

## **BAUXITE RESOURCES Annual Financial Report**

Perth-based bauxite explorer and developer, Bauxite Resources Ltd (**ASX: BAU**) (“**BRL**” or “**the Company**”) is pleased to announce its Annual Financial Report.

# **BAUXITE RESOURCES LIMITED**

ABN 72 119 699 982

## **Annual Financial Report**

**for the year ended 30 June 2012**

## Corporate Information

**ABN 72 119 699 982**

### Directors

Barry Carbon (Non Executive Chairman)  
Scott Donaldson (Executive Director)  
Luke Atkins (Non Executive Director)  
Ding Feng (Non Executive Director)  
Yan Jitai (Non Executive Director)  
Neil Lithgow (Non Executive Director)  
Robert Nash (Non Executive Director)  
John Sibly (Non Executive Director)

### Alternate Directors

Kevin Judge  
Chenghai Yang  
Zhan Qingwei

### Company Secretary and Chief Financial Officer

Sam Middlemas (Company Secretary)  
Kelvin May (Chief Financial Officer)

### Registered Office

Level 2 Building E, The Garden Office Park  
355 Scarborough Beach Road  
OSBORNE PARK WA 6017  
Telephone: +61 8 9200 8200  
Facsimile: +61 8 9200 8299

### Solicitors

Steinepreis Paganin  
Level 4, The Reid Buildings  
16 Milligan Street  
PERTH WA 6000

### Bankers

Westpac Banking Corporation  
17 / 109 St Georges Terrace  
PERTH WA 6000

### Share Register

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
APPLECROSS WA 6153  
Telephone: (08) 9315 2333  
Facsimile: (08) 9315 2233

### Auditors

Moore Stephens  
Level 3, 12 St George's Terrace  
PERTH WA 6000

### Internet Address

<http://www.bauxiteresources.com.au>

### Securities Exchange Listing

Bauxite Resources Limited shares (ASX code: BAU) are listed on the Australian Securities Exchange.

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## Directors' report

Your directors submit their report on the consolidated entity (referred to hereafter as the Group) consisting of Bauxite Resources Limited and the entities it controlled at the end of, or during, the year ended 30 June 2012.

### DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Where applicable, all current and former directorships held in listed public companies over the last three years have been detailed below. Directors were in office for this entire period unless otherwise stated.

#### Names, qualifications, experience and special responsibilities

##### **Barry Carbon AM** ATSE, FEIANZ, MSc (Non Executive Chairman)

Mr Carbon is a member of the Order of Australia, fellow of the Academy of Technological Sciences and Engineering, fellow of the Environmental Institute of Australia & New Zealand, has a Masters degree in Agricultural Science, a degree in Biochemistry, a member of the Institute of Company Directors and was previously the longest serving chair and CEO of the Western Australian Environmental Protection Authority. He received a centenary medal for services to government, and in 2008 was presented the medal for the International Association of Impact Assessment.

Mr Carbon's experience includes: Chairman of the WA Waste Authority; Chief Executive of the Ministry for the Environment, New Zealand; Director General-Queensland Department of Environment and Heritage; Director General-Queensland Environment Protection Agency; Executive Director, EPA, Commonwealth of Australia; The Supervising Scientist, Alligator Rivers Region; Chairman and Commonwealth Representative, National Environment Protection Council Committee and served on the Environmental Protection Authority of Western Australia as Chairman from 1985 – 86 and as Chairman and Chief Executive from 1986-93.

He is a director of the Australian Sustainable Development Institute and Principal of Barry Carbon and Associates.

Mr Carbon's career started as a scientist with CSIRO where he became a research programme leader. In his subsequent five years he led environmental activities for Alcoa of Australia.

##### **Scott Donaldson**, MAusIMM, MAID (Chief Executive Officer & Executive Director, appointed 31 January 2011)

Mr Donaldson is a qualified mining engineer with a graduate diploma in business. He brings more than 20 years experience in the mining industry in Australia and New Zealand with a variety of minerals including gold, nickel, copper, zinc and lead sulphides, copper oxides, coal and chromite. Some of his achievements include:

- Playing a key role in the successful transformation of 3 companies from explorers into producing mining companies;
- Successful management and development from pre-feasibility to construction, commissioning and production of five mines over the last 12 years; including
- Developing, commissioning & managing the Jaguar copper/zinc/silver project in WA with Jabiru Metals;
- Designing, developing and managing stage one of Western Metals' Pillara Lead-Zinc Mine in the Kimberley;
- Developing, commissioning & managing Tectonic Resources' Rav8 Nickel mine at Ravensthorpe, WA;
- Commissioning & managing the Coobina chromite mine in the Pilbara with Consolidated Minerals.

##### **Luke Atkins**, LLB (Non Executive Director)

Mr Atkins is a lawyer by profession and was previously the principal of Atkins and Co Lawyers, a Perth based legal firm which he owned and managed for seven years. Mr Atkins brings to the Company extensive experience in capital raising and public listed companies.

Mr Atkins is currently a director of ASX listed Australian Minerals Mining Group Ltd and has interests in a number of enterprises including agriculture, property development and hospitality. Mr Atkins was a former director of Reclaim Industries Limited.

## Directors' report (continued)

**John Sibly** (Non Executive Director, appointed 22 December 2010)

Perth-based Mr Sibly is a highly experienced and well credentialed executive, with more than 35 years of operational and executive experience within the bauxite and alumina refinery sectors, including more than 15 years as a senior executive with Alcoa. In 2006 Mr Sibly retired from his role of President Global Manufacturing Alcoa World Alumina and Chemicals, based in New York. In this position he was responsible for nine refineries and five operating mines around the world. He was also accountable for engineering, construction, and research and development of Alcoa's mining and refineries.

In his career with Alcoa Mr Sibly held various senior positions, including leading the process design team and being inaugural works manager at the Sao Luis Alumina refinery in Brazil, and works manager at the Kwinana and Pinjarra refineries in Western Australia.

In 2000 Mr Sibly received the Irving W Wilson award for 'outstanding leadership and management of technology throughout Alcoa'. Mr Sibly has previously been a president of the Australian Minerals Industry Research Association, director of the centre for minesite rehabilitation research, and member of many other councils and advisory bodies. He is currently a non-executive director of Exergen Pty Ltd and LVNG Pty Ltd.

**Ding Feng**, (Non Executive Director, appointed 24 August 2010)

Mr Ding is the General Manager of Shandong No.1 Institute of Geology and Minerals Exploration (SDGM) which is a substantial shareholder in Bauxite Resources Ltd. He has a Bachelor in Geophysical Exploration and post graduate qualifications in Business Management. Mr Ding is a long standing senior executive with SDGM and has held a variety of senior positions with SDGM in geological and technical roles as well as management of over 1,100 employees.

**Yan Jitai**, (Non Executive Director)

Mr Yan is a long standing senior executive of Yankuang Group Corporation (Yankuang) with over 40 years experience in mechanical engineering, coal mining, power generation and aluminium smelting. Mr Yan is currently the General Manager of the Electricity and Aluminium Branch of Yankuang. Yankuang is a substantial shareholder of Bauxite Resources Ltd.

**Neil Lithgow**, MSc, FFin, MAusIMM (Non Executive Director)

Mr Lithgow is a geologist by profession with over 20 years experience in mineral exploration, economics and mining feasibility studies covering base metals, coal, iron ore and gold. Mr Lithgow has previously worked for Aquila Resources Limited, Eagle Mining Corporation and De Grey Mining Limited.

Mr Lithgow is a non-executive director of Aspire Mining Limited and he is a member of the Australian Institute of Mining and Metallurgy and the Financial Services Institute of Australia.

Mr Lithgow has not held any other listed company directorships in the last 3 years.

**Robert Nash**, B Juris LLB, Public Notary (Non Executive Director)

Mr Nash is a lawyer by profession and currently practises as a barrister. He was a council member of the Law Society of Western Australia for 7 years, a Convenor of the Law Society Education Committee and a member of the Ethics and Professional Conduct Committees. Mr Nash has been a local government councillor and is a member of the Western Australian Navy Legal Panel. Mr Nash has been a director of a number of companies involved in the areas of property development and intellectual property.

Mr Nash has not held any other listed company directorships in the last 3 years.

## Directors' report (continued)

### Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Bauxite Resources Limited were:

	Ordinary Shares	Options over Ordinary Shares
Barry Carbon	-	-
Scott Donaldson	608,600	3,000,000
Luke Atkins	17,041,667	-
Ding Feng	-	-
Yan Jitai	-	-
Neil Lithgow	19,366,666	-
Robert Nash	254,900	-
John Sibly	40,500	2,000,000

### COMPANY SECRETARY

**Sam Middlemas**, B.Com., PGrad DipBus., CA

Mr Robert Samuel (Sam) Middlemas was appointed Company Secretary on 6 July 2012, following the resignation of Mr Patrick Soh (16 February 2012 to 6 July 2012) and Mr Paul Fromson (resigned 16 February 2012). Mr Middlemas is a chartered accountant with more than 15 years experience in various financial and company secretarial roles with a number of listed public companies operating in the resources sector. He is the principal of a corporate advisory company which provides financial, board and secretarial services specialising in capital raisings and initial public offerings. Previously Mr Middlemas worked for an international accountancy firm. His fields of expertise include corporate secretarial practice, financial and management reporting in the mining industry, treasury and cash flow management and corporate governance.

## Directors' report (continued)

### REVIEW OF OPERATIONS

#### Principal activities

During the year, the Company carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying economic bauxite deposits.

There was no significant change in the nature of the Group's activities during the year.

#### Dividends

No dividends were paid or declared during the financial year. No recommendation for payment of dividends has been made.

#### Finance Review

The Group ended the financial year with a cash reserve of \$48,031,090 (2011: \$53,126,585). The Group has recorded an operating loss after income tax for the year ended 30 June 2012 of \$6,836,597 (2011: \$3,533,391 loss).

The Company allotted and issued unlisted options to directors and staff, during the year, as follows.

Recipient	Date options issued	Expiry date	Exercise price (cents)	Number of options
Staff	28 March 2012	30 January 2017	20	1,000,000

#### Operating results for the year

Summarised operating results are as follows:

	2012		2011	
	Revenues \$	Results \$	Revenues \$	Results \$
Consolidated entity revenues and loss from ordinary activities before income tax expense	4,365,815	(6,836,597)	14,114,548	(3,533,391)

#### Shareholder returns

	2012	2011
Basic earnings per share (cents)	(2.90)	(1.51)

#### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no Significant changes in the state of affairs of the Group during the financial year.

#### Risk Management

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process, and as such the Board has not established a separate risk management committee.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets.

## Directors' report (continued)

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There has not been any other event that has arisen since 30 June 2012 which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Group is conducting a feasibility study into developing an Alumina Refinery in the south-west of Western Australia. The Company continues its exploration program for both export and refinery grade bauxite.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is subject to environmental regulation in respect to its exploration activities. The Group aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Group are not aware of any breach of environmental legislation for the year under review.

### REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

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

#### A Principles used to determine the nature and amount of remuneration

##### *Remuneration Policy*

The remuneration policy of Bauxite Resources Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The Board of Bauxite Resources Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Group.

The Board's policy for determining the nature and amount of remuneration for Board members and senior executives of the Group is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the Board. All executives receive a base salary (which is based on factors such as responsibilities and experience) and superannuation. The Board reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract and retain the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

The Australian based executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$600,000). Fees for the non-executive chairman are set at \$110,000 per annum and non executive directors at \$60,000 per annum with additional fees payable for membership of other board related committees. The fees are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company. Alternate directors have not received remuneration by way of fees or share based payments from the Company for the year ended 30 June 2012.

## Directors' report (continued)

### *Company performance, shareholder wealth and directors' and executives' remuneration*

No relationship exists between shareholder wealth, director and executive remuneration and Company performance. The table below shows the gross revenue, losses and earnings per share for the current and prior year.

	2012	2011
	\$	\$
Revenue	4,365,815	14,114,548
Net profit/(loss)	(6,836,597)	(3,533,391)
Earnings per share (cents)	(2.90)	(1.51)

### **B Details of remuneration**

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 *Related Party Disclosures*) and specified executives of Bauxite Resources Limited and the Bauxite Resources Group are set out in the following table.

The key management personnel of Bauxite Resources Limited and the Group include the directors and company secretary as per pages 3 and 4 above. The Chief Executive Officer has full authority and responsibility for planning, directing and controlling the activities of the Group. The Exploration Manager has authority and responsibility for planning, directing and controlling the exploration activities of the Group. Given the size and nature of operations of Bauxite Resources Limited and the Group, there are no other employees who are required to have their remuneration disclosed in accordance with the *Corporations Act 2001*.

## Directors' report (continued)

### Key management personnel and other executives of Bauxite Resources Limited and the Group

	Short-Term		Post Employment		Share-based	Termination	Total
	Salary & Fees \$	Non Monetary \$	Superannuation \$	Retirement benefits \$	Payments Options \$		
<b>Directors</b>							
Barry Carbon (1)							
2012	165,933	-	14,053	-	-	-	179,986
2011	502,020	-	38,945	-	-	-	540,965
Scott Donaldson (appointed 31 January 2011)							
2012	470,000	-	42,300	-	334,006	-	846,306
2011	197,641	-	17,788	-	176,666	-	392,095
Luke Atkins (1)							
2012	78,121	-	7,031	-	-	-	85,152
2011	49,999	-	4,500	-	-	-	54,499
Ding Feng (appointed 24 August 2010)							
2012	60,000	-	-	-	-	-	60,000
2011	44,247	-	-	-	-	-	44,247
Yan Jitai (appointed 25 February 2010)							
2012	60,000	-	-	-	-	-	60,000
2011	50,000	-	-	-	-	-	50,000
Neil Lithgow							
2012	60,000	-	5,400	-	-	-	65,400
2011	49,999	-	4,500	-	-	-	54,499
David McSweeney (resigned 5 January 2011)							
2012	-	-	-	-	-	-	-
2011	20,806	-	1,873	-	-	-	22,679
Robert Nash							
2012	240,000	-	5,400	-	-	-	245,400
2011	190,000	-	44,499	-	-	-	234,499
John Sibly (1)							
2012	106,508	-	9,586	-	-	-	116,094
2011	44,870	-	4,038	-	469,220	-	518,128
Meng Xiangsan (resigned 24 August 2010)							
2012	-	-	-	-	-	-	-
2011	5,009	-	-	-	-	-	5,009
<b>Staff &amp; Consultants</b>							
Paul Fromson (CFO & Company Secretary, resigned 16 February 2012)							
2012	185,659	-	22,022	-	-	-	207,681
2011	251,632	15,140	48,526	-	20,892	-	336,190
Patrick Soh (CFO & Company Secretary, appointed 16 February 2012, resigned 7 July 2012)							
2012	72,007	-	-	-	-	-	72,007
2011	-	-	-	-	-	-	-
Neil Martin (Exploration Manager, appointed 16 February 2012, resigned 22 August 2012)							
2012	169,583	-	15,262	-	3,799	-	188,644
2011	-	-	-	-	-	-	-
<b>Total key management personnel compensation</b>							
2012	1,667,811	-	121,054	-	337,805	-	2,126,670
2011	1,406,223	15,140	164,669	-	666,778	-	2,252,809

(1) Additional fees paid for participation on the Bauxite Alumina Joint Venture operating committee and for directorship for Bauxite Alumina Joint Ventures Pty Ltd.

## Directors' report (continued)

### C Service agreements

The details of service agreements of the key management personnel of Bauxite Resources Limited and the Group are as follows:

Scott Donaldson

- Term of agreement – 3 years with an option to extend for a further 2 years by mutual agreement;
- Base Salary, \$450,000 plus motor vehicle allowance of \$20,000 per annum plus 9% compulsory superannuation;
- 1,000,000 options to acquire ordinary shares in the capital of the Company (45 cents, expire 31 January 2016, vesting after 12 months service);
- 1,000,000 options to acquire ordinary shares in the capital of the Company (45 cents, expire 31 January 2016, vesting after 24 months service);
- 1,000,000 options to acquire ordinary shares in the capital of the Company (45 cents, expire 31 January 2016, vesting after 36 months service); and
- Termination of employment by either party requires a 6 month's written notice.

Robert Nash

- Term of agreement – 1 August 2012 until cancelled.
- Monthly retainer fee of \$15,000 for providing legal counsel and advice to the Company as and when requested.

### D Share-based compensation

Options may be issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to certain directors (determined by the Board) and executives of Bauxite Resources Limited to increase goal congruence between executives, directors and shareholders. The Company does not have a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities, but the Board actively discourages key personnel management from obtaining mortgages in securities held in the Company. The following options were granted to or vested with key management personnel during the past 2 years:

	Grant Date	Granted Number	Vested Number as at 30 June 2012	Date vesting or vested and exercisable	Expiry Date	Exercise Price (cents)	Value per grant date (cents)	Exercised Number	% of Remuneration
<b>2012</b>									
<b>Directors</b>									
Scott Donaldson	22/02/2011	3,000,000	1,000,000	One third each year on 31 January for the next 3 years	31/01/2016	40	23.5	Nil	39.5%
<b>Staff &amp; Consultants</b>									
Neil Martin	28/03/2012	1,000,000	nil	One third each year on 1 February for the next 3 years	30/06/2017	20	2.28	Nil	2.0%
<b>2011</b>									
<b>Directors</b>									
Scott Donaldson	22/02/2011	3,000,000	1,000,000	One third each year on 31 January for the next 3 years	31/01/2016	40	23.5	Nil	45.1%
John Sibly	22/02/2011	2,000,000	2,000,000	18/02/2011	22/02/2016	40	23.5	Nil	90.6%

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of Bauxite Resources Limited during the year.

**E Additional information****DIRECTORS' MEETINGS**

During the year the Company held 12 meetings of directors. The attendance of directors at meetings of the Board were:

	<b>Directors Meetings</b>	
	<b>A</b>	<b>B</b>
Barry Carbon – Chairman	12	12
Scott Donaldson – Chief Executive Officer	12	12
Luke Atkins	11	12
Ding Feng	0	12
Yan Jitai	3	12
Neil Lithgow	10	12
Robert Nash	10	12
John Sibly	10	12

**Notes**

A – Number of meetings attended.

B – Number of meetings held during the year.

Ding Feng's appointed alternate director Chenghai Yang attended 7 board meetings.

Yan Jitai's appointed alternate director Zhan Qingwei attended 4 board meetings.

Luke Atkins's appointed alternate director Kevin Judge attended 1 board meeting.

**SHARES UNDER OPTION**

As at 30 June 2012 there were 6,000,000 options issued which remain outstanding.

	<b>Number of options</b>
Beginning of the financial year	<b>18,195,000</b>
Issued during the year:	
– Exercisable at 20 cents, on or before 30 Jan 2017	<b>1,000,000</b>
Exercised, cancelled or expired during the year:	
– Exercisable at 20 cents, on or before 31 May 2012	<b>(7,750,000)</b>
– Exercisable at 30 cents, on or before 30 June 2012	<b>(3,790,000)</b>
– Exercisable at 35 cents, on or before 30 June 2012	<b>(300,000)</b>
– Exercisable at 50 cents, on or before 30 June 2012	<b>(230,000)</b>
– Exercisable at 100 cents, on or before 30 June 2012	<b>(1,125,000)</b>
End of the financial year	<b>6,000,000</b>

## Directors' report (continued)

### SHARES UNDER OPTION (continued)

Date options issued	Expiry date	Exercise price (cents)	Number of options
23 February 2011	31 January 2016	40	3,000,000
23 February 2011	22 February 2016	40	2,000,000
28 March 2012	30 January 2017	20	1,000,000
<b>Total number of options outstanding at the date of this report</b>			<b>6,000,000</b>

No person entitled to exercise any option referred to above has or had, by virtue of the option, a right to participate in any share issue of any other body corporate.

### INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the Company has paid premiums insuring all the directors of Bauxite Resources Limited against costs incurred in defending proceedings for conduct involving:

- (a) a wilful breach of duty; or
- (b) a contravention of sections 182 or 183 of the *Corporations Act 2001*,

as permitted by section 199B of the *Corporations Act 2001*. The total amount of insurance contract premiums paid is \$57,932 (2011: \$53,541).

### NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Moore Stephens or associated entities. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;

None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Moore Stephens received or are due to receive the following amounts for the provision of non-audit services:

	2012	2011
	\$	\$
Taxation services	32,323	16,557

### AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

Signed in accordance with a resolution of the directors.



Barry Carbon AM  
Chairman  
Perth, 25 September 2012

Level 3, 12 St Georges Terrace  
Perth WA 6000

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**AUDITOR'S INDEPENDENCE DECLARATION UNDER  
S307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF BAUXITE RESOURCES LIMITED**

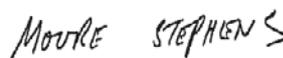
As lead auditor for the audit of Bauxite Resources Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bauxite Resources Limited during the year.



**Suan-Lee Tan**  
Partner



**Moore Stephens**  
Chartered Accountants

Signed at Perth this 25th day of September 2012.

## Corporate governance statement

This Statement summarises the main corporate governance practices in place during the Financial Year, which comply with the ASX Corporate Governance Council recommendations unless otherwise stated.

Further information about the Company's corporate governance practices is set out on the Company's web site at [www.bauxiteresources.com.au](http://www.bauxiteresources.com.au). In accordance with the recommendations of the ASX, information published on the web site includes charters (for the Board and subcommittees), codes of conduct and other policies and procedures relating to the Board and its responsibilities.

### ***The Board of Directors***

The Company's constitution provides that the number of directors shall not be less than three and not more than nine. There is no requirement for any share holding qualification.

As and if the Company's activities increase in size, nature and scope the size of the board will be reviewed periodically, and as circumstances demand. The optimum number of directors required to supervise adequately the Company's constitution will be determined within the limitations imposed by the constitution.

The membership of the board, its activities and composition, is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the board shall include quality of the individual, background of experience and achievement, compatibility with other board members, credibility within the Company's scope of activities, intellectual ability to contribute to board's duties and physical ability to undertake board's duties and responsibilities.

Directors are initially appointed by the full board subject to election by shareholders at the next general meeting. Under the Company's constitution the tenure of a director (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his or her last appointment. Subject to the requirements of the Corporations Act 2001, the board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, may revoke any appointment.

The Company has two special committees being a remuneration committee and an audit committee.

### ***Role of the Board***

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for oversight of management and the overall corporate governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

### ***Appointments to Other Boards***

Directors are required to take into consideration any potential conflicts of interest when accepting appointments to other boards.

### ***Independent Professional Advice***

The board has determined that individual directors have the right in connection with their duties and responsibilities as directors, to seek independent professional advice at the Company's expense. With the exception of expenses for legal advice in relation to director's rights and duties, the engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably.

### ***Continuous Review of Corporate Governance***

Directors consider, on an ongoing basis, how management information is presented to them and whether such information is sufficient to enable them to discharge their duties as directors of the Company. Such information must be sufficient to enable the directors to determine appropriate operating and financial strategies from time to time in light of changing circumstances and economic conditions. The directors recognise that mineral exploration is an inherently risky business and that operational strategies adopted should, notwithstanding, be directed towards improving or maintaining the net worth of the Company.

### ***ASX Principles of Good Corporate Governance***

The board has reviewed its current practices in light of the ASX Corporate Governance Council Principles and Recommendations as revised in 2010 with a view to making amendments where applicable after considering the company's size and the resources it has available.

As the company's activities develop in size, nature and scope, the size of the board and the implementation of any additional formal corporate governance committees will be given further consideration.

The following table sets out the company's present position in relation to each of the revised Principles.

## Corporate Governance Statement continued

	ASX Principle	Status	Reference/comment
<b>Principle 1:</b>	<b>Lay solid foundations for management and oversight</b>		
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions	A	Matters reserved for the Board are included on the Company's website under the Board Charter.
1.2	Companies should disclose the process for evaluating the performance of senior executives	A	The remuneration of executive and non-executive directors is reviewed by the Board with the exclusion of the Director concerned. The remuneration of management and employees is reviewed by the Board and approved by the Chairman. Refer Board Charter and Performance Evaluation Practices on the Company's website.
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1	A	
<b>Principle 2:</b>	<b>Structure the Board to add value</b>		
2.1	A majority of the Board should be independent directors	N/A	<p>Only Mr Sibly meets the independence criteria under the ASX Corporate Governance Council Recommendations, as all other Directors are either executives, shareholders or have been material professional advisors or consultants to the Company within the last three years. The Board recognises the Corporate Governance Council's recommendation that a majority of a board should consist of independent directors. The Board views the shareholdings of Directors as important, although this is outside the ASX Recommendations criteria for independence, as it believes it more correctly aligns the Board with shareholder interests. In considering the independence of Directors, the Board considers issues of materiality and relies on thresholds for qualitative and quantitative materiality as contained in the Board Charter which is disclosed on the Company's web site.</p> <p>The Board believes the current structure is appropriate given the Company's current size and activities. The existing Directors provide the necessary diversity of qualifications, skills and experience and bring quality and independent judgement to all relevant issues.</p>
2.2	The chair should be an independent director	N/A	An independent Chairman was appointed in November 2009, however, due to the sudden resignation of the Managing Director on 31 May 2010, the Chairman was acting as CEO until 31 January 2011 when the new CEO commenced with the Company. The Chairman ceased all additional duties on 31 January 2011 and remains as a non-executive Chairman
2.3	The roles of chair and chief executive officer should not be exercised by the same individual	A	
2.4	The Board should establish a nomination committee	A	The nomination committee shall comprise of the full Board. Acting in its ordinary capacity from time to time as required the Board carries out the process of determining the need for screening and appointing new directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to the process.
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors	A	The remuneration of executive and non executive directors is reviewed by the Board with the exception of the director concerned.
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2	A	The skills and experience of Directors are set out in the Company's Annual Report and on its website, all other reporting items have been addressed.
<b>Principle 3:</b>	<b>Promote ethical and responsible decision-making</b>		
3.1	<p>Companies should establish a code of conduct and disclose the code or a summary of the code as to:</p> <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the company's integrity</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> </ul>	A	The company has formulated a Code of Conduct which can be viewed on the company's website under Corporate Governance Policies.

## Corporate Governance Statement continued

	<ul style="list-style-type: none"> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices</li> </ul>		
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress of achieving them	A	The Company has formulated a Diversity Policy, which can be viewed on its website. The board has not established measurable objectives for achieving gender diversity at this stage of the Company's development due to the size and nature of the Company's activities. The Policy focusses on identifying and removing any barriers to diversity to create a workplace culture of inclusion and equal opportunities.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	N/A	Refer comments above. Gender diversity objectives have not been set.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board	A	Proportion of women employees in the whole organisation 33%, women in senior executive positions 0% and women on the board 0%.
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3	A	Refer comments above.
<b>Principle 4:</b>	<b>Safeguard integrity in financial reporting</b>		
4.1	The Board should establish an audit committee	A	The full Board carries out the role of the audit committee. While this is a departure from ASX Corporate Governance Council Recommendations, it provides a more efficient mechanism based on the size of the Board and the complexity of the Company. The Board follows the Audit Committee charter and there were two meetings during the year set aside to deal with the issues and responsibilities usually delegated to the audit committee so as to ensure the integrity of the Financial Statements of the Company and the independence of the external auditor.
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists only of non-executive directors</li> <li>consists of a majority of independent directors</li> <li>is chaired by an independent chair, who is not chair of the Board</li> <li>has at least three members</li> </ul>	A N/A N/A N/A	Refer comments above Refer comments regarding independence above under Recommendation 2.1 Refer comments above Refer comments above
4.3	The audit committee should have a formal charter	A	Refer Company Website
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4	A	Refer comments above
<b>Principle 5:</b>	<b>Make timely and balanced disclosure</b>		
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	A	The company has formulated a Continuous Disclosure Policy, which can be viewed on its website.
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5	A	
<b>Principle 6:</b>	<b>Respect the rights of shareholders</b>		
6.1	Companies should design a	A	The Company has formulated a Shareholders Communication Policy which

## Corporate Governance Statement continued

	communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy		can be viewed on the Company website.
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6	A	
<b>Principle 7: Recognise and manage risk</b>			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies	A	The Company has formulated a Risk Management and Internal Compliance & control Policy which can be viewed on its website.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	A	
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	A	The Board has received the required assurance and declaration.
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7	A	
<b>Principle 8: Remunerate fairly and responsibly</b>			
8.1	The Board should establish a remuneration committee	A	The full Board carries out the role of the remuneration committee. While this is a departure from ASX Corporate Governance Council Recommendations, it provides a more efficient mechanism based on the size of the Board and the complexity of the Company. The Board follows the Remuneration Committee charter and there was one meeting during the year set aside to deal with remuneration issues.
8.2	The remuneration committee should be structured so that it: <ul style="list-style-type: none"> <li>• consists of a majority of independent directors</li> <li>• is chaired by an independent chair</li> <li>• has at least three members</li> </ul>	N/A	Refer comments above regarding the full board and the independence issues
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	A	
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8	A	Refer to the Remuneration Report in the Company's Annual Report.
A = Adopted N/A = Not adopted			

## Statement of comprehensive income

YEAR ENDED 30 JUNE 2012	Notes	Consolidated Group	
		2012	2011
		\$	\$
<b>Sales revenue</b>	4	-	-
Recoupment of exploration costs	4	610,389	10,721,213
Other income	4	848,695	539,576
Interest income	4	2,906,731	2,853,759
Cost of sales		(411,444)	(529,182)
Employee benefits expense		(3,034,057)	(2,236,113)
Exploration written off		(4,795,995)	(5,876,147)
Bankable feasibility and other studies		(294,211)	(2,179,788)
Administration expenses		(1,293,796)	(2,970,100)
Depreciation and amortisation expense		(985,020)	(1,316,777)
Impairment of property, plant & equipment		-	(1,768,495)
Impairment of mining property improvements		-	-
Gain/(loss) on disposal of fixed assets		(47,609)	84,805
Share-based payments expense	27	(337,805)	(856,142)
<b>Profit / (loss) before income tax</b>	5	<b>(6,834,122)</b>	<b>(3,533,391)</b>
<b>Income tax expense</b>	6	<b>2,475</b>	-
<b>Profit / (loss) for the period</b>		<b>(6,836,597)</b>	<b>(3,533,391)</b>
Profit / (loss) attributable to:			
Members of the parent entity		(6,836,597)	(3,533,391)
Non-controlling interests		-	-
		<b>(6,836,597)</b>	<b>(3,533,391)</b>
Other comprehensive income			
Other comprehensive income for the period, net of tax		-	-
<b>Total comprehensive income/(loss) for the period</b>		<b>(6,836,597)</b>	<b>(3,533,391)</b>
<b>Earnings per share</b>			
From continuing and discontinued operations:			
Basic earnings per share (cents)		(2.9)	(1.51)
From continuing operations:			
Basic earnings per share (cents)		(2.9)	(1.51)

The above statements should be read in conjunction with the notes to the financial statements.

## Statement of financial position

AT 30 JUNE 2012	Notes	Consolidated Group	
		2012	2011
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	<b>48,031,090</b>	53,126,585
Trade and other receivables	8	<b>1,685,380</b>	2,929,977
<b>TOTAL CURRENT ASSETS</b>		<b>49,716,470</b>	56,056,562
<b>NON-CURRENT ASSETS</b>			
Other financial assets	9	<b>703,643</b>	665,470
Property, plant and equipment	10	<b>7,505,259</b>	8,965,646
Intangible assets	11	-	1,365
<b>TOTAL NON-CURRENT ASSETS</b>		<b>8,208,903</b>	9,632,481
<b>TOTAL ASSETS</b>		<b>57,925,373</b>	65,689,043
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12a	<b>622,035</b>	1,881,562
Provisions	12b	<b>93,027</b>	98,378
<b>TOTAL CURRENT LIABILITIES</b>		<b>715,062</b>	1,979,940
<b>TOTAL LIABILITIES</b>		<b>715,062</b>	1,979,940
<b>NET ASSETS</b>		<b>57,210,311</b>	63,709,103
<b>EQUITY</b>			
Contributed equity	13	<b>88,111,698</b>	88,111,698
Reserves	14(a)	<b>983,691</b>	2,757,392
Retained earnings / (accumulated losses)	14(b)	<b>(31,885,078)</b>	(27,159,987)
<b>TOTAL EQUITY</b>		<b>57,210,311</b>	63,709,103

The above statements should be read in conjunction with the notes to the financial statements.

## Statement of changes in equity

Consolidated Group	Notes	Issued Ordinary Capital \$	Option Reserve \$	Retained Earnings \$	Total \$
<b>Balance at 1 July 2010</b>		<b>87,861,698</b>	<b>1,901,250</b>	<b>(23,626,596)</b>	<b>66,136,352</b>
Loss for the period		-	-	<b>(3,533,391)</b>	<b>(3,533,391)</b>
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	<b>(3,533,391)</b>	<b>(3,533,391)</b>
Shares issued during the period		<b>250,000</b>	-	-	<b>250,000</b>
Transaction costs associated with share issue		-	-	-	-
Employee share options issued during the period		-	<b>856,142</b>	-	<b>856,142</b>
<b>Balance at 30 June 2011</b>		<b>88,111,698</b>	<b>2,757,392</b>	<b>(27,159,987)</b>	<b>63,709,103</b>
Loss for the period		-	-	<b>(6,836,597)</b>	<b>(6,836,597)</b>
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	<b>(6,836,597)</b>	<b>(6,836,597)</b>
Shares issued during the period		-	-	-	-
Transaction costs associated with share issue		-	-	-	-
Employee share options issued during the period		-	<b>337,805</b>	-	<b>337,805</b>
Transfer expired Options Reserve to Retained Earnings		-	<b>(2,111,506)</b>	<b>2,111,506</b>	-
<b>Balance at 30 June 2012</b>		<b>88,111,698</b>	<b>983,691</b>	<b>(31,885,078)</b>	<b>57,210,311</b>

The above statements should be read in conjunction with the notes to the financial statements.

## Cash flow statement

YEAR ENDED 30 JUNE 2012	Notes	Consolidated Group	
		2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		4,512,194	9,544,138
Payments to suppliers and employees		(7,852,448)	(8,810,663)
Payments for exploration expenditure		(4,862,860)	(4,879,415)
Interest received		2,733,124	3,065,192
Income tax paid		(2,475)	
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	25	(5,472,465)	(1,080,748)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment of security deposit		(38,173)	(171,278)
Receipts from sales of property, plant & equipment		722,320	1,099,800
Payments for property, plant and equipment		(307,177)	(1,375,114)
Expenditure on mining improvements		-	-
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		376,970	(446,592)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issues of ordinary shares		-	250,000
Payment of share issue costs		-	-
NET CASH INFLOW FROM FINANCING ACTIVITIES		-	250,000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(5,095,496)	(1,277,340)
Cash and cash equivalents at the beginning of the financial year		53,126,585	54,403,925
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR</b>	7	<b>48,031,090</b>	<b>53,126,585</b>

The above statements should be read in conjunction with the notes to the financial statements.

## Notes to the financial statements

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Bauxite Resources Limited and controlled entities ('Consolidated Group' or 'Group').

#### (a) Basis of preparation

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

##### *Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Bauxite Resources Limited complies with International Financial Reporting Standards (IFRS).

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### (b) Principles of consolidation

##### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Bauxite Resources Limited ("Company" or "parent entity") as at 30 June 2012, the results of all subsidiaries and joint ventures for the year then ended. Bauxite Resources Limited, its subsidiaries and joint ventures together are referred to in this financial report as the Group or consolidated entity.

Subsidiaries are all of those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Bauxite Resources Limited.

#### (b) Interests in joint ventures

The Group's shares of the assets, liabilities, revenue and expenses of jointly controlled operations have been included in the appropriate line items of the consolidated financial statements. Details of the Group's interests are provided in Note 17.

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

#### (c) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

## Notes to the financial statements (continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

#### (e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

#### (f) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 21). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

#### (g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## Notes to the financial statements (continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

#### (i) Trade and other receivables

Receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

#### (j) Investments and other financial assets

##### **Classification**

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Collectability of loans and receivables 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 impairment) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables or in an otherwise timely manner. The amount of the impairment allowance is the difference between the asset's carrying amount and the estimated future cash flows. None of the Group's loans and receivables has an applicable interest rate hence the cash flows are not discounted.

The amount of the impairment loss is recognised in the income statement within impairment expenses. When a loan or receivable for which an impairment allowance had 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 the income statement.

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

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

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are designated available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

#### **Recognition and de-recognition**

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed to the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

## Notes to the financial statements (continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Subsequent measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Details on how the fair value of financial investments is determined are disclosed in note 2.

#### **Impairment**

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments classified as available-for-sale are not reversed through the income statement.

#### **(k) Plant and equipment**

All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost, net of their residual values, over their estimated useful lives. The rates vary between 20% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

#### **(l) Tenement acquisition and exploration costs**

Tenement acquisition and exploration costs incurred are written off as incurred.

#### **(m) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are paid on normal commercial terms.

## Notes to the financial statements (continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Employee benefits

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

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

##### (ii) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 27.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

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

#### (o) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

#### (p) Earnings per share

##### (i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

##### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

#### (q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

## Notes to the financial statements (continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) New Accounting Standards for Application in Future Periods

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

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

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

The key changes made to accounting requirements include:

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

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

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

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

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

The amendments are not expected to significantly impact the Group.

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

## Notes to the financial statements (continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed). The Group is currently considering the potential impact of this Standard and will disclose the full impact of AASB11 in the next annual report (for the year ended 30 June 2013).

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

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

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

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

AASB 13 requires:

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

These Standards are not expected to significantly impact the Group.

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

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

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

- AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB101, AASB124, AASB134, AASB1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

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

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

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

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

## Notes to the financial statements (continued)

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (s) Critical accounting estimates and judgements

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

##### *Share based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model, using the assumptions detailed in note 27.

## Notes to the financial statements (continued)

### 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the full Board of Directors as the Group believes that it is crucial for all Board members to be involved in this process. The Chairman, with the assistance of senior management as required, has responsibility for identifying, assessing, treating and monitoring risks and reporting to the Board on risk management.

#### (a) Market risk

##### (i) Foreign exchange risk

As all operations are currently within Australia, the Group is not exposed to material foreign exchange risk.

##### (ii) Price risk

Given the current level of operations, the Group is not exposed to price risk.

##### (iii) Interest rate risk

The Group is exposed to movements in market interest rates on cash and cash equivalents. The Group policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Group and the parent entity \$48,031,090 (2011: \$53,126,585) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Group and the parent entity was 5.30% (2011: 5.96%).

##### Sensitivity analysis

At 30 June 2012, if interest rates had changed by +/- 80 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for both the Group and the parent entity would have been \$404,631 lower/higher (2011: \$383,471 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

#### (b) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. The Group has a significant concentration of credit risk with one external entity which currently makes up 89.7% (2011: 74%) of the receivables balance.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the FRMC has otherwise cleared as being financially sound. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

#### (c) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Group and the parent entity are confined to trade and other payables as disclosed in the Balance Sheet. All trade and other payables are non-interest bearing and due within 12 months of the balance sheet date.

#### (d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Group and the parent entity at the balance date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

## Notes to the financial statements (continued)

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>3. PARENT ENTITY FINANCIAL INFORMATION</b>		
<b>a. Summary financial information</b>		
Current assets	<b>48,934,092</b>	54,287,201
Non-current assets	<b>24,306,682</b>	21,378,880
Total assets	<b>73,240,774</b>	75,666,081
Current liabilities	<b>408,190</b>	1,654,987
Total Liabilities	<b>408,190</b>	1,654,987
<b>Net assets</b>	<b>72,832,584</b>	74,011,094
<b>Shareholders' equity</b>		
Contributed equity	<b>88,111,698</b>	88,111,698
Reserves	<b>983,691</b>	2,757,392
Accumulated profit/(loss)	<b>(16,262,805)</b>	(16,857,996)
<b>Net equity</b>	<b>72,832,584</b>	74,011,094
<b>(Loss)/profit for the year after tax</b>	<b>(1,516,316)</b>	(276,141)
<b>Total comprehensive income/(loss)</b>	<b>(1,516,316)</b>	(276,141)

### b. Guarantees entered into by parent entity

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Bank guarantees issued in relation to rehabilitation and rental obligations	<b>343,569</b>	343,569

The parent entity has given guarantees in respect of exploration rehabilitation and restoration. The parent entity has also provided a bank guarantee to secure its obligations to pay rental under the lease for its premises. These guarantees are secured by cash deposits of equivalent or greater value lodged with the issuing bank (see Note 9).

### c. Contingent liabilities of parent entity

Details and estimate of maximum amounts of contingent liabilities for which no provision is included in the accounts are as follows:

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Bank guarantees issued in relation to rehabilitation and rental obligations	<b>343,569</b>	343,569

No losses are anticipated in respect of any of these contingent liabilities, and therefore no provision for loss has been made in these accounts.

### d. Contractual commitments for the acquisition of property, plant and equipment

The Company has no contractual commitments for the acquisition of property, plant and equipment (2011 – nil).

## Notes to the financial statements (continued)

	<b>Consolidated Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<b>4. REVENUE</b>		
<b>From continuing operations</b>		
Sales revenue	-	-
Recoupment of exploration costs	<b>610,389</b>	10,721,213
Other revenue	<b>848,695</b>	539,577
Interest	<b>2,906,731</b>	2,853,759
	<b>4,365,815</b>	14,114,549
<b>5. LOSS FOR THE YEAR</b>		
<b>a. Expenses</b>		
Cost of sales	<b>411,444</b>	529,181
Impairment of mining property improvements	-	-
Impairment of property, plant & equipment	-	1,768,495
Rental expense on operating leases		
— minimum lease payments	<b>416,574</b>	418,004
Exploration expenditure	<b>4,795,995</b>	5,876,146
<b>6. INCOME TAX</b>		
<b>a. The components of tax expense comprise:</b>		
Current tax	2,475	-
Deferred tax	-	-
Income tax expense reported in the statement of comprehensive income	<b>2,475</b>	-
<b>b. Numerical reconciliation of income tax expense to prima facie tax payable:</b>		
Loss from continuing operations before income tax expense	(6,834,122)	(3,533,391)
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2011: 30%)	(2,050,237)	(1,060,017)
Add:		
Tax effect of:		
- Non-allowable items	17,356	12,791
- Share based payments	101,342	256,843
- Deferred tax balances not recognised	-	321,865
- Revenue losses not recognised	2,084,772	600,634
	<b>153,233</b>	<b>132,116</b>
Less:		
Tax effect of:		
- Allowable items	8,078	48,761
- Deferred tax balances not recognised	142,680	-
- Non-assessable items	-	83,355

## Notes to the financial statements (continued)

### 6. INCOME TAX (continued)

Income tax expense reported in the statement of comprehensive income	2,475	-
<b>c. Deferred tax recognised:</b>		
Deferred tax liabilities:		
Accrued interest	(72,245)	(19,099)
Other	(9,538)	(11,297)
Deferred tax assets:		
Carry forward revenue losses	81,783	30,396
Net deferred tax	-	-
<b>d. Deferred tax not recognised:</b>		
Deferred Tax Assets:		
At 30%:		
Carry forward losses	9,073,997	7,437,920
Capital raising costs	195,955	611,160
Property, plant & equipment	649,835	530,672
Exploration and development	158,893	158,893
Provisions and accruals	31,081	29,381
Other	255,190	99,402
	10,364,951	8,867,428

The tax benefits of the above Deferred Tax Assets will only be obtained if:

- the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- the company continues to comply with the conditions for deductibility imposed by law; and
- no changes in income tax legislation adversely affect the company in utilising the benefits.

### Tax consolidation

#### (i) Members of the tax consolidated group and the tax sharing arrangement

Bauxite Resources Limited and its wholly owned Australian resident subsidiaries have formed a tax consolidated group with effect from 10 June 2008. Bauxite Resources Limited is the head entity of the tax consolidated group. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax asset resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity.

#### (ii) Tax effect accounting by members of the tax consolidated group

##### Measurement method adopted under UIG 1052 Tax Consolidated Accounting

The group has applied the Stand-Alone Taxpayer approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group. The group has not entered into any tax sharing or funding agreements.

## Notes to the financial statements (continued)

	Notes	Consolidated Group 2012 \$	2011 \$
<b>7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS</b>			
Cash at bank and in hand		3,936,094	3,725,703
Short-term deposits		44,094,996	49,400,882
Cash and cash equivalents as shown in the balance sheet and the statement of cash flows		<b>48,031,090</b>	53,126,585

### 8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Trade debtors		1,150,172	2,318,256
Sundry receivables		224,697	494,489
Accrued interest		240,815	63,661
Prepayments		69,696	53,571
		<b>1,685,380</b>	2,929,977

The Group has a significant concentration of credit risk with respect to one entity holding 89.7% (2011: 74%) of the trade receivables. The class of assets described as "trade and other receivables" is considered to be the main source of credit risk related to the Group.

	Gross Amount	Past due but not impaired (days overdue)			
		< 30	31-60	61-90	> 90
<b>2012</b>					
Trade and term receivables	1,150,172	-	-	-	936,154
Total	1,150,172	-	-	-	936,154
<b>2011</b>					
Trade and term receivables	2,318,256	124,051	-	-	248,546
Total	2,318,256	124,051	-	-	248,546

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, which would otherwise be past due or impaired.

	Notes	Consolidated Group 2012 \$	2011 \$
<b>9. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS</b>			
Bonds & security deposits		703,643	665,470
		<b>703,643</b>	665,470
<b>10. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT</b>			
<b>Plant and equipment</b>			
Cost		4,492,306	5,134,647
Accumulated depreciation		(1,300,160)	(949,758)
Net book amount		<b>3,192,146</b>	4,184,889

## Notes to the financial statements (continued)

### 10. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

#### Plant and equipment

Opening net book amount	4,184,889	6,919,675
Additions	440,789	382,066
Depreciation charge	(503,056)	(746,296)
Revaluations	-	(1,759,635)
Disposals	(930,475)	(610,921)
Closing net book amount	3,192,147	4,184,889

#### Motor Vehicles

Cost	648,069	948,044
Accumulated depreciation	(271,767)	(264,373)
Net book amount	376,302	683,671

#### Motor vehicles

Opening net book amount	683,671	753,220
Additions	61,734	293,742
Depreciation charge	(161,206)	(214,723)
Disposals	(207,897)	(148,568)
Closing net book amount	376,302	683,671

#### Property and buildings

Cost	2,982,578	2,982,578
Accumulated depreciation	(32,416)	(22,411)
Net book amount	2,950,162	2,960,167

#### Property and buildings

Opening net book amount	2,960,167	2,962,823
Additions	-	7,344
Depreciation charge	(10,005)	(10,000)
Closing net book amount	2,950,162	2,960,167

#### Software

Cost	281,745	227,534
Accumulated depreciation	(179,520)	(105,792)
Net book amount	102,225	121,742

#### Software

Opening net book amount	121,742	102,395
Additions	63,444	93,688
Depreciation charge	(78,051)	(74,341)
Disposals	(4,909)	-
Closing net book amount	102,226	121,742

#### Exploration equipment

Cost	224,403	222,823
Accumulated depreciation	(141,154)	(102,255)
Net book amount	83,249	120,567

#### Exploration equipment

Opening net book amount	120,567	141,136
Additions	5,378	286,792
Depreciation charge	(41,010)	(57,181)
Disposals	(1,686)	(250,180)
Closing net book amount	83,249	120,567

## Notes to the financial statements (continued)

### 10. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

#### Furniture and Fittings

Cost	155,796	135,773
Accumulated depreciation	(79,349)	(48,331)
Net book amount	76,447	87,442

#### Furniture and fittings

Opening net book amount	87,442	107,224
Additions	20,023	21,376
Depreciation charge	(31,018)	(41,158)
Disposals	0	-
Closing net book amount	76,447	87,442

#### Computer equipment

Cost	286,466	272,270
Accumulated depreciation	(171,422)	(130,431)
Net book amount	115,044	141,839

#### Computer equipment

Opening net book amount	141,839	192,197
Additions	74,894	35,641
Depreciation charge	(73,682)	(80,524)
Disposals	(28,008)	(5,475)
Closing net book amount	115,043	141,839

#### Leasehold Improvements

Cost	809,233	779,251
Accumulated depreciation	(199,549)	(113,923)
Net book amount	609,684	665,328

#### Leasehold Improvements

Opening net book amount	665,328	756,517
Additions	29,982	-
Depreciation charge	(85,626)	(91,189)
Closing net book amount	609,684	665,328

#### Total Assets

Cost	9,880,595	10,702,921
Accumulated depreciation	(2,375,336)	(1,737,275)
Net book amount	7,505,259	8,965,646

#### Total Assets

Opening net book amount	8,965,645	11,935,188
Additions	696,244	1,120,649
Depreciation charge	(983,655)	(1,315,412)
Revaluations	0	(1,759,635)
Disposals	(1,172,975)	(1,015,144)
Closing net book amount	7,505,259	8,965,646

## Notes to the financial statements (continued)

### 11. NON-CURRENT ASSETS – INTANGIBLE ASSETS

#### Formation expenses

Cost	<b>4,147</b>	4,147
Accumulated amortisation	<b>(4,147)</b>	(2,782)
Net book amount	-	1,365

#### Formation expenses

Opening net book amount	<b>1,365</b>	2,731
Additions	-	-
Amortisation charge	<b>(1,365)</b>	(1,366)
Closing net book amount	-	1,365

### 12. CURRENT LIABILITIES

#### a) Trade and other payables

Trade payables	<b>347,231</b>	531,434
GST and tax liabilities	<b>(118,074)</b>	983,330
Other payables and accruals	<b>392,878</b>	366,798
	<b>622,035</b>	1,881,562

#### b) Provisions

Annual leave	<b>93,027</b>	98,378
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## Notes to the financial statements (continued)

### 13. CONTRIBUTED EQUITY

#### (a) Share capital

	Notes	2012		2011	
		Number of securities	\$	Number of securities	\$
Ordinary shares fully paid	13(b), 13(d)		<b>87,573,125</b>		87,573,125
Options	13(e)		<b>538,573</b>		538,573
Total contributed equity			<b>88,111,698</b>		88,111,698

#### (b) Movements in ordinary share capital

Beginning of the financial year		<b>235,379,896</b>	<b>87,573,125</b>	234,379,896	87,323,125
Issued during the year:					
– Issued on exercise of options at 25 cents		-	-	1,000,000	250,000
Less: Transaction costs				-	-
End of the financial year		<b>235,379,896</b>	<b>87,573,125</b>	235,379,896	87,573,125

#### (c) Movements in options on issue

	Number of options	
	2012	2011
Beginning of the financial year	18,195,000	21,183,332
Issued during the year:		
– Exercisable at 40 cents, on or before 31 January 2016	-	3,000,000
– Exercisable at 40 cents, on or before 22 February 2016	-	2,000,000
– Exercisable at 30 cents, on or before 30 June 2012	-	3,400,000
– Exercisable at 20 cents, on or before 30 Jan 2017	<b>1,000,000</b>	-
Exercised, cancelled or expired during the year:		
– Exercisable at 45 cents, on or before 30 November 2013	-	(666,666)
– Exercisable at 55 cents, on or before 30 November 2013	-	(666,666)
– Exercisable at 25 cents, on or before 30 June 2012	-	(300,000)
– Exercisable at 30 cents, on or before 30 June 2012	-	(2,330,000)
– Exercisable at 35 cents, on or before 30 June 2012	-	(350,000)
– Exercisable at 30 cents, on or before 30 June 2012	<b>(3,790,000)</b>	-
– Exercisable at 35 cents, on or before 30 June 2012	<b>(300,000)</b>	-
– Exercisable at 50 cents, on or before 30 June 2012	<b>(230,000)</b>	-
– Exercisable at 100 cents, on or before 30 June 2012	<b>(1,125,000)</b>	-
– Exercisable at 100 cents, on or before 30 June 2012	-	(1,075,000)
– Exercisable at 20 cents, on or before 31 May 2012	<b>(7,750,000)</b>	-
– Exercisable at 25 cents, on or before 31 May 2012	-	(2,000,000)
– Exercisable at 40 cents, on or before 31 May 2012	-	(4,000,000)
End of the financial year	<b>6,000,000</b>	18,195,000

#### (d) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

## Notes to the financial statements (continued)

### 13. CONTRIBUTED EQUITY (continued)

#### (e) Capital risk management

The Group's and the parent entity's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being mineral exploration, the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Group's capital risk management is the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. The Group's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Group at 30 June 2012 and 30 June 2011 are as follows:

	Notes	Consolidated Group	
		2012	2011
		\$	\$
Cash and cash equivalents		48,031,090	53,126,585
Trade and other receivables		1,685,380	2,929,977
Trade and other payables		(622,034)	(1,881,562)
Working capital position		<u>49,094,436</u>	<u>54,175,000</u>

### 14. RESERVES AND ACCUMULATED LOSSES

#### (a) Reserves

##### Share-based payments reserve

Balance at beginning of year	2,757,392	1,901,250
Employees and contractors share options issued	337,805	856,142
Employees and contractors share options lapsed	(2,111,506)	-
Balance at end of year	<u>983,691</u>	<u>2,757,392</u>

#### (b) Retained earnings / (accumulated losses)

Balance at beginning of year	(27,159,987)	(23,626,596)
Net profit/(loss) for the year	(6,836,597)	(3,533,391)
Employees and contractors share options lapsed	2,111,506	-
Balance at end of year	<u>(31,885,078)</u>	<u>(27,159,987)</u>

### 15. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

### 16. KEY MANAGEMENT PERSONNEL DISCLOSURES

Short-term benefits	1,658,725	1,420,449
Post employment benefits	121,054	164,669
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	337,805	666,778
	<u>2,117,584</u>	<u>2,251,895</u>

## Notes to the financial statements (continued)

### 16. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

The Company has taken advantage of the relief provided by AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities* and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 9 to 12.

#### (b) Equity instrument disclosures relating to key management personnel

##### (i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section B of the remuneration report on page 9.

##### (ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Bauxite Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below:

2012	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of Bauxite Resources Limited</b>							
Luke Atkins	3,000,000	-	-	(3,000,000)	-	-	-
Barry Carbon	-	-	-	-	-	-	-
Scott Donaldson	3,000,000	-	-	-	3,000,000	1,000,000	2,000,000
Ding Feng	-	-	-	-	-	-	-
Yan Jitai	-	-	-	-	-	-	-
Neil Lithgow	3,000,000	-	-	(3,000,000)	-	-	-
Robert Nash	750,000	-	-	(750,000)	-	-	-
David McSweeney	-	-	-	-	-	-	-
John Sibly	2,000,000	-	-	-	2,000,000	2,000,000	-
Meng Xiangsan	-	-	-	-	-	-	-
<b>Other key management personnel of the Company</b>							
Paul Fromson	530,000	-	-	(530,000)	-	-	-
Patrick Soh	-	-	-	-	-	-	-
Neil Martin	-	1,000,000	-	-	1,000,000	-	1,000,000
<b>2011</b>							
	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
<b>Directors of Bauxite Resources Limited</b>							
Luke Atkins	3,000,000	-	-	-	3,000,000	3,000,000	-
Barry Carbon	-	-	-	-	-	-	-
Scott Donaldson	-	3,000,000	-	-	3,000,000	-	3,000,000
Ding Feng	-	-	-	-	-	-	-
Yan Jitai	-	-	-	-	-	-	-
Neil Lithgow	3,000,000	-	-	-	3,000,000	3,000,000	-
Robert Nash	750,000	-	-	-	750,000	750,000	-
David McSweeney	6,000,000	-	(1,000,000)	(5,000,000)	-	-	-
John Sibly	-	2,000,000	-	-	2,000,000	2,000,000	-
Meng Xiangsan	-	-	-	-	-	-	-
<b>Other key management personnel of the Company</b>							
Paul Fromson	430,000	100,000	-	-	530,000	530,000	-
Patrick Soh	-	-	-	-	-	-	-
Neil Martin	-	-	-	-	-	-	-

## Notes to the financial statements (continued)

### 16. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

#### (iii) Share holdings

The numbers of shares in the Company held during the financial year by each director of Bauxite Resources Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

#### 2012

	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<b>Ordinary shares</b>				
<b>Directors of Bauxite Resources Limited</b>				
Luke Atkins	17,041,667	-	-	17,041,667
Barry Carbon	-	-	-	-
Scott Donaldson	358,600	-	250,000	608,600
Ding Feng	-	-	-	-
Yan Jitai	-	-	-	-
Neil Lithgow	19,366,666	-	-	19,366,666
Robert Nash	254,900	-	-	254,900
John Sibly	40,500	-	-	40,500
<b>Other key management personnel of the Company</b>				
Paul Fromson	-	-	-	-
Patrick Soh	-	-	-	-
Neil Martin	-	-	-	-

#### 2011

	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
<b>Ordinary shares</b>				
<b>Directors of Bauxite Resources Limited</b>				
Luke Atkins	17,041,667	-	-	17,041,667
Barry Carbon	-	-	-	-
Scott Donaldson	-	-	358,600	358,600
Ding Feng	-	-	-	-
Yan Jitai	-	-	-	-
Neil Lithgow	19,366,666	-	-	19,366,666
Robert Nash	254,900	-	-	254,900
David McSweeney	527,500	-	-	527,500
John Sibly	-	-	40,500	40,500
Daniel Tenardi	-	-	-	-
Meng Xiangsan	-	-	-	-
<b>Other key management personnel of the Company</b>				
Paul Fromson	218,000	-	(218,000)	-
Patrick Soh	-	-	-	-
Neil Martin	-	-	-	-

#### (c) Loans to key management personnel

There were no loans to key management personnel during the year.

#### (d) Other transactions with key management personnel

Robert Nash provided legal services to Bauxite Resources Limited during the year to the value of \$180,000 (2011: \$180,000). Barry Carbon provided environmental compliance and consultancy services to Bauxite Resources Limited in his capacity as a non-executive chairman during the year to a value of \$9,784 (2011: \$69,295). These amounts paid were on arms length commercial terms and are included as part of the respective compensation.

## Notes to the financial statements (continued)

**Consolidated Group**  
**2012**                      **2011**  
**\$**                              **\$**

### 17. Interests in jointly controlled entities

- (a) The Group has a 30% interest in the Bauxite Resource Joint Venture, whose principal activity is exploring the tenements owned by BRL in the Darling Range of Western Australia (as specifically set out in the agreement) to support the development of bauxite mining and the conduct of mining operations to supply bauxite to an alumina refinery under the terms of the Agreement.
- (b) The Group has a 10% interest in the Alumina Refinery Joint Venture, whose principal activity is to determine:
- i. the feasibility of planning, developing, constructing and operating an Alumina Refinery; and
  - ii. if feasible, planning developing, constructing, operating and maintaining the Alumina Refinery.
- In the event that a bankable feasibility study is completed and the participants agree to construct a refinery, 9% of the capital expenditure will be met by BRL, however, it will be entitled to 30% of the alumina production and pay 30% of the operating costs.
- (c) The Group has a 50% interest in Bauxite Alumina Joint Venture Pty Ltd, a jointly controlled entity. This entity acts as the Manager of the Joint Ventures in (a) and (b) above. The entity receives Management Fees for its services.

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation of the Joint Ventures above:

Current assets	1,486,022	1,863,008
Non-current assets	175,806	61,837
Current liabilities	306,871	364,735
Income	47,610	7,789
Expenses	3,967,143	886,818

- (d) The Group has entered into a Farm-in arrangement with HD Mining & Investment Pty Ltd (HDMI) to carry out exploration on tenements, and if warranted, to develop and exploit the tenements and carry out mining operations for the purpose of deriving production of Bauxite from them. HDMI has agreed to fund all costs to earn a 60% Participating Interest.

#### *Share of expenditure commitments of jointly controlled entities*

##### **Exploration commitments**

Payable within one year	1,153,644	1,011,300
Payable later than one year but not later than five years	3,203,896	3,833,400
	<b>4,357,540</b>	<b>4,844,700</b>

The commitments above refer to granted tenements as at 30 June 2012. The commitments of the joint ventures are disclosed in note 21.

## Notes to the financial statements (continued)

### 18. OPERATING SEGMENTS

#### Segment Information

##### Identification of reportable segments

The Group 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 Group is managed primarily on the basis of product category and service offerings as the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or services;
- the distribution method; and
- any external regulatory requirements

##### Types of products and services by segment

###### i. *Mining – Direct Shipping Ore*

In the 2010 year, The Company exported trial shipments to Chinese customers being three shipments of bauxite totalling approximately 128,000 tonnes.

###### ii. *Exploration*

The Company has continued to advance its business case of defining an economic bauxite resource necessary to support a direct shipping ore (DSO) operation. The Company is also exploring for refinery grade bauxite on its tenements in the south-west of Western Australia.

###### iii. *Bankable feasibility and other studies*

During the 2011 year, the Company entered into an agreement with Yankuang for an alumina refinery joint venture. As part of the joint venture, studies are underway for a Bankable Feasibility for an alumina refinery.

###### iv. *Administration & Other*

The administration area supports the above mining, exploration and bankable feasibility segments.

##### Basis of accounting for purposes of reporting by operating segments

###### a. **Accounting policies adopted**

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

###### b. **Inter-segment transactions**

An internally determined transfer price is set for all inter-segment sales. This price is reset quarterly and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

###### c. **Segment assets**

Where an asset is used across multiple segments, the asset is allocated to that segment that receives majority economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

## Notes to the financial statements (continued)

### 18. OPERATING SEGMENTS (continued)

#### d. Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

#### e. Unallocated items

The following items of revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Derivatives
- Net gains on disposal of available-for-sale investments
- Impairment of assets and other non-recurring items of revenue or expense
- Income tax expense
- Deferred tax assets and liabilities
- Current tax liabilities
- Other financial liabilities
- Intangible assets
- Discontinuing operations
- Retirement benefit obligations

### i. Segment performance

	Exploration	Operations	BFS & other studies	Administration & other	Total
	\$	\$	\$	\$	\$
<b>30 June 2012</b>					
<b>REVENUE</b>					
External sales	610,389	-	-	-	610,389
Inter-segment sales	-	-	-	-	-
Interest revenue	-	-	-	2,906,731	2,906,731
Other revenue	-	-	-	848,695	848,695
<b>Total segment revenue</b>	<b>610,389</b>	<b>-</b>	<b>-</b>	<b>3,755,426</b>	<b>4,365,815</b>
<b>Segment net profit before tax</b>	<b>(4,185,606)</b>	<b>(411,444)</b>	<b>(294,211)</b>	<b>(957,841)</b>	<b>(5,849,102)</b>
<i>Reconciliation of segment result to group net profit/loss before tax</i>					
i. Amounts not included in segment result but reviewed by Board					
— Depreciation and amortisation					(985,020)
— Income tax expense					(2,475)
Net profit before tax from continuing operations					<u>(6,836,597)</u>

## Notes to the financial statements (continued)

### 18. OPERATING SEGMENTS (continued)

#### i. Segment performance

	Exploration	Operations	BFS & other studies	Administration & other	Total
	\$	\$	\$	\$	\$
<b>30 June 2011</b>					
<b>REVENUE</b>					
External sales	10,721,213	-	-	-	10,721,213
Inter-segment sales	-	-	-	-	-
Interest revenue	-	-	-	2,853,759	2,853,759
Other revenue	-	-	-	539,576	539,576
<b>Total segment revenue</b>	<b>10,721,213</b>	<b>-</b>	<b>-</b>	<b>3,393,335</b>	<b>14,114,548</b>
<b>Segment net profit before tax</b>	<b>4,618,176</b>	<b>(529,181)</b>	<b>(2,243,112)</b>	<b>(4,062,497)</b>	<b>(2,216,614)</b>
<i>Reconciliation of segment result to group net profit/loss before tax</i>					
i. Amounts not included in segment result but reviewed by Board					
— Depreciation and amortisation					(1,316,777)
Net profit before tax from continuing operations					(3,533,391)

#### ii. Segment assets

	Exploration	Operations	BFS & other studies	Administration & Other	Total
	\$	\$	\$	\$	\$
<b>30 June 2012</b>					
<b>Segment assets</b>					
Segment assets	521,576	2,750,141	1,487,994	53,165,662	57,925,373
<b>Total group assets</b>					<b>57,925,373</b>
<b>30 June 2011</b>					
<b>Segment assets</b>					
Segment assets	1,683,854	2,328,657	2,072,799	59,603,733	65,689,043
<b>Total group assets</b>					<b>65,689,043</b>

#### iii. Segment liabilities

##### 30 June 2012

##### Segment liabilities

Segment Liabilities	422,640	2,547	17,700	272,174	715,061
<b>Total group liabilities</b>					<b>715,061</b>

## Notes to the financial statements (continued)

	Exploration	Operations	BFS & other studies	Administration & Other	Total
	\$	\$	\$	\$	\$
<b>30 June 2011</b>					
<b>Segment liabilities</b>					
Segment Liabilities	1,615,598	-	39,526	324,816	1,979,940
<b>Total group liabilities</b>					<u><u>1,979,940</u></u>

### iv. Major customers

The Group has 2 major parties that it received monies in relation to recoupment's for exploration costs (seen within the exploration segment above) 90% (2011: 85%) of this item was received from one external entity with 5% (2011: 15%) received from another entity. All other receipts during the year are not considered significant.

<b>Consolidated Group</b>	
<b>2012</b>	<b>2011</b>
\$	\$

### 19. REMUNERATION OF AUDITORS

#### (a) Audit services

Moore Stephens - audit and review of financial reports  
Total remuneration for audit services

<b>34,906</b>	28,681
<b>34,906</b>	28,681

#### (b) Non-audit services

Moore Stephens – Taxation services  
Total remuneration for other services

<b>32,323</b>	16,557
<b>32,323</b>	16,557

### 20. CONTINGENCIES

On 25 June 2010, Bauxite Resources Ltd was notified that a litigation funder proposed to fund claims that current or former shareholders may have against the Company, in relation to the Company's October 2009 share placement. Since then, the litigation funder has not communicated further with the Company, and no legal proceedings have been commenced. The Company will keep shareholders informed of any developments, including the commencement of any proceedings or any announcement that the litigation funder no longer proposes to involve itself in any action.

<b>Consolidated Group</b>	
<b>2012</b>	<b>2011</b>
\$	\$

### 21. COMMITMENTS

#### (a) Exploration commitments

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

within one year	<b>3,821,260</b>	1,550,115
later than one year but not later than five years	<b>10,371,874</b>	5,103,978
	<b>14,193,134</b>	6,654,093

The exploration commitments above reflect a commitment of 30% of total minimum annual expenditure requirements for tenements included in the Bauxite Resource Joint Venture Agreement. As legal title remains with BRL, it is the responsibility of the Company to meet these minimum expenditure requirements. Total commitments on tenements held by BRL total \$5,880,762 (2011: \$3,291,218) within one year and \$16,143,626 (2011: \$11,684,793) later than one year but not later than five years.

## Notes to the financial statements (continued)

### (b) Commercial property lease commitments

within one year	<b>673,784</b>	646,644
later than one year but not later than five years	<b>1,866,384</b>	2,481,784
Later than five years	-	-
Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities	<b>2,540,168</b>	3,128,428

The property lease is a non-cancellable lease with a six-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments to increase annually by set margins for 2 years followed by CPI increases. An option exists to renew the lease at the end of the six-year term for an additional term of three years. The lease allows for subletting of all lease areas.

### (c) Remuneration commitments

Amounts disclosed as remuneration commitments include commitments arising from the service contracts of key management personnel referred to in section C of the remuneration report on page 11 that are not recognised as liabilities and are not included in the key management personnel compensation.

within one year	<b>16,500</b>	189,576
later than one year but not later than five years	-	15,000
	<b>16,500</b>	204,576

## 22. RELATED PARTY TRANSACTIONS

	<b>Consolidated Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
<i>(a) Amounts received from related parties</i>		
Bauxite Alumina Joint Ventures Pty Ltd	<b>92,823</b>	129,684
Bauxite Resource Joint Venture	<b>23,962</b>	277,929
Alumina Refinery Joint Venture	<b>2,877</b>	254,713
	<b>119,662</b>	662,326
<i>(b) Amounts paid to related parties</i>		
Bauxite Alumina Joint Ventures Pty Ltd	<b>56,748</b>	-
Bauxite Resource Joint Venture	<b>314,979</b>	-
Alumina Refinery Joint Venture	<b>10,279</b>	76,762
	<b>382,006</b>	76,762
<i>(c) Trade and other receivables from related parties</i>		
Bauxite Alumina Joint Ventures Pty Ltd	<b>23,988</b>	80,316
Bauxite Resource Joint Venture	<b>4,161</b>	27,041
Alumina Refinery Joint Venture	-	15,680
	<b>28,149</b>	123,037
<i>(d) Trade and other payables to related parties</i>		
Bauxite Alumina Joint Ventures Pty Ltd	<b>6,114</b>	-
Bauxite Resource Joint Venture	<b>2,720</b>	23,297
	<b>8,834</b>	23,297

## Notes to the financial statements (continued)

### 23. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name	Country of Incorporation	Date of Incorporation	Class of Shares	Equity Holding <sup>(1)</sup>	
				2012 %	2011 %
Darling Range Pty Ltd	Australia	10 June 2008	Ordinary	100	100
Braeburn Resources Pty Ltd	Australia	24 July 2007	Ordinary	100	100
Darling Range South Pty Ltd	Australia	13 November 2008	Ordinary	100	100
Darling Range North Pty Ltd	Australia	23 March 2009	Ordinary	100	100
BRL Operations Pty Ltd	Australia	16 February 2009	Ordinary	100	100
BRL Landholdings Pty Ltd	Australia	16 February 2009	Ordinary	100	100
BRL Other Minerals Pty Ltd	Australia	25 March 2009	Ordinary	100	100
Bauxite Alumina Joint Ventures Pty Ltd	Australia	12 January 2011	Ordinary	50	50

(1) The proportion of ownership interest is equal to the proportion of voting power held.

### 24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There has not been any other event that has arisen since 30 June 2012 which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

Consolidated Group	
2012	2011
\$	\$

### 25. CASH FLOW STATEMENT

#### Reconciliation of net profit or loss after income tax to net cash outflow from operating activities

Net profit/(loss) for the year	(6,836,597)	(3,533,391)
<b>Non-cash Items</b>		
Depreciation and amortisation	985,019	1,316,777
Share-based payments expense	337,805	856,143
Mining improvements written down	-	-
Net (gain)/loss on disposal of property, plant and equipment	47,610	(84,805)
Impairment of property, plant and equipment	-	1,768,495
<b>Change in operating assets and liabilities, net of effects from purchase of controlled entities</b>		
(Increase)/ Decrease in trade and other receivables	1,248,144	(2,619,730)
Increase/ (Decrease) in trade and other payables	(1,254,446)	1,215,763
Net cash inflow/(outflow) from operating activities	(5,472,465)	(1,080,748)

## Notes to the financial statements (continued)

### 26. EARNINGS PER SHARE

#### (a) Reconciliation of earnings used in calculating earnings per share

Profit or loss attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share

(6,836,597)      (3,533,391)

**Number of**      **Number of**  
**shares**      **shares**

#### (b) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share

235,379,896      234,741,540

#### (c) Information on the classification of options

As the Company has made a loss for the year ended 30 June 2012, all options on issue are considered anti-dilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

### 27. SHARE-BASED PAYMENTS

#### Director Options and the Employees and Contractors Option Plan

The Company provides benefits to employees and contractors of the Company in the form of share-based payment transactions, whereby employees and contractors render services in exchange for options to acquire ordinary shares.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Set out below are summaries of the options granted:

	Consolidated Group			
	2012		2011	
	Number of	Weighted	Number of	Weighted
	options	average	options	average
		exercise price		exercise price
		cents		cents
Outstanding at the beginning of the year	18,195,000	42.9	21,183,332	46.2
Granted	1,000,000	20.0	8,400,000	36.0
Forfeited/cancelled/expired	(13,195,000)	20.4	(10,388,332)	38.0
Exercised	(0)	0	(1,000,000)	25.0
Outstanding at year-end	<u>6,000,000</u>	<u>36.7</u>	<u>18,195,000</u>	<u>42.9</u>
Exercisable at year-end	<u>3,000,000</u>	<u>40.0</u>	<u>7,445,000</u>	<u>44.1</u>

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 3.78 years (2011: 2.73 years), with exercise prices ranging from 20 to 40 cents.

The weighted average fair value of the options granted during the year was 2.28 cents (2011: 16.6 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

## Notes to the financial statements (continued)

### 27. SHARE-BASED PAYMENTS (Continued)

	<b>Consolidated Group</b>	
	<b>2012</b>	<b>2011</b>
Weighted average exercise price (cents)	<b>20.00</b>	35.95
Weighted average life of the option (years)	<b>4.85</b>	3.64
Weighted average underlying share price (cents)	<b>14.00</b>	24.25
Expected share price volatility	<b>74%</b>	94.91%
Weighted average risk free interest rate	<b>4.25%</b>	5.00%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

The life of the options is based on historical exercise patterns, which may not eventuate in the future.

	<b>2012</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>
Options issued to directors, employees and contractors	<b>337,805</b>	856,143

## Directors' Declaration

In the opinions of the directors' of Bauxite Resources Limited (the "Company"):

- (a) the financial statements and notes and the remuneration disclosures that are contained in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2012 and of their performance for the financial year ended on that date;
- (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;
- (c) the Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2012; and
- (d) note 1 confirms that the financial statements also comply with the International Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Barry Carbon AM  
Chairman

Perth, 25 September 2011

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## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BAUXITE RESOURCES LIMITED**

### **Report on the Financial Report**

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

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards (IFRS).

#### *Auditor's Responsibility*

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

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

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Bauxite Resources Limited, would be in the same terms if provided to the directors as at the date of this auditor's report.

*Auditor's Opinion*

In our opinion:

- a. the financial report of Bauxite Resources Limited is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

**Report on the Remuneration Report**

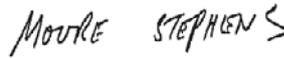
We have audited the remuneration report as included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to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

*Auditor's Opinion*

In our opinion the remuneration report of Bauxite Resources Limited for the year ended 30 June 2012 complies with s 300A of the *Corporations Act 2001*.



**Suan-Lee Tan**  
Partner



**Moore Stephens**  
Chartered Accountants

Signed at Perth this 25<sup>th</sup> day of September 2012.

\*\*\*ENDS\*\*\*

For further information visit [www.bauxiteresources.com.au](http://www.bauxiteresources.com.au) or contact:

**INVESTORS & MEDIA**

**Bauxite Resources Ltd**

Scott Donaldson

CEO

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