,941)        | (12,802)       |
| Proceeds from sale of plant and equipment                         |       | -               | 837            |
| Proceeds from/(payments for) security deposits                    |       | 1,099           | (10,642)       |
| NET CASH OUTFLOWS FROM INVESTING ACTIVITIES                       |       | (28,422)        | (60,791)       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                       |       |                 |                |
| Proceeds from issue of shares                                     |       | 9,760           | 83,085         |
| Proceeds for equity to be issued                                  |       | -               | 2,000          |
| Proceeds from borrowings  |       | 46,607          | 8,777          |
| Repayment of borrowings   |       | (47,371)        | -              |
| Payment of borrowing costs  |       | (2,425)         | -              |
| Share issue / buy back costs                                      |       | (467)           | (50)           |
| NET CASH INFLOWS FROM FINANCING ACTIVITIES                        |       | 6,104           | 93,812         |
| <b>NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS HELD</b> |       | <b>(12,245)</b> | <b>12,770</b>  |
| Cash and cash equivalents at the beginning of the financial year  |       | 16,400          | 3,574          |
| Effect of foreign exchange rates on cash and cash equivalents     |       | (233)           | 56             |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR        | 13    | 3,922           | 16,400         |

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

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### *Reporting entity*

CuDeco Limited (the “Company”) is a company domiciled in Australia.

The Company’s registered office is at Suite 11A, Level 11, 100 Edward Street, Brisbane, Queensland, 4000. The consolidated financial statements comprise the Company and its subsidiaries (collectively the “Group” or “consolidated entity” and individually “Group companies”).

The Group is a for-profit entity and primarily is involved in mineral exploration, evaluation, mine development and production of copper concentrate, native copper and gold at its Rocklands mine in Cloncurry, Queensland.

## 2. BASIS OF ACCOUNTING

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

They were authorised for issue by the Board of Directors on 25 October 2017.

## 3. FUNCTIONAL AND PRESENTATION CURRENCY

These consolidated financial statements are presented in Australian dollars, which is the Company’s functional currency and the functional currency of each subsidiary in the Group.

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Director’s Reports) Instrument 2016/191 dated 24 March 2016 and in accordance with that Class Order, amounts in the Directors’ Report and the consolidated financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

## 4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the year ending 30 June 2017 are included in the following notes:

- Note 5 – Going Concern;
- Note 15 – Inventory;
- Note 17 – Property plant and equipment;
- Note 18 – Development costs;
- Note 19 – Exploration and evaluation expenditure;
- Note 21 – Loans and borrowings;
- Note 22 – Provisions; and
- Note 27 – Impairment.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 4. USE OF JUDGEMENTS AND ESTIMATES (continued)

### Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values and is overseen by the FC and CEO.

The FC and CEO regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

Significant valuation issues are reported to the Group Audit Committee.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 23 – contributed equity
- Note 24 – share-based payments; and
- Note 26 – financial instruments.

## 5. GOING CONCERN

The consolidated financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

At 30 June 2017 the Group had cash on hand of \$3.9m, net assets of \$151.7m and a net current asset deficiency of \$84.1m. The Group recorded a loss after tax of \$135.6m for the year ended 30 June 2017 including impairment of \$76.0m relating to the Rocklands project, non-cash depreciation and amortisation charges of \$27.0m, ore inventory write down of \$19.5m and foreign exchange gains of \$3.0m.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 5. GOING CONCERN (continued)

It is noted that during the year the Company breached its facility agreement with China Minsheng Banking Corporation Limited ('Minsheng Bank') as its audited accounts were not lodged within 90 days of the financial year ended 30 June 2016. In addition, the principal repayment of US\$20m was not paid by the due date of 31 October 2016. On 21 December 2016 a Second Amendment Deed was executed with Minsheng Bank which revised the contracted principal repayment dates. Principal payments of US\$15m are now due quarterly commencing 31 March 2017. The Company also breached the Second Amendment Deed with Minsheng Bank as the US\$15m principal repayment due on 31 March 2017 was not met by the due date.

During the year, the Group raised \$8.0m (net of costs) through the rights issue that was announced on 30 May 2016. In addition, the Company executed a Convertible Note Subscription Agreement with Gemstone 101 Ltd to raise \$22.0m through the issuance of 44 million convertible notes at \$0.50 each, plus 4.4m free options. The funds were received on 21 April 2017 and were used for the principal repayment that was due to Minsheng Bank on 31 March 2017 of US\$15.0m.

Further, on 26 June 2017 the Group entered into two short-term borrowing facilities for US\$4.8m and HKD\$80.0m from two separate investors with maturity dates of 10 July 2017 and 26 July 2017 respectively. The funds were used for the principal repayment that was due to Minsheng Bank on 30 June 2017 of US\$15.0m.

The Company completed construction and commissioned the Rocklands processing plant on 1 October 2016. Post commissioning, shipments totalling 40,276 dry metric tonnes of sulphide copper concentrates and shipments totalling 3,305 dry metric tonnes of native copper concentrates to customers have been successfully completed. As production continues to ramp up, the Group plans to increase its monthly shipment quantities.

On 24 March 2017, the Company signed a Deed of Remediation ('the Deed') with a supplier for the amounts owing under a construction and commissioning contract relating to the Rocklands project. Under the terms of the Deed an extended repayment period was agreed which require repayments of approximately \$20.1m by 30 June 2018 and the balance of \$9.4m payable by 31 December 2018.

In addition to the construction and commissioning contract liabilities outlined above, the Group has other current trade creditors, payables & accruals and borrowings of \$35.9m, of which approximately \$6.3m are generally past due. The Group continues to trade with these existing suppliers, but has no formal agreements to defer the payment of amounts that are past due.

On 26 September 2017, the Company executed an off-take agreement for copper concentrate with Mitsui & Co., Ltd ('Mitsui'). Under the terms of the agreement, Mitsui have provided the Company with US\$20.0m representing a prepayment against future copper concentrate shipments. The Company has agreed to deduct US\$3.33m from the total of each future shipment until full repayment has been achieved which is expected to occur in September 2018.

The Company received the US\$20.0m from Mitsui on 28 September 2017 and applied US\$15.0m to make the principal repayment that was due to Minsheng Bank on 30 September 2017.

Subsequent to year-end, the Company refinanced the US\$4.8m short-term borrowing facility with a HKD\$40.0m secured term loan facility with Quam Limited ('Quam'). The new borrowing facility with Quam attracts interest at 5.5% per annum and has a maturity date of 10 January 2018. In addition, the HKD\$80.0m borrowing facility that was due to expire on 26 July 2017 was extended to 31 December 2017 and continues to attract interest at the revised rate of 12.0% per annum.

Subsequent to year-end the Company was in breach of the Second Amendment Deed with Minsheng Bank as its audited accounts were not lodged within 90 days of the financial year ended 30 June 2017. In addition, the Company was also in breach of its borrowing facility with Quam as the Company's shares have been suspended from trading for longer than 5 days. The Company has received acknowledgement of the breach from both financiers and confirmation that no further actions are being taken at this time.

The Company continues in its negotiations with financiers to refinance its current debt and also with copper concentrate buyers wishing to secure available product offtake via prepayment arrangements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 5. GOING CONCERN (continued)

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern, including repayment of debt and creditor obligations. These cash flow projections and the ongoing operation of the Company are critically dependent upon:

- (i) The Group generating significant positive cash flows from production to meet its commitments, including agreed repayment time frames under the Deed of Remediation with a major supplier. This is dependent on an increase of production to nameplate capacity of the Rocklands mine processing plant and an acceptable level of recovery being achieved in the short-term;
- (ii) Trade creditors not enforcing payment of overdue balances; and
- (iii) The Group successfully renegotiating or refinancing its various finance facilities or alternatively, the Group raising significant additional funding from shareholders or other parties.

These conditions give rise to material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. In the event the Group does not continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations.

## 6. SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements:

### (a) Basis of consolidation

- (i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a) (iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see (u)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

- (ii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 6. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of consolidation (continued)

#### (iii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

#### (iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### (v) Investments in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

#### (vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates, treatment and refinement charges and amounts collected on behalf of third parties.

The Group recognises revenue where the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised for major business activities as follows:

#### (i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 6. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Revenue (continued)

Sales of metals, concentrates, ores and by-products are subject to long-term contracts and revenue is recognised when effective control of the goods has passed to the buyer. Freight expenses are included in the distribution and cost of sales expenses respectively and are not deducted in arriving at revenue from the sale of goods.

As the final value of concentrate sales can only be determined from weights, assays, prices and exchange rates applying after a shipment has arrived at its destination, sales of concentrates are recorded at estimated values pursuant to contract terms, with adjustments being subsequently recognised in the period when final values are determined.

#### (ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

### (c) Income Tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

#### (i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

#### (ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

CuDeco Limited and its wholly-owned Australian subsidiaries are part of a tax-consolidated group. As a consequence, all members of the tax-consolidated group are taxed as a single entity. The head entity within the tax-consolidated group is CuDeco Limited.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 6. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

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

### (e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

### (f) Receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost, less provision for doubtful debts. Trade receivables (90%-95% of invoiced value) are due for settlement on the date of recognition. The remaining balance (5%-10% of invoiced value) is due for settlement within 100 days after consensus agreement on quantities, grade and pricing with the customers. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value, and subsequently at amortised cost less provisions for doubtful debts. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly.

An allowance account (provision for doubtful debts) is used when there is objective evidence that the Company will not be able to collect all of the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 6. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable. Cost is determined on the following basis:

- Copper and other metals on hand are valued on average total production cost method
- Ore stockpiles are valued at the average cost of mining and stockpiling the ore, including haulage
- A proportion of related depreciation and amortisation charge is included in the cost of inventory.

Net realisable value is the estimated future selling price in the ordinary course of business, based on the prevailing metal prices, less the estimated costs of completion and estimated costs necessary to make the sale.

### (h) Exploration and Evaluation

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that the Consolidated Entity's rights of tenure to that area of interest are current and that the costs are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Exploration and evaluation assets are assessed for impairment if:

- (i) Sufficient data exists to determine technical feasibility and commercial viability; and
- (ii) Facts and circumstances suggest the carrying amount exceeds the recoverable amount.

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash generating units which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## (i) Mining assets

Capitalised mining development costs include expenditures incurred to develop new ore bodies to define further mineralisation in existing ore bodies, to expand the capacity of a mine and to maintain production. Mining development also includes costs transferred from exploration and evaluation phase once production commences in the area of interest.

Amortisation of mining development is computed by the units of production basis over the estimated proved and probable reserves. Proved and probable mineral reserves reflect estimated quantities of economically recoverable reserves which can be recovered in the future from known mineral deposits.

These reserves are amortised from the date on which production commences. The amortisation is calculated from recoverable proven and probable reserves and a predetermined percentage of the recoverable measured, indicated and inferred resource. This percentage is reviewed annually.

Restoration costs expected to be incurred are provided for as part of a development phase that give rise to the need for restoration.

### *Deferred stripping costs*

Under AASB Interpretation ("IFRIC") 20, Stripping Costs in the production Phase of a Surface Mine, production stripping costs are now capitalised as part of an asset, if it can be demonstrated that it is probable that future economic benefits will be realised, the costs can be reliably measured and the entity can identify the component of the ore body for which access has been improved. The asset is called "deferred stripping asset".

The deferred stripping asset is amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity. The units of production method shall be applied. Production stripping costs that do not satisfy the asset recognition criteria are expensed.

## (j) Property, Plant and Equipment

Property, plant and equipment is stated at historical cost less applicable depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which it is incurred.

Depreciation is calculated so as to write off the cost of each item of property, plant and equipment over its expected economic life to the consolidated entity. Each item's useful life has due regard both to its own physical life limitations and to present assessments of economically recoverable resources of the mine property at which the item is located. Estimates of residual values and remaining useful lives are made on an annual basis. Straight line method is used. Land is not depreciated. The expected useful life of plant and equipment is as follows:

|                                 |            |
|---------------------------------|------------|
| Buildings                       | 5-10 years |
| Leasehold Building improvements | 4-5 years  |
| Plant and Equipment             | 5-10 years |
| Motor Vehicles                  | 4-5 years  |
| Computer & IT Equipment         | 3-5 years  |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 6. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) Mine Development

Development expenditure incurred by the consolidated entity is accumulated separately for each area of interest in which economically recoverable minerals have been identified to the satisfaction of the Directors. Direct development expenditure, pre-operating start-up costs and an appropriate portion of related overhead expenditures are capitalised as development costs up until the relevant area of interest is ready for use. The cost of acquiring mineral reserves and resources are capitalised on the statement of financial position as incurred.

Mine development costs are amortised over the estimated productive life of the mine on either a unit of production basis or years of operation basis, as appropriate. Amortisation commences when an area of interest is ready for use.

### (l) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are unsecured and normally settled within 30 days.

### (m) Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

#### Rehabilitation and dismantle costs

The consolidated entity has a constructive obligation under the Environmental Protection Act to rehabilitate areas on mining leases disturbed by mining activities. The consolidated entity calculates its rehabilitation liability to reflect the costs to rehabilitate significantly disturbed land from mining activities, in accordance with the Department of Environmental and Heritage Protection (EHP) Guideline: Financial Assurance under the Environmental Protection Act 1994. Significantly disturbed land is defined in the Environmental Protection Regulation 2008 and refers to land that is contaminated or disturbed and requires human intervention to rehabilitate it.

Provisions are made for the estimated cost of rehabilitation relating to areas disturbed during the operation of the mine up to reporting date but not yet rehabilitated, as if the mine was shut down at reporting date. Provision has been made for the estimated cost of rehabilitation which includes the current cost of recon touring, topsoiling and revegetation employing current technology while having regard to current legislative requirements. An asset is created as part of the non-current development assets, to the extent that the development relates to future production activities, with a corresponding non-current provision for rehabilitation.

The rehabilitation liability is estimated as part of the preparation of the annual Plan of Operations of each mine which is reviewed by the Department of Natural Resources and Mines as required by the Mineral Resources Act.

Changes in estimates are dealt with on a prospective basis as they arise. Significant uncertainty exists as to the amount of rehabilitation obligations under which will be incurred due to the following factors:

- uncertainty as to the remaining life of existing operating sites; and
- the impact of changes in environmental legislation.

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# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## **6. SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **(n) Employee Benefits**

The Consolidated Entity's liability for employee benefits arising from services rendered by employees to balance date is accrued. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

### **(o) Issued Capital**

Ordinary shares issued are classified as contributed equity. Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds.

### **(p) Share-Based Payments**

The Company may provide benefits to Directors, employees and suppliers of the Consolidated Entity in the form of share-based payment transactions, whereby Directors, employees and suppliers render services in exchange for shares or options to purchase shares in the Company (equity-settled transactions). There is currently a loan funded share plan and an Employee Option Plan in place to provide these benefits to employees.

The cost of these share-based payment transactions is measured by reference to the fair value of the equity instruments at the date at which they are granted. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the life of the option, the current price of the underlying instrument, the price volatility of the underlying instrument, the expected dividend yield and the risk-free rate for the life of the option, further details of which are given in Note 24.

The assessed fair value at grant date is recognised as an expense or is capitalised to mine development costs or exploration and evaluation expenditure, together with a corresponding increase in equity, pro rata over the life of the option from grant date to expected vesting date. No amount is recognised for awards that do not ultimately vest because non-market performance conditions were not met. An amount is still recognised for options that do not ultimately vest because a market condition was not met.

Where options are cancelled, they are treated as if they had vested on the date of cancellation, and any unrecognised expenses are immediately recognised. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

### **(q) Leases**

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 6. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (q) Leases (continued)

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

### (r) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit or loss. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

### (s) Earnings per Share

- (i) Basic Earnings per Share – Basic earnings per share is determined by dividing the net profit or loss by the weighted average number of ordinary shares outstanding during the financial year.
- (ii) Diluted Earnings per Share – Diluted earnings per share adjusts the figures used in the determination of basic earnings per share for the after-tax effect of financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### (t) Financial instruments

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 6. SIGNIFICANT ACCOUNTING POLICIES (continued)

### ***Loans and receivables***

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

### ***Non-derivative financial liabilities - measurement***

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

### **(u) Impairment**

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security; or
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

### ***Financial assets measured at amortised cost***

The Group considers evidence of impairment for these assets measured at both an individual asset and a collective level. All individually significant assets are individually assessed for specific impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 6. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Impairment (continued)

#### **Non-financial assets**

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### (v) New standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

#### **AASB 9 Financial Instruments**

AASB 9, published in July 2014, replaces the existing guide in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from AASB 139.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

#### **AASB 15 Revenue from Contracts with Customers**

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

#### **AASB 16 Leases**

AASB 16 Leases was issued and introduced changes to lease accounting. It requires recognition of lease liabilities and assets rather than short-term leases of leases of low-value assets on the statement of financial position. This will replace the operating /financial lease distinction and accounting requirements prescribed in AASB 117 Leases. This standard will become mandatory for the group's 2020 financial statements. The potential effects of adoption of the standard are currently being assessed.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 7. OPERATING SEGMENTS

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The consolidated entity is managed primarily on a geographical basis, that is, the location of the respective areas of interest (tenements) in Australia. Operating segments are determined on the basis of financial information reported to the Board which is at the consolidated entity level.

Accordingly, management currently identifies the consolidated entity as having only one reportable segment, being exploration for and production of copper in Australia. There have been no changes in operating segments during the financial year. Accordingly, all significant operating decisions are based upon the analysis of the consolidated entity as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

## 8. FINANCE INCOME AND EXPENSES

|                  | 2017<br>\$'000 | 2016<br>\$'000 |
|------------------|----------------|----------------|
| Finance income   | 374            | 231            |
|                  | <b>374</b>     | 231            |
| Finance expenses |                |                |
| Borrowing costs  | 1,945          | -              |
| Interest costs   | 7,411          | -              |
|                  | <b>9,356</b>   | -              |

## 9. EXPENSES

Loss before income tax for the year includes the following specific expenses:

|                                | 2017<br>\$'000 | 2016<br>\$'000 |
|--------------------------------|----------------|----------------|
| Depreciation and amortisation: |                |                |
| Land and buildings             | 1,220          | 1,053          |
| Plant and Equipment            | 21,350         | 2,918          |
| Development assets             | 4,473          | -              |
|                                | <b>27,043</b>  | 3,971          |
| Employee benefits:             |                |                |
| Salaries and wages staff       | 17,646         | 8,228          |
| Non-Executive Directors fees   | 1,230          | 793            |
|                                | <b>18,876</b>  | 9,021          |
| Foreign exchange loss/(gain)   | <b>(3,032)</b> | 2,594          |
| Mineral royalties              | <b>4,260</b>   | -              |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 10. AUDITORS' REMUNERATION

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| During the year the following fees were paid or payable for services provided by the auditor of the Group: |                |                |
| <b>Audit and review services</b>   |                |                |
| Auditors of the Company - KPMG   |                |                |
| Audit and review of financial statements   | 227            | 226            |
|  | 227            | 226            |
| <b>Other services</b>  |                |                |
| Auditors of the Company - KPMG   |                |                |
| In relation taxation services  | 24             | 27             |
| Other auditors   |                |                |
| In relation to other assurance, taxation and due diligence services  | -              | 45             |

It is the Group's policy to employ KPMG on assignments additional to their statutory audit duties where KPMG's expertise and experience with the Group are important. These assignments are principally tax advice, or where KPMG is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

## 11. INCOME TAX BENEFIT (EXPENSE)

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <b>Reconciliation</b>   |                |                |
| Current Income Tax Expense  |                | -              |
| Deferred Income Tax Expense   | 42,995         | 38,805         |
| Deferred tax not recognised   | (42,995)       | (38,805)       |
| <b>Total</b>  | -              | -              |
| The prima facie income tax profit (loss) is reconciled to the income tax provided in the financial statements as follows: |                |                |
| The prima facie income tax expense (benefit) (30%) on profit/(loss) before income tax                                     |                |                |
|   | (40,676)       | (38,159)       |
| Permanent differences   | (2,319)        | (646)          |
| Deferred tax not recognised   | 42,995         | 38,805         |
| <b>Income tax expense/benefit</b>   | -              | -              |
| <b>Deferred Tax Balances</b>  |                |                |
| Recognised deferred tax assets  |                |                |
| Unused tax losses   | -              | -              |
| Temporary differences   | 24,905         | 35,523         |
|   | 24,905         | 35,523         |
| Recognised deferred tax liabilities   | (24,905)       | (35,523)       |
| Assessable temporary differences  | -              | -              |
| <b>Net deferred tax recognised</b>  | -              | -              |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 11. INCOME TAX BENEFIT (EXPENSE) (continued)

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <b>Unrecognised deferred tax assets</b>             |                |                |
| Unrecognised tax losses                             | 280,374        | 218,971        |
| Unrecognised temporary differences                  | 132,886        | 50,972         |
| Deferred tax assets not taken up at 30% (2016: 30%) | 123,978        | 80,983         |

In order to recoup carried forward losses in future periods, either the Continuity of Ownership Test (COT) or Same Business Test must be passed. The losses carried forward at 30 June 2017 are under COT.

Deferred tax assets which have not been recognised as an asset, will only be obtained if:

- (i) the Consolidated Entity derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- (ii) the Consolidated Entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the Consolidated Entity in realising the losses.

For the purposes of taxation, CuDeco Limited and its wholly-owned Australian subsidiaries have formed a tax consolidated group.

### Franking credits

There are no franking credits available to shareholders of CuDeco Limited.

## 12. EARNINGS PER SHARE

|  | 2017<br>No. | 2016<br>No. |
|--|-------------|-------------|
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS                          | 388,000,259 | 301,078,115 |
| Weighted average number of ordinary shares and potential ordinary outstanding during the year used in calculation of diluted EPS | 388,000,259 | 301,078,115 |
|  | \$'000      | \$'000      |
| Earnings (loss) used to calculate basic earnings per share   | (135,585)   | (127,198)   |
| Earnings used to calculate diluted earnings per share  | (135,585)   | (127,198)   |

Options are considered to be potential ordinary shares and are used in the calculation of the Diluted Earnings per share where the exercise price of the options is lower than the prevailing share price.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 13. CASH AND CASH EQUIVALENTS

|                          | 2017<br>\$'000 | 2016<br>\$'000 |
|--------------------------|----------------|----------------|
| Cash at bank and in hand | 3,922          | 1,042          |
| Deposits at call         | -              | 15,358         |
|                          | <b>3,922</b>   | <b>16,400</b>  |

Cash at bank and deposits on call earn interest at floating rates based on daily bank deposit rates.

Term deposits are presented as cash equivalents if they have a maturity of three months or less from the date of acquisition and are repayable with 24 hours' notice with no loss of interest.

## 14. TRADE AND OTHER RECEIVABLES

### Current

|                   |               |            |
|-------------------|---------------|------------|
| Trade receivables | 9,475         | -          |
| Accrued interest  | 26            | 35         |
| GST receivable    | 2,353         | 163        |
| Other receivables | 945           | 136        |
|                   | <b>12,799</b> | <b>334</b> |

## 15. INVENTORIES

### Current

|                             |               |               |
|-----------------------------|---------------|---------------|
| Ore stockpiles              | 5,536         | 13,276        |
| Copper concentrate          | 3,682         | 2,852         |
| Consumables and spare parts | 3,940         | 8,454         |
|                             | <b>13,158</b> | <b>21,730</b> |

### Non-current

|                             |              |              |
|-----------------------------|--------------|--------------|
| Ore stockpiles              | -            | 5,143        |
| Consumables and spare parts | 4,690        | -            |
|                             | <b>4,690</b> | <b>5,143</b> |

During the year ended 30 June 2017 the Group tested ore stockpiles for impairment and wrote down low grade inventory to net realisable value, which resulted in a write down of \$19.5m (2016: Nil). This was recognised as an expense during the year ended 30 June 2017 and included in profit or loss.

As at 30 June 2016 non-current ore inventory stockpiles related to low grade native copper were expected to be realised after 12 months from balance date.

## 16. Other Assets

### Current

|             |            |            |
|-------------|------------|------------|
| Prepayments | 152        | 836        |
|             | <b>152</b> | <b>836</b> |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 16. Other Assets (continued)

|                    | 2017<br>\$'000 | 2016<br>\$'000 |
|--------------------|----------------|----------------|
| <b>Non-current</b> |                |                |
| Security deposit   | 11,692         | 12,842         |

Included in the security deposits is \$11.62m (2016: \$12.79m) for an environmental bond with the State of Queensland against rehabilitation attributable to mining operations for the Rocklands Project.

## 17. PROPERTY, PLANT AND EQUIPMENT

### *Land and buildings*

|                               |            |         |
|-------------------------------|------------|---------|
| At cost                       | 16,675     | 15,994  |
| Accumulated depreciation      | (6,509)    | (5,289) |
| Provision for impairment loss | 27 (2,541) | (2,541) |
| Total land and buildings      | 7,625      | 8,164   |

### *Plant and equipment*

|  |              |           |
|--|--------------|-----------|
| At cost                                | 363,217      | 66,771    |
| Accumulated depreciation               | (48,231)     | (26,881)  |
| Provision for impairment loss          | 27 (169,624) | (2,785)   |
| Total plant and equipment              | 145,362      | 37,105    |
| Plant and equipment (work-in-progress) | 3,028        | 288,294   |
| Provision for impairment loss          | 27 -         | (120,439) |
|  | 3,028        | 167,855   |
| Total property, plant and equipment    | 156,016      | 213,124   |

During the year the Company recognised an impairment loss of \$46.4m (2016:\$59.8m) with respect to property, plant and equipment assets relating to the Rocklands project. As at 30 June 2017 the Company has recognised total provisions for impairment losses of \$175.1m (2016: \$128.7m). Further information about the impairment loss is included in note 27.

The majority of the property, plant and equipment relates to the Rocklands Project. The ultimate recoupment of costs carried forward is dependent upon the successful development and commercial exploitation or sale of the Rocklands Project.

### Reconciliation

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the financial year

### *Land and buildings*

|  |         |         |
|--|---------|---------|
| Carrying amount at the beginning of year | 8,164   | 9,466   |
| Additions during the year                | -       | 33      |
| Transfer of commissioned assets          | 680     | -       |
| Depreciation expensed                    | (1,220) | (1,335) |
| Carrying amount at the end of the year   | 7,624   | 8,164   |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 17. PROPERTY , PLANT AND EQUIPMENT (continued)

|   | 2017<br>\$'000     | 2016<br>\$'000 |
|---|--------------------|----------------|
| <b>Reconciliation (continued)</b>                                 |                    |                |
| <i>Plant and equipment</i>  |                    |                |
| Carrying amount at the beginning of year                          | <b>37,105</b>      | 10,372         |
| Additions during the year   | <b>10,088</b>      | 1,056          |
| Equipment transferred from plant and equipment being commissioned | <b>165,919</b>     | 31,714         |
| Equipment transferred from development expenditure                | -                  | 899            |
| Disposals   | -                  | (837)          |
| Depreciation expensed   | <b>(21,350)</b>    | (6,099)        |
| Provision for impairment  | <b>27 (46,400)</b> | -              |
| Carrying amount at the end of the year                            | <b>145,362</b>     | 37,105         |
| <i>Plant and equipment (work-in-progress)</i>                     |                    |                |
| Carrying amount at the beginning of year                          | <b>167,855</b>     | 224,970        |
| Additions during the year   | <b>1,774</b>       | 34,659         |
| Equipment transferred to plant and equipment                      | <b>(165,919)</b>   | (31,714)       |
| Equipment transferred to development costs                        | -                  | (248)          |
| Transfer to land and Buildings                                    | <b>(680)</b>       | -              |
| Provision for impairment – processing plant                       | <b>27 -</b>        | (59,812)       |
|   | <b>3,028</b>       | 167,855        |
| <b>Carrying amount at the end of the year</b>                     | <b>156,016</b>     | 213,124        |

## 18. DEVELOPMENT COSTS

|   |                    |          |
|---|--------------------|----------|
| Costs carried forward in respect of areas of interest in the development phase: |                    |          |
| Balance at the beginning of the year  | <b>139,247</b>     | 160,335  |
| Development costs incurred  | <b>6,962</b>       | 16,009   |
| Depreciation capitalised to development costs                                   | -                  | 3,464    |
| Reduction in provision for rehabilitation                                       | <b>(1,169)</b>     | -        |
| Amortisation  | <b>(17,556)</b>    | -        |
| Transferred from property plant and equipment                                   | -                  | 248      |
| Transferred to property, plant and equipment                                    | -                  | (899)    |
| Copper sales capitalised to development expenditure                             | -                  | (446)    |
| Provision for impairment*   | <b>27 (29,600)</b> | (39,464) |
|   | <b>97,884</b>      | 139,247  |

During the year the Company recognised an impairment loss of \$29.6m (2016:\$39.5m) with respect to Development assets relating to the Rocklands project. As at 30 June 2017 the Company has recognised total provisions for impairment losses of \$112.1m (2016: \$82.5m). Further information about the impairment loss is included in note 27.

The development asset relates to the Rocklands Project. The ultimate recoupment of costs carried forward depends on the successful commercial exploitation or sale of the Rocklands Project. In the period to 30 June 2016 there was no amortisation of development costs as production had not commenced.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 19. EXPLORATION AND EVALUATION ASSETS

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| Costs carried forward in respect of areas of interest in exploration and/or evaluation phase: |                |                |
| Balance at the beginning of the year  | 9,386          | 9,166          |
| Exploration costs incurred  | 100            | 220            |
| Provision for impairment  | (931)          | -              |
|   | 8,555          | 9,386          |

At 30 June 2017 the Directors reviewed the exploration projects and resolved to impair the carrying value of certain tenements.

The ultimate recoupment of costs carried forward for exploration and evaluation phase is dependent on the successful development and commercial exploitation or sale of the respective areas of interest

## 20. TRADE AND OTHER PAYABLES

### Current

|   |        |        |
|---|--------|--------|
| Unsecured liabilities:                          |        |        |
| Trade creditors                                 | 8,286  | 2,384  |
| Sundry creditors and accrued expenses           | 25,352 | 4,325  |
| Amounts payable under the construction contract | 20,102 | 33,097 |
|   | 53,740 | 39,806 |

### Non-current

|   |       |   |
|---|-------|---|
| Unsecured liabilities:                          |       |   |
| Amounts payable under the construction contract | 9,406 | - |

Terms and conditions relating to the above financial instruments:

- Trade and sundry creditors are non-interest bearing and are normally settled on 30 day terms.

The amounts payable under the construction contract are interest bearing at 6.0% per annum payable quarterly. The supplier has agreed to a payment schedule with \$20.1m and \$9.4m payable in the next twelve and eighteen months respectively as at 30 June 2017.

## 21. LOANS AND BORROWINGS

### Current

|                                   |         |         |
|-----------------------------------|---------|---------|
| Secured bank loans                | 39,002  | 87,449  |
| Unsecured short-term loans        | 19,566  | -       |
| Unsecured loan from a shareholder | 2,000   | 2,000   |
| Unsecured loan                    | 333     | 333     |
| Borrowing costs                   | (1,178) | (1,411) |
|                                   | 59,723  | 88,371  |

### Non-current

|                            |        |   |
|----------------------------|--------|---|
| Unsecured convertible note | 22,000 | - |
|----------------------------|--------|---|

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 21. LOANS AND BORROWINGS (continued)

### Secured Bank Loans

The Company has a secured finance facility with China Minsheng Banking Corporation Limited ('Minsheng') of US\$60m. This facility was used for construction costs relating to the processing plant. The facility is secured by a registered charge over the assets of the Company. The interest rate payable on the facility is the aggregate of LIBOR for three months plus a 3.50% margin plus a 2.00% management fee.

During the period the Company breached its facility agreement with Minsheng Bank as the Company did not lodge its annual financial report within 90 days of the financial year ended 30 June 2016.

On 21 December 2016 a Second Amendment Deed was executed with Minsheng Bank which revised the contracted principal repayment dates. Principal repayments of US\$15m are now due quarterly commencing 31 March 2017.

The Company breached the Second Amendment Deed with Minsheng Bank as the US\$15m principal repayment due on 31 March 2017 was not met. The Company made the US\$15m payment to Minsheng Bank on 21 April 2017.

The Company made the second quarterly US\$15m payment to Minsheng Bank on 30 June 2017 in compliance with the Second Amendment Deed.

Subsequent to year-end the Company made the third quarterly USD\$15.0m payment to Minsheng Bank which was due 30 September 2017.

Subsequent to year-end the Company breached its facility agreement with Minsheng Bank as the Company did not lodge its annual financial report within 90 days of the financial year ended 30 June 2017. Refer Note 5 Going Concern.

### Unsecured short-term loans

During the year ended 30 June 2017 the Group borrowed US\$4.8m and HKD\$80.0m (AUD\$19.5m/US\$15.0m) from two separate investors on 26 June 2017 with maturity dates of 10 July 2017 and 26 July 2017 respectively. Both facilities attracted interest rates of 7.5% per annum. Proceeds were used to repay the Minsheng Bank principal repayment of US\$15m that was due on 30 June 2017.

Both of the above short-term loan facilities were refinanced or extended subsequent to year-end (refer to Note 35).

Subsequent to year-end the Company breached these agreements as its securities were suspended from trading for a period of five (5) days or greater from the ASX. Refer Note 5 Going Concern.

### Unsecured Loan from a Shareholder

The Company borrowed \$2.0m pursuant to a loan agreement entered into with its major shareholder on 15 September 2015. The loan is unsecured and attracts an interest rate of 11%.

### Unsecured Loan

The Group borrowed \$333,334 pursuant to a loan agreement entered into with an unrelated Company on 3 August 2015. The loan is unsecured and attracts an interest rate of 4%. The loan is repayable at call.

### Secured Convertible Note

The Group borrowed \$22.0m pursuant to a Convertible Note Subscription Agreement with Gemstone 101 Ltd ('Subscriber') through the issuance of 44 million convertible notes at \$0.50 each, plus 4.4m free options. The convertible notes have a subscription period of two years and attract interest of 6.0% per annum. The Agreement was executed on 31 March 2017 and the funds were received by the Company on 21 April 2017.

The notes are convertible into ordinary shares at the option of the holder. Any unconverted notes become payable on maturity. In consideration of the contractual obligations associated with the convertible notes, the instruments have been recognised as a financial liability.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 22. PROVISIONS

|                              | 2017<br>\$'000 | 2016<br>\$'000 |
|------------------------------|----------------|----------------|
| <b>Current</b>               |                |                |
| Annual leave provision       | 667            | 513            |
| Long service leave provision | -              | 34             |
|                              | 667            | 547            |
| <b>Non-current</b>           |                |                |
| Long service leave provision | -              | -              |
| Rehabilitation provision *   | 11,621         | 12,790         |
|                              | 11,621         | 12,790         |

\* Land disturbed by mining activities is required to be rehabilitated in accordance with State of Queensland requirements. Because of the long-term nature of the liability, the biggest uncertainty in estimating the provision is the future costs that will be incurred. The Group has assumed that the site will be restored using technology and materials that are available currently.

## 23. CONTRIBUTED EQUITY

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| <b>Issued and paid-up share capital</b>   |                |                |
| <b>2017: 391,570,122 (2016: 375,070,122) ordinary shares, fully paid</b>  | <b>572,880</b> | 561,120        |
| <b>Equity to be issued</b> – During prior year the Company received the subscription funds for 2.5 million shares which were to be allotted on finalisation of the Rights Issue which occurred in August 2016 | -              | 2,000          |

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Company ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

### (a) Ordinary Shares

Movements in ordinary share capital over the past two years were as follows:

| Date                | Details                           | Number of<br>Shares | Issue Price | \$'000         |
|---------------------|-----------------------------------|---------------------|-------------|----------------|
| <b>30 June 2015</b> | <b>Closing Balance</b>            | <b>271,214,099</b>  |             | <b>478,535</b> |
| 17 November 2015    | Share placement                   | 37,500,000          | \$0.80      | 30,000         |
| 31 December 2015    | Share options exercised           | 392                 | \$2.50      | 1              |
| 13-24 May 2016      | Rights Issue                      | 66,355,631          | \$0.80      | 53,084         |
| 24 May 2016         | Underwriting fee for rights issue | -                   |             | (500)          |
| <b>30 June 2016</b> | <b>Closing Balance</b>            | <b>375,070,122</b>  |             | <b>561,120</b> |
| 16 August 2016      | Rights issue                      | 12,500,000          | \$0.80      | 10,000         |
| 29 December 2016    | Sales of shares employee plan     | 4,000,000           | \$0.44      | 1,760          |
|                     |                                   | <b>391,570,122</b>  |             | <b>572,880</b> |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 23. CONTRIBUTED EQUITY (Continued)

### (b) Share Options

| Expiry date | Exercise Price | Opening Balance<br>1 July 2016 | Options Issued | Options Exercised | Options Expired/<br>Forfeited | Closing Balance<br>30 June 2017 |
|-------------|----------------|--------------------------------|----------------|-------------------|-------------------------------|---------------------------------|
|             |                | Number                         | Number         | Number            | Number                        | Number                          |
| 21/04/2019  | \$0.80         | -                              | 4,400,000      | -                 | -                             | 4,400,000                       |

None of the options had any voting rights, any entitlement to dividends or any entitlement to the proceeds on liquidation in the event of a winding up.

#### Options

During the year the Company issued 4,400,000 options to Gemstone 101 Ltd as part of the convertible note agreement. Under the terms of the agreement the Options:

- Are exercisable at \$0.80 each
- Will vest six months after date of issue – 21 October 2017
- Have an expiry date of 21 April 2019

The inputs used in the measurement of the fair values at grant date of the options were as follows:

|   | 21 April 2017 |
|---|---------------|
| Fair value at grant date                            | \$0.017       |
| Share price at grant date                           | \$0.32        |
| Exercise price                                      | \$0.80        |
| Expected volatility (weighted average)              | 48.86%        |
| Expected dividends                                  | -             |
| Risk-free interest rate (based on government bonds) | 2.70%         |

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term.

#### Listed Options

The following table illustrates the number, weighted average exercise prices and movements in the listed options during the year:

|                                    | 2017<br>No. | 2016<br>Weighted<br>average<br>exercise price | 2016<br>No.  | 2016<br>Weighted<br>average<br>exercise price |
|------------------------------------|-------------|---|--------------|---|
| Opening balance                    | -           | -   | 22,599,423   | \$2.50  |
| Granted during the year            | -           | -   | -            | -   |
| Forfeited during the year          | -           | -   | -            | -   |
| Exercised during the year          | -           | -   | (391)        | 2.50  |
| Expired during the year            | -           | -   | (22,599,032) | -   |
| Outstanding at the end of the year | -           | -   | -            | -   |
| Exercisable at the end of the year | -           | -   | -            | -   |

There are no listed share options outstanding at the end of the current financial year.



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 24. SHARE-BASED PAYMENTS

### Loan Funded Share Plan

In November 2011, the Company sought, and was granted, approval for setting up of the Loan Funded Employee Share Plan ("Share Plan"). The Plan allows Directors from time to time to invite eligible employees to participate in the Share Plan and offer shares to those eligible persons. The Share Plan is designed to provide incentives, assist in the recruitment, reward, retention of employees and provide opportunities for employees (both present and future) to participate directly in the equity of the Company.

The participant will be provided with an interest free, non-recourse loan for the consideration payable for the shares. The vesting of the shares will be subject to performance or service conditions as determined by the Board. The shares allocated to employees under the Share Plan are held in trust for eligible persons as security for the loans. There are no cash settlement alternatives.

In the year ended 30 June 2017 nil (2016: Nil) new shares were issued under the Share Plan. At the end of the financial year the following shares were issued under the Loan Funded Share Plan:

| Vesting Details                |                |                       |                           |               |             |                |             |
|--------------------------------|----------------|-----------------------|---------------------------|---------------|-------------|----------------|-------------|
|                                |                |                       |                           | First Tranche |             | Second Tranche |             |
| Options Issued                 | Exercise price | No. of options vested | No. of options not vested | Vesting date  | No. Vesting | Vesting date   | No. Vesting |
| To Directors                   |                |                       |                           |               |             |                |             |
| - December 2011                | \$3.60         | 350,000               | -                         | -             | -           | -              | -           |
| - December 2013                | \$1.86         | 100,000               | -                         | -             | -           | -              | -           |
| - December 2013 <sup>(1)</sup> | \$2.50         | 58,333                | -                         | -             | -           | -              | -           |
| To employees                   |                |                       |                           |               |             |                |             |
| - June 2012                    | \$3.14         | 175,000               | -                         | -             | -           | -              | -           |
| - November 2012                | \$3.93         | 193,286               | 193,286                   | -             | -           | 31/12/2017     | 193,286     |
| - July 2013                    | \$1.80         | 193,750               | 193,750                   | -             | -           | 31/12/2017     | 193,750     |
| December 2013 <sup>(1)</sup>   | \$2.50         | 93,672                | 64,506                    | -             | -           | 31/12/2017     | 64,506      |
| - April 2014                   | \$1.90         | 216,599               | 216,599                   | -             | -           | 31/12/2017     | 216,599     |
| - July 2014                    | \$1.73         | 175,000               | -                         | -             | -           | -              | -           |
| - June 2015                    | \$1.24         | 600,000               | -                         | -             | -           | -              | -           |

<sup>(1)</sup> These were issued pursuant to a one for six Rights Issue in December 2013 and the new shares attached to the existing shares with the same vesting conditions.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 24. SHARE-BASED PAYMENTS (continued)

The key terms and conditions related to the grants under the Share Plan are as follows:

| Grant date/<br>employees entitled | Number of instruments<br>in thousands | Vesting conditions   | Contractual life<br>of options |
|-----------------------------------|---------------------------------------|--|--------------------------------|
| December 2011                     | 350 <sup>(1)</sup>                    | 2 years' service from grant date   | 5 years                        |
| June 2012                         | 175 <sup>(1)</sup>                    | 2 years' service from grant date   | 5 years                        |
| November 2012                     | 387 <sup>(1)</sup>                    | 3 months after processing plant is commissioned and 18 months after commissioning date                               | 5 years                        |
| July 2013                         | 388 <sup>(1)</sup>                    | Same as above (Nov 12)   | 5 years                        |
| December 2013                     | 100                                   | 2.5 years' service from grant date   | 5 years                        |
| April 2014                        | 433                                   | Date the Company reaches full production and 12 months after full production   | 5 years                        |
| July 2014                         | 175                                   | Successful commissioning of the plant; 3 months after meeting agreed production targets; and 2 years from grant date | 5 years                        |
| June 2015                         | 600                                   | Date the process plant achieves full production and 12 months after the processing plant achieves full production    | 5 years                        |

<sup>(1)</sup> Pursuant to a Rights Issue in December 2013, one share for every six held at that date was issued and the new shares (not reflected in this table) attached to the existing shares with the same vesting conditions.

### Measurement of fair values

For accounting purposes shares allocated to employees pursuant to the Share plan will be treated and valued as options. The fair value of the options granted under the Plan is estimated as at the date of grant using a Black-Scholes formula. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

There were no issues in the 2017 or 2016 financial years.

The value of the options is allocated over their vesting period as part of the remuneration of the individual they relate to. The following is a summary of the allocation of these values as share-based payments:

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Share-based payment included as an expense                           | 7              | 1,177          |
| Share-based payments capitalised to exploration and evaluation asset | -              | 30             |
| Share-based payments capitalised to mine development expenditure     | -              | 471            |
| Total share-based payments for the year                              | 7              | 1,678          |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 25. RESERVES

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| Capital Realisation                                  | 95             | 95             |
| Capital Redemptions                                  | 432            | 432            |
| Option <sup>(a)</sup>                                | 59,937         | 59,930         |
|  | <b>60,464</b>  | 60,457         |
| <b>(a) Movement during the year - Option Reserve</b> |                |                |
| Opening balance                                      | 59,930         | 58,252         |
| Issue of options to directors/employees /consultants | 7              | 1,678          |
| Closing balance                                      | 59,937         | 59,930         |

### Option Reserve

The option reserve is used to record the fair value of options issued but not exercised. The Group has not transferred out of the option reserve the fair value of all options that lapse, expire, are forfeited or that are cancelled to accumulated losses.

## 26. FINANCIAL INSTRUMENT DISCLOSURES

To ensure a prudent approach to risk management the Consolidated Entity's exposure to the following key risks have been assessed where applicable, market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Consolidated Entity through regular reviews of the risks.

The Groups financial assets and liabilities primarily comprise:

|                                  | 2017<br>\$'000 | 2016<br>\$'000 |
|----------------------------------|----------------|----------------|
| Cash and cash equivalents        | 3,922          | 16,400         |
| Other assets - security deposits | 11,692         | 12,842         |
| Trade and other receivables      | 12,799         | 1,170          |
| Total Assets                     | <b>28,413</b>  | 30,412         |
| Secured bank loans               | 39,002         | 87,449         |
| Unsecured loans                  | 43,899         | 2,333          |
| Trade and other payables         | 63,146         | 39,806         |
| Total Liabilities                | <b>146,047</b> | 129,588        |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 26. FINANCIAL INSTRUMENT DISCLOSURES (continued)

### (a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the entity's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return.

The entity does not have any material exposure to market risk other than interest rate risk and foreign exchange risk.

#### (i) Interest rate risk

The Consolidated Entity's exposure to the risk of changes in market interest rates relate primarily to the Consolidated Entity's security deposits, secured bank loans and other loans although through its cash deposits it is also exposed to a lesser extent to changes in interest rates.

For the secured bank loans the loans are fixed against the movement in the LIBOR (London Interbank Offered Rate) and as such the Consolidated Entity remains exposed to changes in this rate.

For cash deposits the Consolidated Entity has fixed interest term deposit facilities with a secure banking institution to maximise its interest income from surplus cash. The Consolidated Entity holds working capital in transaction accounts at variable interest rates.

Fixed interest term deposit accounts have been included in the sensitivity analysis as they generally mature within a 1 - 3 month period.

A change of 100 basis points (100bps) in interest rates during the year would have increased (decreased) equity and profit or loss by the amounts shown below, where interest is applicable.

This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for last year.

|                             |                              | Profit or (Loss)             |                              | Equity                       |                              |
|-----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                             | Carrying<br>Amount<br>\$'000 | 100bps<br>increase<br>\$'000 | 100bps<br>decrease<br>\$'000 | 100bps<br>increase<br>\$'000 | 100bps<br>decrease<br>\$'000 |
| 30 June 2017                |                              |                              |                              |                              |                              |
| Cash and cash equivalents   | 3,922                        | 39                           | (39)                         | 39                           | (39)                         |
| Security term deposits      | 11,692                       | 117                          | (117)                        | 117                          | (117)                        |
| Total increase / (decrease) |                              | 156                          | (156)                        | 156                          | (156)                        |
|                             |                              |                              |                              |                              |                              |
| Loans & Borrowings          | 82,901                       | (829)                        | 829                          | (829)                        | 829                          |
| Total increase / (decrease) |                              | (829)                        | 829                          | (829)                        | 829                          |
| 30 June 2016                |                              |                              |                              |                              |                              |
| Cash and cash equivalents   | 16,400                       | 164                          | (164)                        | 164                          | (164)                        |
| Total increase / (decrease) |                              | 164                          | (164)                        | 164                          | (164)                        |
|                             |                              |                              |                              |                              |                              |
| Loans & Borrowings          | 89,782                       | (897)                        | 897                          | (897)                        | 897                          |
| Total increase / (decrease) |                              | (897)                        | 897                          | (897)                        | 897                          |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 26. FINANCIAL INSTRUMENT DISCLOSURES (continued)

### (a) Market risk (continued)

#### (ii) Foreign exchange risk

The Consolidated Entity is exposed to foreign currency fluctuations risks. This arises from cash held in US dollars and loans and borrowings in both US dollars and Hong Kong dollars.

The loans and borrowings are in US and HKD dollars. The Company is selling a commodity in US dollars and therefore this provides a natural hedge against movements in the US dollar currency.

A change of 1 cent in the US and HKD Dollar equivalent of an Australian dollar exchange rate at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The amounts disclosed below are the Australian dollar equivalents.

|                             |                                       | Profit or (Loss)                      |                                       | Equity                                |                                       |
|-----------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
|                             | Carrying<br>Amount<br>\$'000<br>(AUD) | 100bps<br>increase<br>\$'000<br>(AUD) | 100bps<br>decrease<br>\$'000<br>(AUD) | 100bps<br>increase<br>\$'000<br>(AUD) | 100bps<br>decrease<br>\$'000<br>(AUD) |
| 30 June 2017                |                                       |                                       |                                       |                                       |                                       |
| Cash and cash equivalents   | 3,922                                 | (6)                                   | 6                                     | (6)                                   | 6                                     |
| Trade receivables           | 12,799                                | (73)                                  | 73                                    | (73)                                  | 73                                    |
| Loans and borrowings        | 58,567                                | 1,148                                 | (1,148)                               | 1,148                                 | (1,148)                               |
| Total increase / (decrease) |                                       | 1,069                                 | (1,069)                               | 1,069                                 | (1,069)                               |
| 30 June 2016                |                                       |                                       |                                       |                                       |                                       |
| Cash and cash equivalents   | 993                                   | (13)                                  | 13                                    | (13)                                  | 13                                    |
| Loans and borrowings        | 89,782                                | 1,208                                 | (1,208)                               | 1,208                                 | (1,208)                               |
| Total increase / (decrease) |                                       | 1,195                                 | (1,195)                               | 1,195                                 | (1,195)                               |

The following significant exchange rates applied during the year:

|         | Average rate |        | Reporting date spot rate |        |
|---------|--------------|--------|--------------------------|--------|
|         | 2017         | 2016   | 2017                     | 2016   |
| AUD/USD | 0.7542       | 0.7305 | 0.7691                   | 0.7426 |

### (b) Credit risk

Credit risk is the risk of financial loss to the Consolidated Entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and cash on deposit.

#### (i) Cash on deposit and security deposits

The Consolidated Entity limits its exposure to credit risk by only depositing its funds with reputable financial institutions. Cash at year-end was deposited with National Australia Bank and Minsheng Bank of China.

#### (ii) Receivables

The Consolidated Entity limits its exposure to credit risk from its trade receivables by ensuring that sales of its products and services are made to customers with an appropriate credit history. The majority of customers have long-term relationships with the Group and sales are secured by long-term supply contracts.

The Consolidated Entity's maximum exposure to credit risk is the carrying amount of its financial assets as disclosed in the statement of financial position.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 26. FINANCIAL INSTRUMENT DISCLOSURES (continued)

### (c) Liquidity risk

Liquidity risk is the risk that the Consolidated Entity will not be able to meet its financial obligations as they fall due. The Consolidated Entity's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Consolidated Entity's reputation. The Consolidated Entity currently has secured bank loans and unsecured borrowings.

The Consolidated Entity aims to manage liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and it aims to repay the bank loan from its expected revenue from production.

When required, the Consolidated Entity has the ability to raise additional capital in order to fund its exploration and development activities. The decision on how and when the Consolidated Entity will raise future capital will depend on market conditions existing at that time and the level of forecast activity and expenditure.

At the reporting date the contractual maturity of trade and other payables and borrowings are all less than 12 months excluding the trade payable for the construction contract of \$9.4m and secured convertible note of \$22.0m.

### (d) Capital Management

The capital structure of the Company consists of contributed equity and reserves less accumulated losses. Management controls the capital of the Company with the aim of funding its operations on an efficient and timely basis and continue as a going concern. There are no externally imposed capital requirements.

Management effectively manages the Company's capital by assessing the Company's cash projections up to 12 months in the future. Refer going concern disclosures in Note 5.

### (e) Measurement of fair values

The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values or the instruments have variable interest rates.

### (f) Finance facilities

The Group has to date fully drawn-down its finance facilities with various lenders including China Minsheng Banking Corporation.

## 27. IMPAIRMENT OF ASSETS

### *Property plant and equipment and development costs*

The Group has reviewed the key external and internal indicators for impairment and concluded that impairment indicators existed at 30 June 2017 (relative to the last valuation period being 31 Dec 2016) due to below budget performance and inconsistent processing plant operations.

As a result of the impairment indicators a valuation was prepared as at 30 June 2017 to assess recoverable amount against the carrying value of the Rocklands Project CGU. In assessing the value of the assets relating to the Rocklands Project, the Company has assessed the recoverable amount at 30 June 2017 using a fair value less costs of disposal discounted cash flow model. The key assumptions to which the model is most sensitive include:

- Forecast commodity prices, including copper, gold, and cobalt
- Ramp up of production timing and appropriate level of recoveries achieved
- Foreign exchange rates
- Mining, processing, administrative and capital costs
- Discount rate of 8% post tax
- Total reserves to be extracted and processed at the Rocklands processing plant.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 27. IMPAIRMENT OF ASSETS (continued)

### **Property plant and equipment and development costs (continued)**

In determining the value assigned to each key assumption, management has aimed to use external sources of information and utilised external consultants where possible and personnel within the Group to arrive at the underlying assumptions.

Furthermore, the Group's cash flow forecasts are based on estimates of future commodity prices and exchange rates. The Group has reviewed long-term forecast data from multiple externally verifiable sources when determining its forecasts, making adjustments for specific factors relating to the Group.

Production and capital costs are based on the Group's estimate of the forecast grade of its resource and future production levels. This information is obtained from internally maintained budgets, life of mine models and project evaluations performed by the Group in its ordinary course of business.

The Group has applied a discount rate post tax of 8% to the forecast future attributable post-tax cash flows. This discount rate represents an estimate of the rate the market would apply having regard to the time value of money and the risk specific to the project.

The recoverable amount has been determined based on the life of mine of 7 years. This is calculated based on the Group's existing resource statement and its existing mine plan.

Based on the impairment review at 30 June 2017 the recoverable amount for the Rocklands Project was estimated and this resulted in an impairment loss for this financial year of \$76.0m.

Impairment loss was allocated on a pro rata basis to the individual assets constituting the project as follows:

|                              | Notes | 2017<br>\$'000 | 2016<br>\$'000 |
|------------------------------|-------|----------------|----------------|
| Property plant and equipment | 17    | 46,400         | 59,812         |
| Development costs            | 18    | 29,600         | 39,464         |
| Exploration expenditure*     | 19    | 931            | -              |
|                              |       | <b>76,931</b>  | 99,276         |

### **Impairment Exploration assets\***

The Group has reviewed the key indicators for impairment of its Exploration assets and concluded that impairment indicators existed at 30 June 2017 on some of its tenements as follows:

- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
- Sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.
- Based on the impairment review of its Exploration assets at 30 June 2017 an impairment loss of \$0.93m for the financial year was expensed (2016: Nil).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 28. CONTROLLED ENTITIES

### Particulars in relation to controlled entities

| Name of Chief Entity                    | Incorporated in | Interest held % |      |
|---|-----------------|-----------------|------|
|   |                 | 2017            | 2016 |
| CuDeco Limited                          | Australia       |                 |      |
| <b>Controlled Entities Consolidated</b> |                 |                 |      |
| Cloncurry Infrastructure Pty Ltd        | Australia       | 100             | 100  |
| CuDeco Logistics Pty Ltd                | Australia       | 100             | 100  |
| CuDeco Employee Share Plan Pty Ltd      | Australia       | 100             | 100  |

## 29. NOTES TO THE STATEMENT OF CASH FLOWS

|  | 2017      | 2016      |
|--|-----------|-----------|
|  | \$'000    | \$'000    |
| <b>Reconciliation of profit after income tax to net cash inflows from operating activities</b> |           |           |
| Loss after income tax  | (135,585) | (127,198) |
| <b>Add/(less) non-cash items</b>   |           |           |
| Share-based payments   | 7         | 1,177     |
| Impairment of mining assets  | 76,000    | 99,276    |
| Impairment of exploration costs  | 931       | -         |
| Inventory write off  | 19,491    | -         |
| Loss on sale of assets   | -         | 792       |
| Depreciation expense   | 27,043    | 3,971     |
| Unrealised foreign exchange loss   | (2,107)   | 2,594     |
| (Increase) / decrease in trade and other receivables   | (12,465)  | (534)     |
| (Increase)/decrease in other current assets  | 684       | -         |
| (Increase)/decrease in inventory   | 9,025     | -         |
| Increase / (decrease) in trade creditors and accruals  | 26,929    | 499       |
| Increase / (decrease) in provisions  | 120       | (828)     |
| Cash outflows from operations  | 10,073    | (20,251)  |



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 30. COMMITMENTS

### Mineral Tenement

#### Mining Leases

In order to maintain current rights of tenure to its mining leases, the Consolidated Entity will be required to outlay amounts of approximately \$2,570 per annum on an ongoing basis in respect of tenement lease rentals, rates and other costs of keeping tenure. The annual expenditure commitment is \$10,000. These obligations are expected to be fulfilled in the normal course of operations by the Consolidated Entity.

#### EPMs

The Consolidated Entity also has commitments to conduct exploration activities on its exploration permits (EPMs) as a condition of maintaining the EPMs. The requirement under the EPMs is for an expenditure of \$889,000 over the next three years in total.

### Native Title

Under the Native Title Agreements concluded, CuDeco Ltd is committed to making certain payments. The payments are:

- 1) Annual administration payment of \$15,000;
- 2) \$50,000 on commencement of production of minerals from the mining licence areas; and
- 3) Annual payment of 0.25% of the value of minerals sold from the mining licence areas.

### Operating lease commitments

The Consolidated Entity has entered into rental agreements for premises in Cloncurry and Brisbane. These leases have an average life of up to three years. One option of five (5) years is included in all current contracts. There are no restrictions placed upon the lessee in entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| Within one year                             | 284            | 542            |
| After one year but not more than five years | 172            | 181            |
| More than five years                        | -              | -              |
|   | 457            | 723            |

## 31. CONTINGENCIES

There were no contingent liabilities or contingent assets as at 30 June 2017 other than:

- A former Company Managing Director has commenced legal action for alleged unpaid entitlements of \$5.7m. Management is confident that the named Director was compensated according to his legally binding employment agreement. Management are confident of successfully defending the claim.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 32. KEY MANAGEMENT PERSONNEL

The key management personnel ("KMP") compensation is as follows:

|   |              |       |
|---|--------------|-------|
| Short-term employee benefits              | <b>1,732</b> | 1,744 |
| Termination payments                      | <b>270</b>   | 1,146 |
| Post-employment benefits (superannuation) | <b>137</b>   | 115   |
| Share-based payments                      | <b>(16)</b>  | 49    |
| Other long-term benefits                  | <b>-</b>     | (303) |
|   | <b>2,123</b> | 2,751 |

## 33. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

### (a) Parent entity

The parent entity and ultimate controlling entity is CuDeco Limited, which is incorporated in Australia.

### (b) Subsidiaries

Interests in subsidiaries are disclosed in Note 28.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report contained in the Directors' Report and in Note 32 of the Financial Statements.

### (d) Unsecured loan from a Shareholder

The Group borrowed \$2m pursuant to a loan agreement entered into with its major shareholder on 15 September 2015. The loan is unsecured and attracts an interest rate of 11%. The loan was initially to be repaid from the proceeds of the Rights Issue completed in May 2016, but this has been renegotiated to be repaid when the Company generates sufficient working capital.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 34. PARENT ENTITY INFORMATION

Selected financial information of the parent company is as follows:

|   | 2017<br>\$'000   | 2016<br>\$'000 |
|---|------------------|----------------|
| <b>Financial performance</b>            |                  |                |
| Profit / (loss) for the year            | <b>(134,943)</b> | (126,603)      |
| Total comprehensive income for the year | <b>(134,943)</b> | (126,603)      |
| <b>Financial position</b>               |                  |                |
| Current assets                          | <b>30,022</b>    | 39,275         |
| Total assets                            | <b>303,109</b>   | 414,053        |
| Current liabilities                     | <b>114,130</b>   | 130,135        |
| Total liabilities                       | <b>157,157</b>   | 142,925        |
| Contributed equity                      | <b>572,880</b>   | 563,120        |
| Accumulated losses                      | <b>(487,392)</b> | (352,449)      |
| Capital Realisation Reserve             | <b>95</b>        | 95             |
| Capital Redemption Reserve              | <b>432</b>       | 432            |
| Option Reserve                          | <b>59,937</b>    | 59,930         |
| Total equity                            | <b>145,952</b>   | 271,128        |

### Guarantees

No guarantees have been entered into by the parent entity in relation to debts of its subsidiaries.

### Capital commitments

#### Mineral Tenement Leases

In order to maintain current rights of tenure to mining tenements, the parent company will be required to outlay amounts of approximately \$2,570 per annum on an ongoing basis in respect of tenement lease rentals, rates and other costs of keeping tenure. The annual expenditure commitment is \$10,000. These obligations are expected to be fulfilled in the normal course of operations by the parent company.

The parent company also has commitments to conduct exploration activities on its exploration permits (EPMs) as a condition of maintaining the EPMs. The requirement under the EPMs is for an expenditure of \$889,000 over three years in total.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

## 34. PARENT ENTITY INFORMATION (continued)

### Native Title

Under the Native Title Agreements concluded, the parent company is committed to making certain payments. The payments are:

- 1) Annual administration payment of \$15,000;
- 2) \$50,000 on commencement of production of minerals from the mining licence areas; and
- 3) Annual payment of 0.25% of the value of minerals sold from the mining licence areas.

### Operating lease commitments

The parent company has entered into rental agreements for premises in Cloncurry and Brisbane. These leases have an average life of up to three years. One option of five (5) years is included in all current contracts. There are no restrictions placed upon the lessee in entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

|   | 2017<br>\$'000 | 2016<br>\$'000 |
|---|----------------|----------------|
| Within one year                             | 284            | 542            |
| After one year but not more than five years | 172            | 181            |
| More than five years                        | -              | -              |
|   | 456            | 723            |

### Mining plant and mine development

At 30 June 2016 the capital contractual commitments in relation to mine development infrastructure and mining plant for the Rocklands Project including commissioning was \$Nil (2016:\$2.5m)

### Contingent liabilities

There were no contingent liabilities or contingent assets as at 30 June 2017 other than: -

- a. A former Company Managing Director has commenced legal action for alleged unpaid entitlements of \$5.7m. Management is confident that the named Director was compensated according to his legally binding employment agreement. Management are confident of successfully defending the claim.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### 35. EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity, in future financial years, other than:

- The Company secured a six (6) month term facility of HKD\$40.0m the proceeds were used to repay the short-term facility of USD\$4.8m secured on 26 June 2017.
- The Company was granted an extension to its short-term facility (Loan No.1) of HKD\$80m (approx. US\$10m) to 31 October 2017 from the initial repayment date of 21 July 2017. This was further extended on 13 October 2017 with a new maturity date of 31 December 2017.
- The Company is currently negotiating with various parties, including a major Australian bank, to secure a long-term restructured finance facility.
- The Company entered into a copper concentrate sales agreement with Mitsui & Co., Ltd (Mitsui). Under the agreement Mitsui prepaid USD\$20m to CuDeco. The funds were used to repay the USD15.0m due to Minsheng Banking Corporation Limited on 31 October 2017 with the balance of USD\$5.0m being applied to working capital.
- The Company was in breach of the Second Amendment Deed with Minsheng Bank as its audited accounts were not lodged within 90 days of the financial year ended 30 June 2017. In addition, the Company was also in breach of its borrowing facility with Quam as the Company's shares have been suspended from trading for longer than 5 days. The Company has received acknowledgement of the breach from both financiers and confirmation that no further actions are being taken at this time.



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## DIRECTORS' DECLARATION

- 1 In the opinion of the directors of CuDeco Limited ('the Company'):
  - (a) the consolidated financial statements and notes that are set out on pages 44 to 84 and the Remuneration Report in the Directors' Report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance, for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements; and
  - (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.
- 2 The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the chief executive officer and financial controller for the financial year ended 30 June 2017.
3. The Directors draw attention to Note 2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

25 October 2017  
Brisbane



**Peter Hutchison**  
Interim Chairman

# INDEPENDENT AUDITOR'S REPORT



To the shareholders of Cudeco Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the *Financial Report* of Cudeco Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the *Group's* financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The *Financial Report* comprises:

- Consolidated statement of financial position as at 30 June 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The *Group* consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)



## Material Uncertainty related to Going Concern

We draw attention to Note 5, "Going Concern" in the financial report. The conditions disclosed in Note 5, indicate a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. This included:

- Analysing the cash flow projections by:
  - Evaluating the underlying data used to generate the projections for consistency with other information tested by us, our understanding of the Group's intentions, and past results and practices; and
  - Assessing the planned levels of operating and capital expenditures for consistency of relationships and trends to the Group's historical results, particularly in light of loss making operations, results since year end, and our understanding of the business, industry and economic conditions of the Group;
- Assessing significant non-routine forecast cash inflows and outflows for feasibility, quantum and timing. We used our knowledge of the client, its industry and current status of those initiatives to assess the level of associated uncertainty;
- Reading correspondence with existing and potential financiers to understand the financing options available to the Group, and assess the level of associated uncertainty resulting from renegotiation of existing debt facilities and negotiation of additional and/or revised funding arrangements;
- Reading Directors minutes and relevant correspondence with the Group's advisors to understand the Group's ability to raise additional shareholder funds, and assess the level of associated uncertainty;
- Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standard requirements. We specifically focused on the principle matters giving rise to the material uncertainty.

## Key Audit Matters

In addition to the matter described in the *Material Uncertainty related to Going Concern* section, we have determined the matters described below to be the **Key Audit Matters** to be communicated in our report:

The **Key Audit Matters** we identified are:

- Valuation of exploration and evaluation assets;
- Valuation of property, plant and equipment and mine development costs; and
- Valuation of ore inventory.

**Key Audit Matters** are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)



## Valuation of exploration and evaluation expenditure (\$8.55m)

Refer to Note 19 'Exploration and evaluation assets' in the Financial Report

| The key audit matter  | How the matter was addressed in our audit  |
|---|--|
| <p>Exploration and evaluation expenditure capitalised (E&amp;E) is a key audit matter due to the level of audit effort to evaluate the Group's application of the requirements of the industry specific accounting standard AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i> (AASB 6) in particular the conditions allowing capitalisation of relevant expenditure and the presence of impairment indicators.</p> <p>In assessing the presence of impairment indicators, we focused on those that may draw into question the commercial continuation of E&amp;E activities for areas of interest where significant capitalised E&amp;E exists. In addition to the assessments above and given the financial position of the Group, we paid particular attention to:</p> <ul style="list-style-type: none"> <li>• Documentation available regarding rights to tenure, via licensing, and compliance with relevant conditions, to maintain current rights to an area of interest and the Group's intention and capacity to continue the relevant E&amp;E activities;</li> <li>• The ability of the Group to fund the continuation of activities; and</li> <li>• Results from exploration activities regarding the existence or otherwise of economically recoverable reserves/commercially viable quantity of reserves.</li> </ul> <p>These assessments can be inherently difficult, given the judgement required.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Evaluating the Group's accounting policy to recognise exploration and evaluation assets using the criteria in the accounting standard;</li> <li>• We assessed the Group's determination of its areas of interest for consistency with the definition in the accounting standard;</li> <li>• For each area of interest, we assessed the Group's current rights to tenure. We also tested for compliance with conditions such as minimum expenditure requirements;</li> <li>• We evaluated Group documents, such as minutes of Board meetings, for consistency with their stated intentions for continuing E&amp;E in certain areas. We corroborated this through interviews with key operational and finance personnel; and</li> <li>• We analysed the Group's determination of recoupment through successful development and exploitation of the area or by its sale by evaluating the Group's documentation of planned future activities including work programs and project and corporate budgets for a sample of areas.</li> </ul> |

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)



## Valuation of property, plant and equipment (\$156.02m) and mine development costs (\$97.88m)

Refer to Note 17 'Property, plant and equipment' and Note 18 'Development costs' in the Financial Report

| The key audit matter   | How the matter was addressed in our audit  |
|--|--|
| <p>Assessment of the valuation of the Rocklands Copper Project ("the Project") is a key audit matter. Significant judgement is required in the determination of the carrying value of the Group's property, plant and equipment and capitalised mine development costs associated with the Project. The valuation of these assets are principally based on a discounted cash flow (DCF) model. The net present value derived from the DCF model is highly sensitive to changes in inputs. We particularly focused on the below key judgements to estimate future cash flows:</p> <ul style="list-style-type: none"> <li>Operational assumptions, such as: <ul style="list-style-type: none"> <li>Future copper, gold and cobalt production levels, which are dependent on the ability to extract reserves from the mine, estimated grades of metal in the ore body, and ability to recover metal contained in the extracted ore;</li> <li>Future performance and capacity of the processing plant;</li> <li>Forecast costs associated with operation of the mine and processing plant;</li> <li>Future capital expenditure requirements; and</li> <li>The timing of the forecast cash outflows and inflows.</li> </ul> </li> <li>The discount rate applied to forecast cash flows; and</li> <li>Assumptions in relation to future commodity prices and foreign exchange rates.</li> </ul> <p>To assess the significant judgments of this key audit matter, we involved senior audit team members including valuation specialists, with experience in the industry and the valuation methodology.</p> | <p>We involved KPMG valuation specialists and our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>We compared the valuation methodology to industry standards and criteria in the relevant accounting standards;</li> <li>We conducted an assessment of the discount rate applied against comparable market rates and industry trends;</li> <li>We performed an evaluation of the discounted cash flow model which included: <ul style="list-style-type: none"> <li>Comparing forecast commodity prices and foreign exchange rates to broker data regarding future commodity prices and foreign exchanges rates;</li> <li>Testing the mathematical accuracy of the discounted cash flow model;</li> <li>Obtaining and assessing evidence supporting specific assumptions such as forecast capital expenditure throughout the life of mine and forecast operating expenditure; and</li> <li>Obtaining and assessing evidence supporting forecast production volumes and total reserves to be processed.</li> </ul> </li> <li>We performed sensitivity analysis through adopting alternative assumptions and outcomes which could indicate the potential for further impairment or reversal of impairment;</li> <li>We considered the appropriateness of the methodology used to determine the recoverable amount as per the relevant Australian Accounting Standards; and</li> <li>We assessed disclosures in relation to asset values and impairment testing against the requirements of Australian Accounting Standards.</li> </ul> |



# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

| Valuation of ore inventory (\$5.54m)   |   |
|--|---|
| Refer to Note 15 'Inventories' in the Financial Report   |   |
| The key audit matter   | How the matter was addressed in our audit   |
| <p>Significant judgement is required to be exercised by management in assessment of the value of ore inventory, particularly in relation to low grade copper ore inventory. The valuation of this ore inventory is a key audit matter as judgement is required in evaluating management's assessment of its net realisable value. We have focussed on the following judgements listed below which impact the valuation assessment:</p> <ul style="list-style-type: none"> <li>• Forecast production levels which are dependent on the grades and tonnage of existing ore stockpiles;</li> <li>• The amount of metal to be recovered from production;</li> <li>• Expected selling prices and foreign exchange rates which impact expected revenue from the sale of copper concentrate; and</li> <li>• Expected processing and selling costs.</li> </ul> <p>To assess the significant judgements of this key audit matter, we involved senior audit team members, with experience in the industry and the valuation methodology.</p> | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>• We compared the results of independent quantity surveyors to the volumes reported at 30 June 2017;</li> <li>• We evaluated the cost of copper ore inventory held at 30 June 2017;</li> <li>• We tested the mathematical accuracy of the valuation model;</li> <li>• We assessed the methodology applied by the Group in determining the net realisable value of copper ore inventory. This included assessment of the following key assumptions in management's valuation model: <ul style="list-style-type: none"> <li>– Evaluating processing and selling cost assumptions associated with the ore inventory; and</li> <li>– Assessing forecast revenue associated with the ore inventory per the terms of existing offtake contracts; and</li> </ul> </li> <li>• We tested whether ore inventory was recognised at the lower of its cost and net realisable value in accordance with the requirements of Accounting Standards.</li> </ul> |

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

## Other Information

Other Information is financial and non-financial information in Cudeco Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express any form of assurance conclusion thereon, with the exception of the Remuneration report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our Auditor's Report.

# INDEPENDENT AUDITOR'S REPORT (CONTINUED)

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Cudeco Limited for the year ended 30 June 2017 complies with *Section 300A* of the *Corporations Act 2001*.

KPMG

### Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included on pages 31 to 40 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.



Adam Twemlow

Partner

Bundall

25 October 2017

## SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 20 October 2017.

### Twenty Largest Shareholders as at 20 October 2017

| Shareholder   | Number Of Shares | % Held |
|---|------------------|--------|
| Citicorp Nominees Pty Limited                                   | 169,124,618      | 42.895 |
| Bnp Paribas Nominees Pty Ltd                                    | 44,360,462       | 11.251 |
| Sinosteel Equipment & Engineering Co Ltd                        | 21,637,680       | 5.488  |
| Hsbc Custody Nominees (Australia) Limited                       | 11,513,416       | 2.92   |
| Mr Dehou Liu  | 7,000,000        | 1.775  |
| Mr Zeqiao Hua   | 6,500,000        | 1.649  |
| Ally High Limited   | 4,000,000        | 1.015  |
| Mr Hendericus Van De Berg & Mrs Noreen Van De Berg              | 3,216,499        | 0.816  |
| Gredeara Pty Limited  | 3,100,000        | 0.786  |
| J P Morgan Nominees Australia Limited                           | 2,885,538        | 0.732  |
| Cudeco Employee Share Plan Pty Ltd                              | 2,708,068        | 0.687  |
| Calbee Nominees Pty Ltd   | 2,571,733        | 0.652  |
| Mrs Bijuan Huang  | 1,969,730        | 0.500  |
| Camsport Pty Ltd  | 1,500,000        | 0.380  |
| Mr Stephen Kenneth Nankivell                                    | 1,210,718        | 0.307  |
| Mr Robert Malcolm Campbell & Mrs Maria Paulina Josepha Campbell | 950,000          | 0.241  |
| Mrs Smiti Shah  | 948,572          | 0.241  |
| Mr Gregory Clyde Campbell & Mrs Diane Sue Campbell              | 942,000          | 0.239  |
| Hesky Holdings Pty Ltd  | 937,500          | 0.238  |
| Mr William John Vaughan   | 909,125          | 0.231  |
|   | 287,985,659      | 73.041 |

### On-market buy-back

The Company currently does not have an on-market buy-back programme.

## SHAREHOLDER INFORMATION (CONTINUED)

### Substantial shareholders

An extract of the Company's register of substantial shareholders is set out below:

| Shareholders (s)  | Number of Shares |
|---|------------------|
| China Oceanwide International Investment Co. Limited, Oceanwide International Resources Investment Co., Limited, China Oceanwide Holdings Group Co., Ltd, Oceanwide Group Co., Ltd, Zhiqlang Lu | 78,816,213       |
| Rich Lead Investment Pty Limited  | 58,328,678       |
| New Apex Asia Investment Limited  | 34,282,529       |
| Sinosteel Equipment and Engineering Co. Ltd   | 21,637,680       |

### Distribution of equity securities holders

| Size of Holding   | Number of Shareholders |
|-------------------|------------------------|
| 1 to 1,000        | 1,877                  |
| 1,001 to 5,000    | 2,087                  |
| 5,001 to 10,000   | 750                    |
| 10,001 to 100,000 | 1,283                  |
| 100,001 and over  | 232                    |
| Total             | 6,229                  |

The number of shareholdings comprising less than a marketable parcel was 2,123.

### Unquoted Options

There were no unquoted options on issue at 20 October 2017 other than the following:

- 2,000,000 options exercisable at \$2.00 each, on or before 31 August 2018 issued to Paradigm Securities.
- 4,400,000 options exercisable at \$0.80 each on or before 24 April 2019 issued to Value Stone.

Mining tenements held at 20 October 2017 are as follows:

| Project      | Tenement Reference              | Company Interest % |
|--------------|---------------------------------|--------------------|
| Morris Creek | EPM 18054                       | 100                |
| Camelvale    | EPM 25426                       | 100                |
| Rocklands    | ML 90177, ML 90188 and ML 90219 | 100                |



# COMPETENT PERSON STATEMENT

## COMPETENT PERSON STATEMENT

The information in this report insofar as it relates to Metallurgical Test Results and Recoveries, is based on information compiled by Mr Peter Hutchison, MRACI Ch Chem, MAusIMM, a Non-Executive Director of CuDeco Ltd. Mr Hutchison has sufficient experience in hydrometallurgical and metallurgical techniques which is relevant to the results under consideration and to the activity which he is undertaking to qualify as a competent person for the purposes of this report. Mr Hutchison consents to the inclusion in this report of the information, in the form and context in which it appears.

| Resource category  | Assumed mining type | Cut-Off    |            | Tonnes      | Estimated Grade |            |             |            | Copper Equivalent | Contained Metal |            |
|--------------------|---------------------|------------|------------|-------------|-----------------|------------|-------------|------------|-------------------|-----------------|------------|
|                    |                     | Cu Eq      | Cu         |             | Cu              | Co         | Au          | Mag        | CuEq*             | Cu              | Au         |
|                    |                     | %          | %          |             | %               | ppm        | ppm         | %          | %                 | Mlb             | Koz        |
| Measured           | Open pit            | 0.2        | 0.1        | 37.1        | 0.63            | 303        | 0.14        | 5.6        | 0.8               | 519             | 165        |
|                    | Underground         | 0.6        | 0.1        | 1.3         | 1.36            | 366        | 0.22        | 2.0        | 1.6               | 39              | 9          |
| Sub Total          |                     |            |            | 38.4        | 0.66            | 305        | 0.14        | 5.5        | 0.9               | 558             | 174        |
| Indicated          | Open pit            | 0.2        | 0.1        | 9.3         | 0.35            | 254        | 0.1         | 6.7        | 0.5               | 71              | 34         |
|                    | Underground         | 0.6        | 0.1        | 7.0         | 0.92            | 257        | 0.23        | 1.2        | 1.1               | 142             | 51         |
| Sub Total          |                     |            |            | 16.3        | 0.59            | 255        | 0.16        | 4.3        | 0.8               | 213             | 86         |
| Inferred           | Open pit            | 0.2        | 0.1        | 0.2         | 0.36            | 203        | 0.14        | 4.9        | 0.5               | 2               | 1          |
|                    | Underground         | 0.6        | 0.1        | 0.4         | 0.74            | 249        | 0.26        | 1.3        | 1.0               | 7               | 3          |
| Sub Total          |                     |            |            | 0.6         | 0.60            | 232        | 0.21        | 2.7        | 0.8               | 8               | 4          |
| <b>Total</b>       | <b>Open pit</b>     | <b>0.2</b> | <b>0.1</b> | <b>46.7</b> | <b>0.58</b>     | <b>293</b> | <b>0.13</b> | <b>5.8</b> | <b>0.8</b>        | <b>592</b>      | <b>200</b> |
|                    | <b>Underground</b>  | <b>0.6</b> | <b>0.1</b> | <b>8.7</b>  | <b>0.97</b>     | <b>273</b> | <b>0.23</b> | <b>1.3</b> | <b>1.2</b>        | <b>187</b>      | <b>64</b>  |
| <b>Grand Total</b> |                     |            |            | <b>55.4</b> | <b>0.64</b>     | <b>290</b> | <b>0.15</b> | <b>5.1</b> | <b>0.9</b>        | <b>779</b>      | <b>264</b> |

Figures have been rounded to reflect level of accuracy of the estimates

Mineral Resources in the above table are inclusive of Ore Reserves.

\* Copper equivalent Cu Eq % = Cu % + Co ppm \* 0.001232 + Au ppm \* 0.518238

The information in this report that relates to Mineral Resources is based on information compiled by Mr Andrew J Vigar who is a Fellow of The Australasian Institute of Mining and Metallurgy and is employed by Mining Associates Pty Ltd. Mr Vigar has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Vigar consents to the inclusion in the report of the matters based on his information in the form and context in which it appears. For details of the depleted resources statement please refer to the Mineral Resource Estimate Update report released to the ASX on 31st October, 2017.

## ROCKLANDS STYLE MINERALISATION

Dominated by dilational brecciated shear zones, throughout varying rock types, hosting coarse splashy to massive primary mineralisation, high-grade supergene chalcocite enrichment and bonanza-grade coarse native copper. Structures hosting mineralisation are sub-parallel, east-south-east striking, and dip steeply within metamorphosed volcano-sedimentary rocks of the eastern fold belt of the Mt Isa Inlier. The observed mineralisation, and alteration, exhibit affinities with Iron Oxide-Copper-Gold (IOCG) classification. Polymetallic copper-cobalt-gold mineralisation, and significant magnetite, persists from the surface, through the oxidation profile, and remains open at depth.

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## COMPETENT PERSON STATEMENT (CONTINUED)

### **DISCLAIMER AND FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements that are subject to risk factors associated with resources businesses. It is believed that the expectations reflected in these statements are reasonable, but they may be affected by a variety of variables and changes in underlying assumptions which could cause actual results or trends to differ materially, including, but not limited to: price fluctuations, actual demand, currency fluctuations, drilling and production results, reserve estimates, loss of market, industry competition, environmental risks, physical risks, legislative, fiscal and regulatory developments, economic and financial market conditions in various countries and regions, political risks, project delays or advancements, approvals and cost estimates.

### **NEW INFORMATION**

CuDeco is in the process of updating the June 2016 Ore Reserves to take account of operational results, including the effects of process plant performance, changes to foreign exchange and increased metal prices. From 1st July 2016 to 30th June 2017 the mine stockpiled 877,441 tonnes of ore at 0.90% Cu grade and the mill processed 1,273,078 tonnes of ore at 1.52% Cu grade.

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