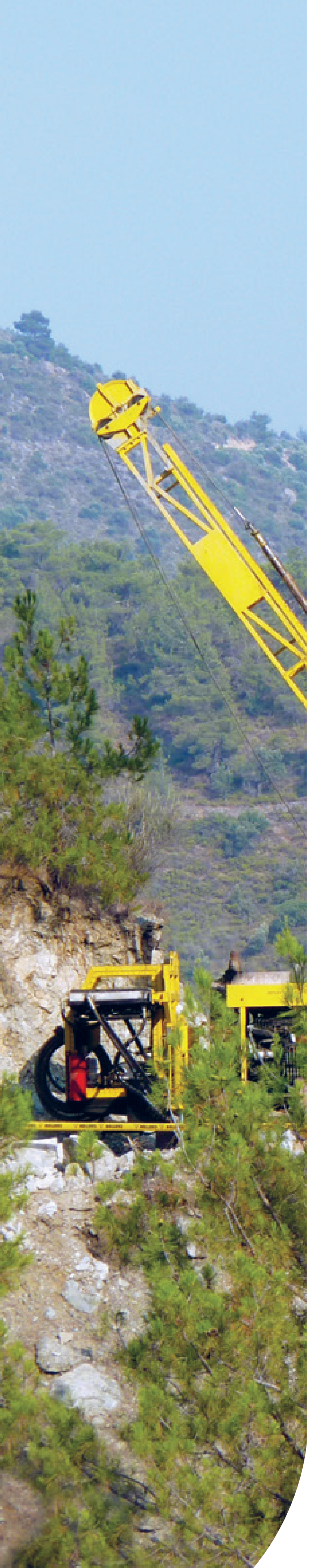
ACN 107 118 678

**BMG RESOURCES LIMITED**

# ANNUAL REPORT 2014



# CORPORATE DIRECTORY

**DIRECTORS**

Christopher Eager (Non-Executive Chairman)
Bruce McCracken (Managing Director)
Michael Green (Chief Operating Officer)
Malcolm Castle (Non-Executive Director)

**COMPANY SECRETARY**

Fleur Hudson

**REGISTERED AND PRINCIPAL OFFICE**

Level 14
191 St Georges Terrace
PERTH WA 6000
Telephone: (08) 9424 9390
Facsimile: (08) 9321 5932
Website: www.bmgl.com.au
Email: enquiry@bmgl.com.au

**AUDITORS**

BDO Audit (WA) Pty Ltd
38 Station Street
SUBIACO WA 6008

**SHARE REGISTRY**

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

**HOME EXCHANGE**

Australian Securities Exchange Ltd
Exchange Plaza
2 The Esplanade
PERTH WA 6000
**ASX Code: BMG**

**SOLICITORS**

Jackson McDonald
Level 25
140 St Georges Terrace
PERTH WA 6000

**BANKERS**

St George Bank
Level 3, Westralia Plaza
167 St Georges Terrace
PERTH WA 6000

# CONTENTS

# CHAIRMAN'S LETTER

Dear Shareholder

I am pleased to report that your Company, BMG Resources Limited (BMG) has made significant progress at the Treasure base and precious metals project in the Republic of Cyprus (Treasure) over the past 12 months. Additionally, a very recent exciting and significant development for the Company is our acquisition of an option over a 90% interest in the Harts Range Heavy Mineral Sands Project, located north east of Alice Springs in the Northern Territory of Australia (Harts Range). This unique opportunity provides the Company with a low-cost, low-risk entry into a well-advanced project with near-term production potential and will complement our highly prospective copper-gold-nickel exploration assets in Cyprus. It also facilitates the ability to diversify our asset base, both geographically and by commodity type.

A great deal has been achieved since BMG completed the acquisition of its 100% interest of Treasure in April 2013. The Company has completed its own geological review, re-assessed extensive volumes of existing geological information and historic mining data and completed over 3,500 meters of drilling. This work has confirmed the existence of a number of large mineralized systems containing base metals and gold and drilling has produced a number of ore grade intercepts. Your Company recently increased its holdings in Cyprus after the Government granted new licenses over an additional 10.2 square kilometres of highly prospective geology over the historic mining area of Kalavossos. BMG is now one of the largest holders of minerals exploration rights in Cyprus with approximately 120 square kilometres under license. The Company continues to assess a number of high priority geological targets at the Treasure project with the objective of defining a high-grade minable reserve.

On the 24th of September 2014, BMG announced the acquisition of a low cost, 12 month option over a 90% interest in the Harts Range project. Harts Range is a mature project with a JORC resource of 89.3 million tonnes of heavy mineral sands and a feasibility study completed in 2006. The Harts Range project provides BMG with a low cost, low risk entry into an advanced development project with strong potential for near term production and commercialization. The Company's strategy is to reassess and validate existing resource information and feasibility work and then look for a strategic off-take partner to invest at project level to develop the project.

I thank our Shareholders for their continued support in difficult equities market conditions. I am justifiably proud of the Company's achievements at the Treasure Project in Cyprus over the past 12 months and look forward to developments at Harts Range in the coming year.

Yours faithfully

**Christopher Eager** BE, MBA
Chairman
BMG Resources Limited

# OPERATIONAL REPORT

Following the repositioning of the Company during 2013 with the acquisition of the Treasure Copper and Gold Project in the Republic of Cyprus, our key focus has been on consolidating our activities in Cyprus and progressing our exploration programme with the ultimate aim of developing an economic resource base from our wholly owned project holdings.

We have made solid progress during the year with the identification of a series of high potential targets across our holdings, and the recent completion of an RC drilling programme at Pevkos (Black Pine Project area) and Mala (Vrechia Project area) to verify historic results and test the extension of known mineralisation.  While we await the return of assays for the Mala programme which intersected massive sulphides in all 13 holes, the Pevkos results confirmed a very high grade nickel-copper-cobalt-gold zone in the western lode adjacent to historic adit assays which returned similar results, which was very pleasing.

We also received the grant of our licence application over the historic Kalavassos mining area which is highly prospective for copper-gold throughout the area, and which we understand from historic records still contains over 2 million tonnes of massive sulphide material of unknown copper-zinc-gold-silver grade in the area of previous workings.  These areas, together with other prospective targets in the Kambia area, provide a solid foundation to continue our exploration programme during the coming financial year.

We also continued to actively identify and evaluate new resource opportunities for the Company with the potential to create value for Shareholders and complement our existing activities.  While no new project opportunities were secured during the year, we will remain open and active to securing additional value enhancing opportunities for the Company.

The following is an operational overview of our activities during the financial year.

## OPERATIONS

### Exploration Summary

During the year the Company continued exploring for copper-zinc-gold-silver and nickel-copper-cobalt-gold in the Republic of Cyprus.  Copper has been mined in Cyprus since before the Bronze Age and continues to be produced from the privately owned Skouriotissa Mine.  Historic mining exploited copper, gold, silver and sulphur from many of the exposed massive sulphide deposits hosted by volcanic units of the Troodos Ophiolite.  The largest mine was Mavrovouni where 17 million tonnes at 4.5% copper (765,000 tonnes contained copper) were extracted.

Recent work by BMG has also revealed the potential for very high-grade nickel-copper-cobalt-gold sulphide mineralisation within the ultramafic part of the Troodos Mountains.  BMG has 15 granted exploration and reconnaissance licences covering c.122 km$^2$ which are highly prospective for these deposits, including tenure over numerous abandoned copper mines and known prospects.

# OPERATIONAL REPORT

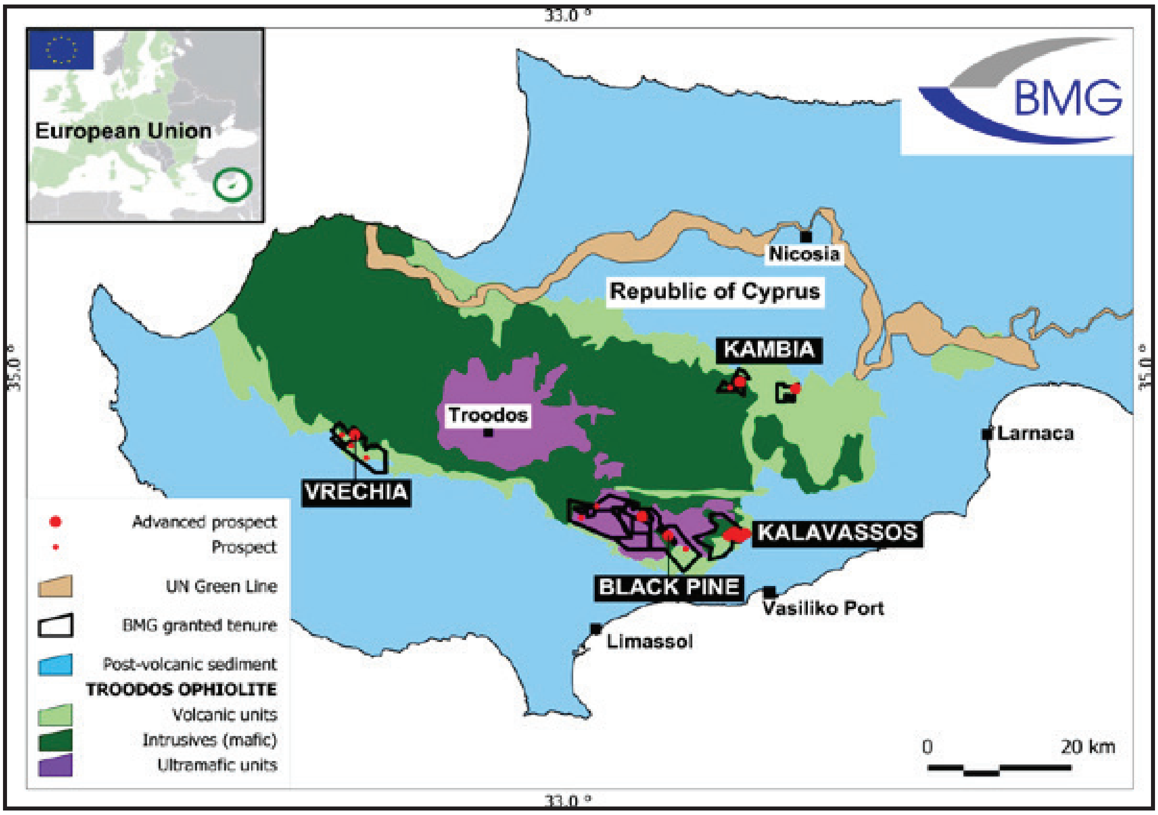



**Figure 1:** BMG's project areas and licences in Cyprus

BMG has four project areas in Cyprus:

- **BLACK PINE** – prospective for nickel-copper-cobalt-gold sulphides within ultramafic units adjacent to late dolerite intrusions (orthomagmatic style) with known prospects at Pevkos, Laxia, Petromoutti and Louvaras. The exploration model has highlighted >50 km strike within BMG's licences that is highly prospective for this style of mineralisation. Two drilling programmes have been completed by BMG at Pevkos and Laxia to test this mineralisation with both finding very high-grade, but relatively narrow, nickel-copper-cobalt-gold sulphide mineralisation. Black Pine also includes a small area prospective for Volcanic-Hosted Massive Sulphide (VHMS) deposits (copper-zinc-gold-silver). Total combined area of the eight (8) licences is about 79.3 km$^2$.

- **KALAVASSOS** – covers the entire historic Kalavassos Mining District where recorded production from thirteen (13) discrete copper-rich pyrite bodies was 4.62 million tonnes at >1.0 % copper. No significant work has been completed since the mines closed in the late 1970's. BMG has a single reconnaissance licence covering 10.2 km$^2$.

- **KAMBIA** - prospective for copper-zinc-gold-silver in VHMS deposits, including the abandoned North Mathiatas and Kokkinochoma (previously referred to as Kappedhes) copper mines. Total licence area has been reduced during the last 12 months to 8.7km$^2$.

- **VRECHIA** - prospective for copper-zinc-gold-silver in VHMS deposits including the abandoned Mala (previously referred to as Vrechia) pyrite mine. Thirteen (13) RC drill holes for 1,092 metres were drilled at Mala in 2014 (results pending). Total combined area of three licences is 23.6km$^2$.

# OPERATIONAL REPORT

## PROJECT BACKGROUND

The island of Cyprus is located in the eastern Mediterranean Sea along a major geological-tectonic boundary separating Africa and Eurasia. Mineral exploration is focussed on a geological feature known as the Troodos Ophiolite, which is a large fragment of sea-floor and associated underlying crust (collectively referred to as oceanic crust) that has been physically moved upwards to emerge as the island of Cyprus. The Troodos Ophiolite forms an anticlinal dome such that the deepest formed intrusive units (basal oceanic crust – ultramafic units) are now the highest central mountains and the seafloor volcanics and overlying sediments form an exposed skirt dipping towards the sea (Figure 1).

## ORTHOMAGMATIC DEPOSITS (NICKEL-COPPER-COBALT-GOLD)

Typical mafic and ultramafic magmas carry small amounts of nickel, copper, cobalt and Platinum-Group-Elements (PGEs), but generally these are dispersed in the final crystallised rocks and thus uneconomic. Under certain physical and chemical conditions, however, the nickel, copper, cobalt and PGEs can concentrate in sulphide phases which separate from the silicate magma to form discrete sulphide-rich melts and subsequently crystallise to form sulphide-rich bodies at various scales. The sulphide-rich bodies will have close spatial and temporal relationships with their mafic-ultramafic counterparts and may deposit in the adjacent countryrock, the related mafic-ultramafic rocks or both. Such systems form orthomagmatic deposits and include some of the largest known accumulations of nickel and copper sulphide (Voisey Bay, Canada; Sudbury, Canada; Jinchuan, China; Noril'sk, Siberia).

Drilling and other work by BMG at the Pevkos and Laxia Prospects in the Black Pine Project have uncovered strong evidence that the nickel-copper-cobalt-gold sulphide mineralisation is related to dolerite intrusions cutting the serpentinite countryrock and consistent with the orthomagmatic mineralisation model.

## VOLCANIC-HOSTED MASSIVE SULPHIDE (VHMS) DEPOSITS (COPPER-ZINC-GOLD-SILVER)

Modern seafloor volcanic centres are areas of intense hydrothermal activity which may form massive sulphide deposits (referred to as VHMS deposits). Globally, VHMS deposits may contain significant copper, zinc, lead, gold and silver accumulations. The volcanic belt of the Troodos Ophiolite has preserved many VHMS deposits, and, although the known grade and size of these deposits is quite variable, some Cyprus deposits have excellent grades and tonnages. The largest known of the Cyprus deposits is Mavrovouni, where 17 million tonnes was mined at 4.5% copper. The only currently active mine in Cyprus is the privately-owned Skouriotessa where c.5000 tonnes of copper is produced annually.

BMG has numerous licences covering areas very prospective for VHMS deposits including numerous abandoned mines at Kalavassos, Mala, North Mathiatas and Kokkinochoma. Recent drilling at Mala has revealed a large VHMS system.

## BLACK PINE PROJECT

The Black Pine Project comprises eight (8) granted exploration and reconnaissance licences for a total area of c.79.3km$^2$. The main focus at Black Pine is exploring for orthomagmatic nickel-copper-cobalt-gold sulphide deposits. There are four (4) main prospects (Laxia, Pevkos, Petromoutti, Louvaras) within the Black Pine area where such mineralisation is known. The exploration model, however, highlights >50 km of highly prospective dolerite contacts within BMG's licences where exploration is continuing. BMG has focussed most of its recent work at the Pevkos Prospect where 911 metres of RC drilling was completed in 2014. The Black Pine project also includes some areas prospective for VHMS deposits (copper-zinc-gold-silver), including the Mazokambos Prospect.

# OPERATIONAL REPORT

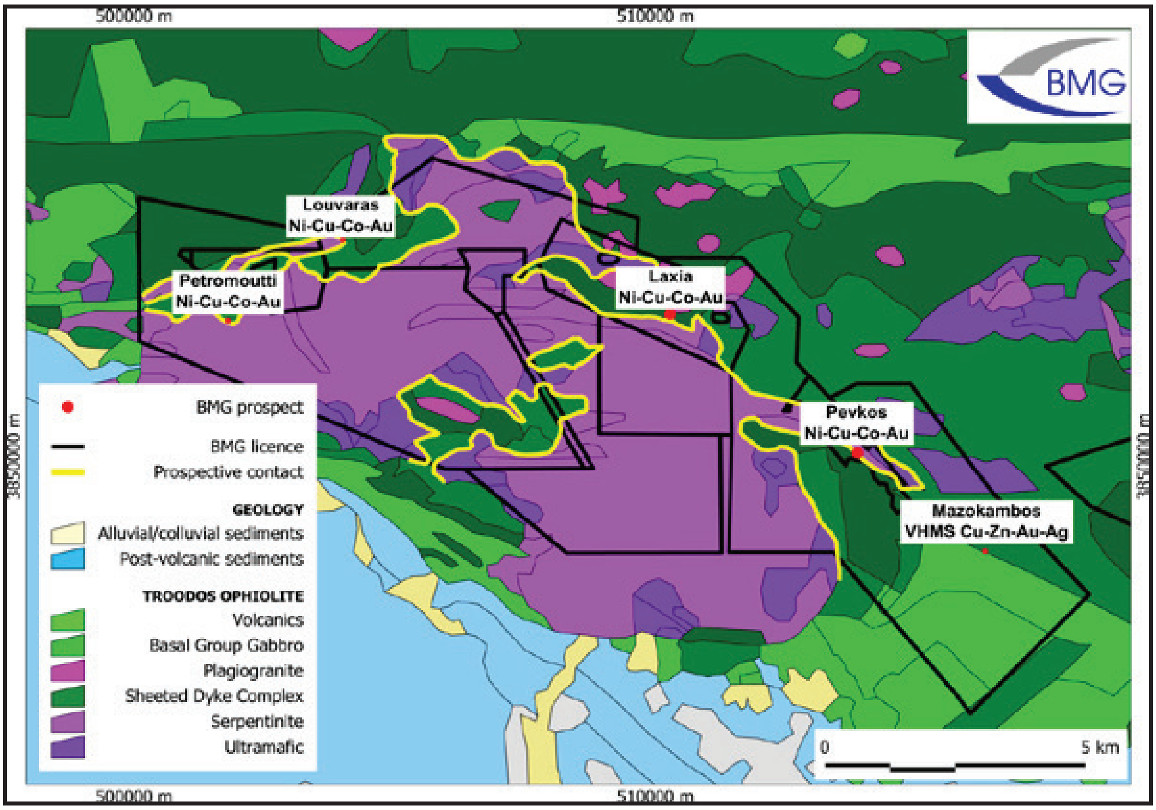



**Figure 2:** Black Pine Project area showing BMG's tenure, the main prospects and the highly prospective dolerite contact

## PEVKOS PROSPECT

The Pevkos Prospect lies within an ultramafic-serpentinite complex adjacent to a large mafic (predominantly dolerite) intrusive complex and comprises two discrete areas about 250 metres apart where massive nickel-copper-cobalt-rich sulphide mineralisation (gold was not assayed in the historic work) was discovered in the 1950's. Recent assays of sulphide material found at the surface or in waste dumps returned very high-grade nickel-copper-cobalt-gold.

In 2014, a five (5) hole RC drilling programme was completed at Pevkos by BMG. Three (3) drill holes targeted a strong Transient-ElectroMagnetics (TEM) conductor which modelled as a >300 metre down-dip extension of the exposed Eastern Lode. Two (2) drill holes targeted the Western Lode where historic drilling and tunnels intersected high-grade sulphide mineralisation. All drill holes intersected sulphide-rich zones consistent with the strike and down-dip continuity of the exposed mineralised zones and other narrow sulphide-rich zones.

# OPERATIONAL REPORT

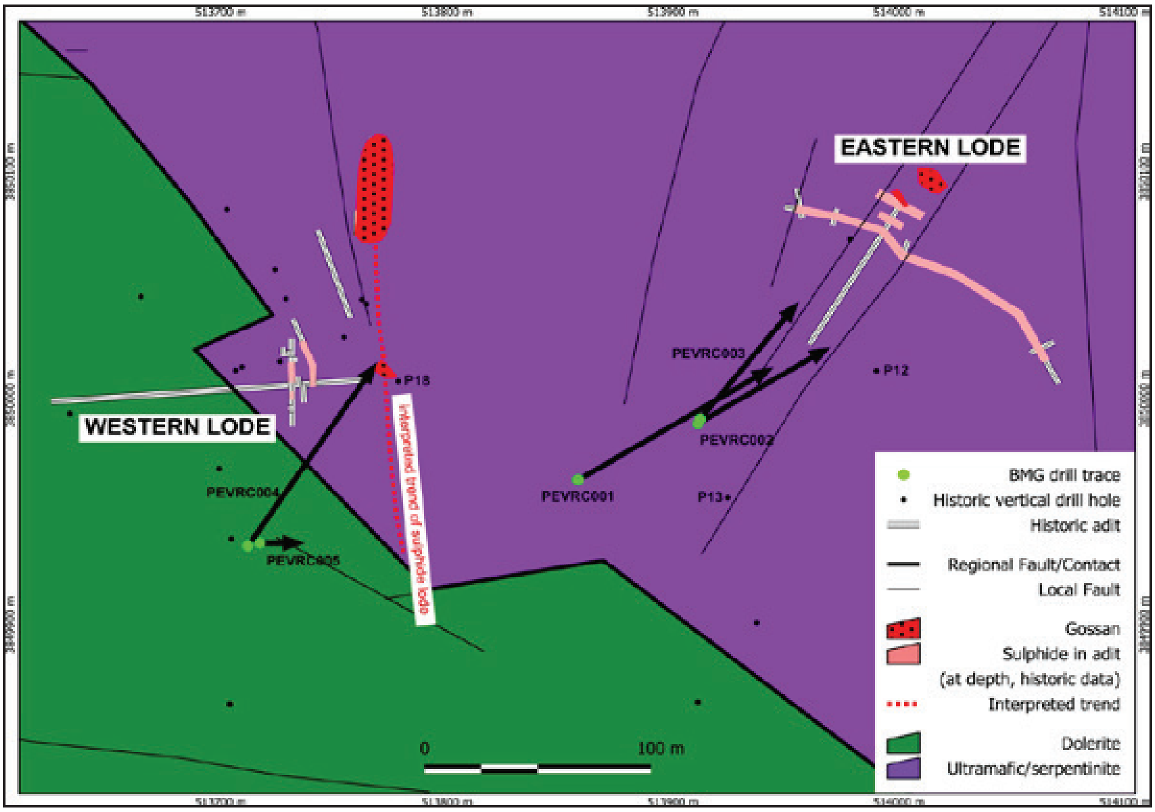



**Figure 3:** Location of drill holes at Pevkos Prospect with revised geological map

| Hole ID | East | North | Dip | Azimuth | Depth |
|---|---|---|---|---|---|
| PEVRC001 | 513858 | 3849964 | 60° | 060° | 199 |
| PEVRC002 | 513911 | 3849989 | 70° | 060° | 199 |
| PEVRC003 | 513912 | 3849991 | 70° | 040° | 199 |
| PEVRC004 | 513712 | 3849935 | 60° | 035° | 199 |
| PEVRC005 | 513707 | 3849936 | 80° | 090° | 115 |

**Table 1:** Drill hole information. Co-ordinates in WGS84, Zone 36N and collected with handheld GPS. Holes not surveyed.

The best result from BMG's 2014 drilling was from PEVRC004 which targeted the Western Lode beneath the exposed gossan and near the old workings. It returned two metres at 3.03% nickel, 0.33% copper, 0.16% cobalt and 3.00g/t gold from 94 metres. The sulphide material is black, fine-grained and crumbly. A separate, small sub-sample of sulphide from 95 to 96 metres returned 9.45% nickel, 0.38% copper, 0.48% cobalt and 7.12g/t gold. These high-grade results confirm the historic results from adit TW3C, where an average of 3.92% nickel, 1.15% copper and 0.606% cobalt (gold not tested) was reported for 14 metres of an 18 metre strike (Table 3; Intervening Intervals not Reported). The interval in PEVRC004 extends this high-grade zone about 30 metres along strike south and 40 metres down-dip. The crumbly sulphides may have posed recovery problems for the historic drilling and explain the inconsistent historic results previously obtained around the Western Lode.

# OPERATIONAL REPORT

Surface samples of gossan around the Western Lode have also returned high-grade nickel-copper-cobalt-gold (Table 4), which may indicate that the high-grade zone extends at least a further 100 metres north. The best gossan sample was collected from near the adit entrance and returned 1.16% nickel, 0.74% copper, 0.083% cobalt and 9.93g/t gold.

PEVRC005 was drilled about 80 metres south of the Western Lode adits and although it intersected numerous sulphide-rich zones no significant nickel-copper-cobalt-gold was detected. It does not appear that PEVRC005 effectively tested the southern area. Very strong sulphide mineralisation was found at the contact between the dolerite and ultramafic but was barren. One sulphide-rich interval within the dolerite (60-61 metres), however, returned 0.32% copper, suggesting that the dolerite units may also be prospective.

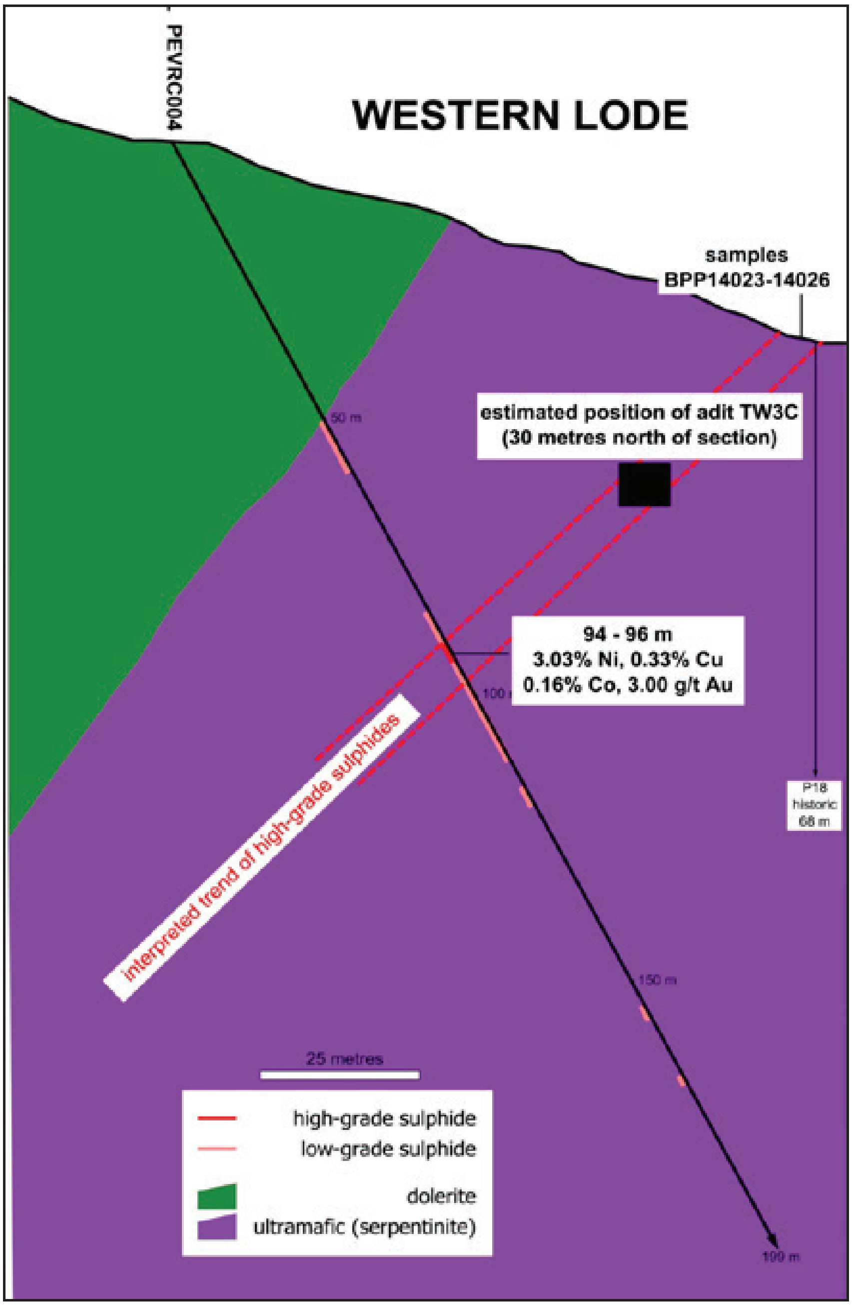



**Figure 4:** Section looking west showing drilling results of PEVRC004, Western Lode

# OPERATIONAL REPORT

| Hole ID | From | To | Nickel (%) | Copper (%) | Cobalt (%) | Gold (g/t) |
|---|---|---|---|---|---|---|
| PEVRC002 | 146 | 147 | 0.212 | 0.184 | 0.035 | 0.61 |
| PEVRC002 | 147 | 148 | 0.524 | 3.45 | 0.151 | 2.21 |
| PEVRC002* | 147 | 148 | 0.556 | 2.84 | 0.149 | 2.40 |
| PEVRC002 | 148 | 149 | 0.255 | 0.128 | 0.030 | 0.12 |
| PEVRC003 | 144 | 145 | 0.818 | 0.011 | 0.023 | 0.12 |
| PEVRC004 | 94 | 95 | 3.59 | 0.603 | 0.199 | 4.08 |
| PEVRC004* | 94 | 95 | 3.78 | 0.614 | 0.208 | 4.69 |
| PEVRC004† | 94 | 95 | 9.45 | 0.384 | 0.481 | 7.12 |
| PEVRC004 | 95 | 96 | 2.37 | 0.058 | 0.110 | 1.61 |
| PEVRC004 | 96 | 97 | 0.292 | 0.007 | 0.015 | 0.05 |
| PEVRC004 | 97 | 98 | 0.263 | 0.006 | 0.012 | 0.06 |
| PEVRC005 | 60 | 61 | 0.004 | 0.32 | 0.005 | 0.01 |

**Table 2:** Selected results from recent drilling programme at Pevkos Prospect; * field duplicate, † selected sub-sample

| From | To | Interval | Nickel (%) | Copper (%) | Cobalt (%) |
|---|---|---|---|---|---|
| 7 | 9 | 2 | 3.17 | 0.62 | 0.13 |
| 9 | 10 | 1 | 0.65 | 2.60 | 0.07 |
| 11 | 13 | 2 | 3.71 | 0.98 | 0.95 |
| 13 | 15 | 2 | 3.23 | 0.25 | 0.32 |
| 15 | 17 | 2 | 4.68 | 0.64 | 0.34 |
| 17 | 18 | 1 | 7.50 | 1.62 | 0.62 |
| 18 | 19 | 1 | 3.00 | 3.46 | 3.39 |
| 20 | 21 | 1 | 1.23 | 1.10 | 0.19 |
| 22 | 23 | 1 | 11.56 | 1.26 | 0.64 |
| 24 | 25 | 1 | 1.32 | 1.08 | 0.10 |

**Table 3:** Historic assays from adit TW3C (Western Lode). Not all metres in total interval were recorded.

# OPERATIONAL REPORT

| Sample_ID | East | North | Nickel (%) | Copper (%) | Cobalt (%) | Gold (g/t) |
|---|---|---|---|---|---|---|
| BPP14012 | 513771 | 3850073 | 0.122 | 1.29 | 0.019 | 4.22 |
| BPP14013 | 513760 | 3850073 | 0.679 | 0.784 | 0.046 | 0.24 |
| BPP14014A | 513769 | 3850091 | 0.715 | 0.009 | 0.067 | 0.03 |
| BPP14014B | 513769 | 3850091 | 0.471 | 0.156 | 0.045 | 0.02 |
| BPP14015 | 513775 | 3850105 | 0.805 | 0.901 | 0.060 | 0.07 |
| BPP14016 | 513767 | 3850112 | 0.804 | 0.724 | 0.058 | 0.33 |
| BPP14023 | 513777 | 3850010 | 0.450 | 0.796 | 0.035 | 0.10 |
| BPP14024A | 513773 | 3850010 | 0.397 | 0.337 | 0.035 | 0.14 |
| BPP14024B | 513773 | 3850010 | 0.376 | 0.227 | 0.018 | 1.07 |
| BPP14025 | 513771 | 3850016 | 1.165 | 0.745 | 0.083 | 9.93 |
| BPP14026 | 513769 | 3850013 | 0.848 | 0.201 | 0.049 | 0.06 |

**Table 4:** Surface samples from Western Lode area. Co-ordinates in WGS84, Zone 36N; collected with handheld GPS.

At the Eastern Lode, the first two drill holes were targeted at a very strong TEM conductor which was interpreted to be the strike and down-dip extension of the nickel-copper-cobalt-gold-rich sulphide material exposed near the historic Eastern Lode workings. Both drill holes intersected a broad alteration zone containing variable amounts of sulphide, but included sub-zones with significant sulphide content. PEVRC002 returned the best result with one metre at 0.54% nickel, 3.14% copper, 0.15% cobalt and 2.30g/t gold from 147 metres.

The sulphide zones in PEVRC001 contained no significant nickel-copper-cobalt-gold. Nevertheless, the main sulphide zone appears to explain the presence of the TEM anomaly and correlates with the down-dip extension of the exposed sulphide mineralisation.

A third hole was drilled at the Eastern Lode to intersect the sulphide zone identified in PEVRC002, but approximately 30 metres further north and directly beneath the exposed gossan. This hole also intersected a broad sulphide-bearing alteration zone with a sub-zone containing significant sulphide mineralisation.

The best interval in PEVRC003 returned 1 metre containing 0.818% nickel, 0.011% copper, 0.023% cobalt and 0.12g/t gold from 144 metres.

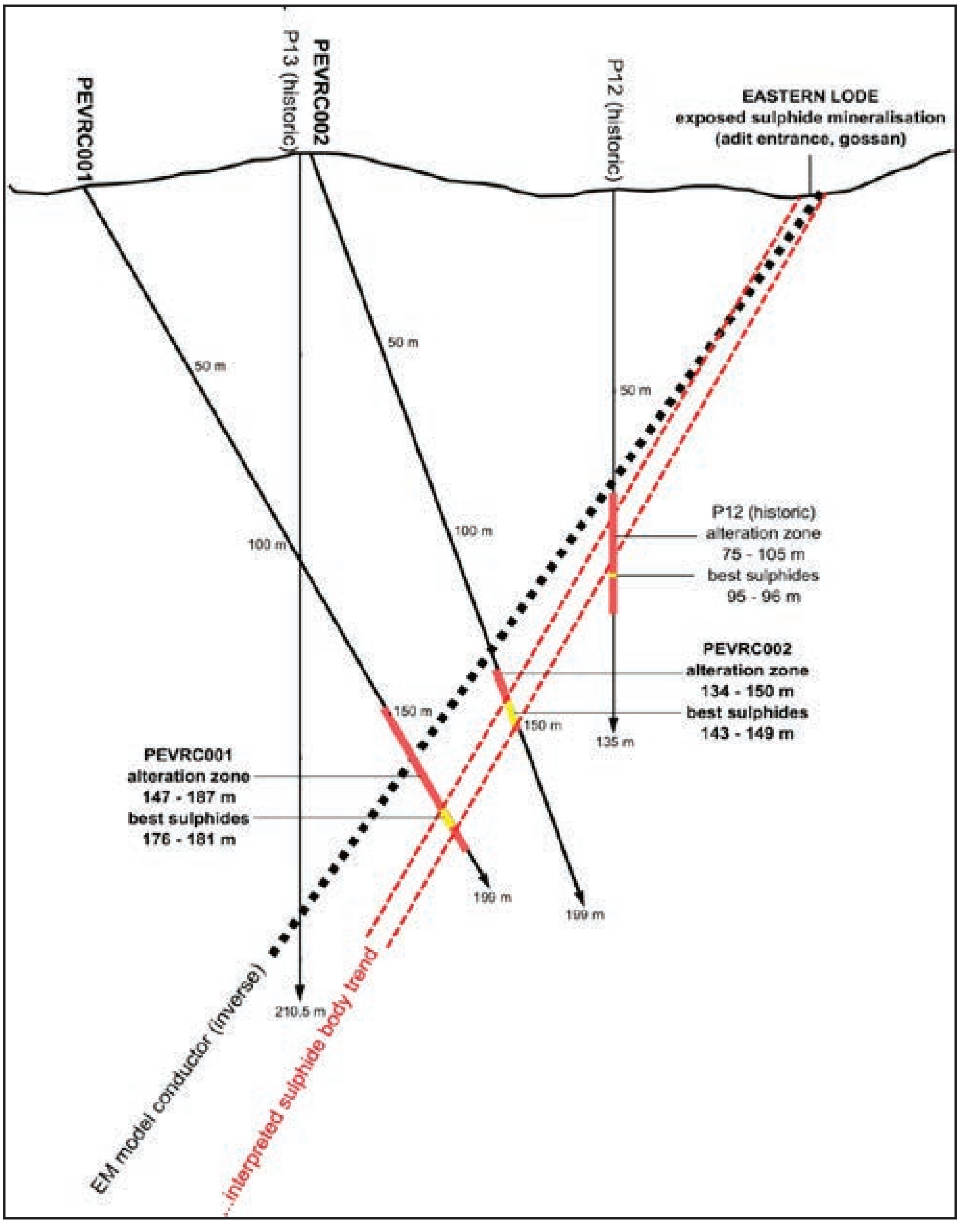



**Figure 5:** Section of Eastern Lode at Pevkos showing main sulphide-rich zone intersected in drilling and TEM forward model prediction

## LAXIA PROSPECT

The Laxia Prospect is approximately 4.5 km northwest of Pevkos and is also within an ultramafic-serpentinite complex adjacent to a large mafic (predominantly dolerite) intrusive complex. The prospect comprises 1.4km of semi-continuously exposed gossan from which samples returned high-grade copper, cobalt, nickel and gold. Historic work at the Laxia Prospect included exploration tunnels (adits) and drill holes.

In 2013, BMG completed thirteen (13) diamond drill holes for a total of 1,567 metres at the Laxia Prospect. Each hole intersected a 20 to 40 metre wide mineralised zone and confirms that the exposed mineralisation extends to depth.

The mineralised zone is along the contact between strongly fractured (shattered) and massive serpentinite and contains massive to semi-massive, stringer, vein and disseminated sulphides, predominantly pyrrhotite.

# OPERATIONAL REPORT

The best results from BMG's 2013 drilling programme at Laxia were:

- 4.25m at 2.53% copper from 30.75m (LMD002),
- 4.18m at 1.72% copper, 1.18g/t gold and 0.15% cobalt from 33.1m (LMD005),
- 3.58m at 1.74% copper, 0.28g/t gold and 0.05% cobalt from 112.9m (LMD007),
- 2.25m at 4.15% copper, 0.21g/t gold and 0.10% cobalt from 153.05m,
    - including 0.45m @ 18.0% copper, 0.70g/t gold and 0.37% cobalt (LMD008),
- 2.61m at 1.70% copper, 4.2g/t gold and 0.11% cobalt from 188m (LMD011), and
- 7.66m at 0.66% copper from 184.51m (LMD012).

In general, the assays show that each hole has multiple high-grade copper zones within a broader pyrrhotite-rich zone. The high-grade zones broadly correlate between holes and confirm that the main geometry of the copper-rich sulphide zones is tabular and sub-parallel to the gross mineralised zone. The dispersion of copper around the highest grade zones is variable. In some holes, very low-grade zones, some of which are post-mineralisation faults and breccias, split the mineralisation.

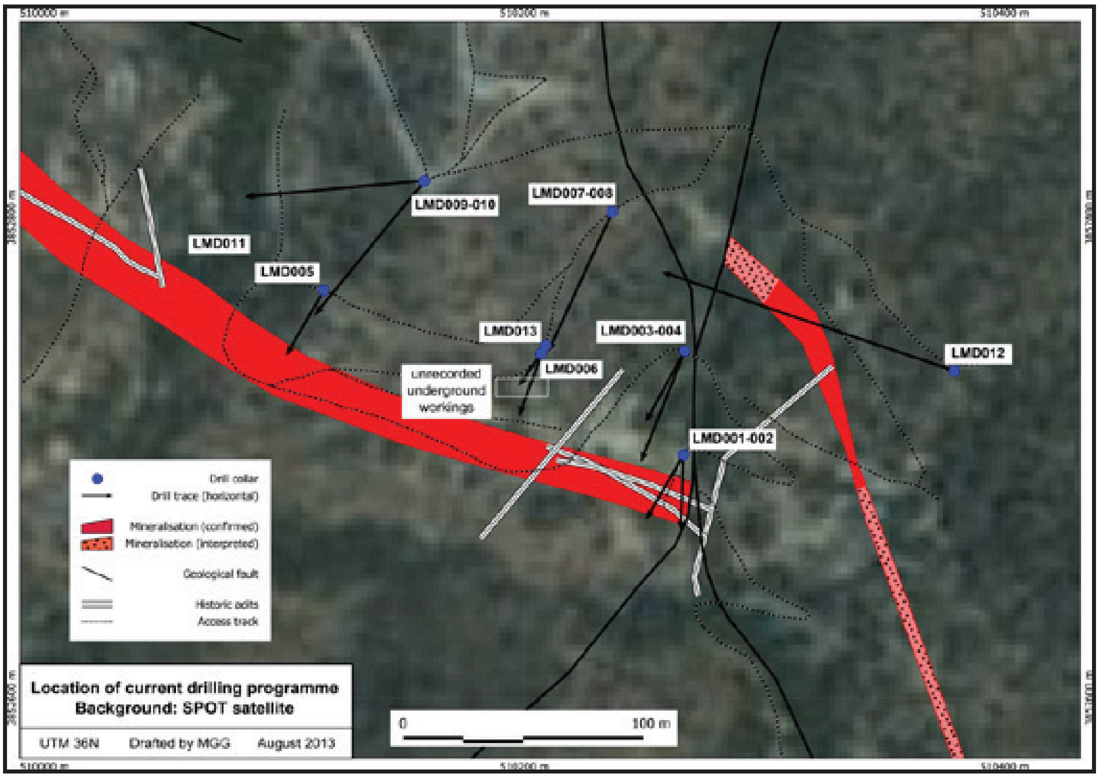



**Figure 6:** Location of BMG's 2013 drill holes at Laxia Prospect

# OPERATIONAL REPORT

| Hole ID | Width (m) | Copper % | Gold g/t | Cobalt % | From (m) |
|---|---|---|---|---|---|
| LMD001 | 0.84 | 3.89 | | 0.21 | 29.64 |
| | 2.10 | 0.42 | | | 34.00 |
| LMD002 | 2.27 | 0.45 | | | 12.75 |
| | 1.20 | 0.44 | | | 18.49 |
| | 4.25 | 2.53 | | | 30.75 |
| includes | 0.38 | 13.05 | 0.62 | 0.36 | 31.92 |
| includes | 0.35 | 10.55 | 0.28 | 0.21 | 32.88 |
| LMD003 | 8.18 | 0.58 | 0.13 | 0.04 | 46.82 |
| LMD005 | 4.18 | 1.72 | 1.18 | 0.15 | 33.1 |
| LMD006 | 0.44 | 2.03 | 1.35 | 0.05 | 39.3 |
| | | plus | large void from 53.5m, probably unrecorded historic workings | | |
| LMD007 | 3.58 | 1.74 | 0.28 | 0.05 | 112.91 |
| LMD008 | 2.25 | 4.15 | 0.21 | 0.10 | 153.05 |
| includes | 0.45 | 18.0 | 0.70 | 0.37 | 154.05 |
| LMD009 | 4.65 | 0.33 | 0.69 | 0.02 | 94.86 |
| LMD010 | 1.74 | 0.81 | 0.34 | 0.12 | 138.76 |
| LMD011 | 2.61 | 1.70 | 4.2 | 0.11 | 118.00 |
| LMD012 | 7.66 | 0.66 | | | |
| LMD013 | | | large void from 52.0m, probably unrecorded historic workings | | |

**Table 5:** Summary of all significant intersections at Laxia Prospect

# OPERATIONAL REPORT

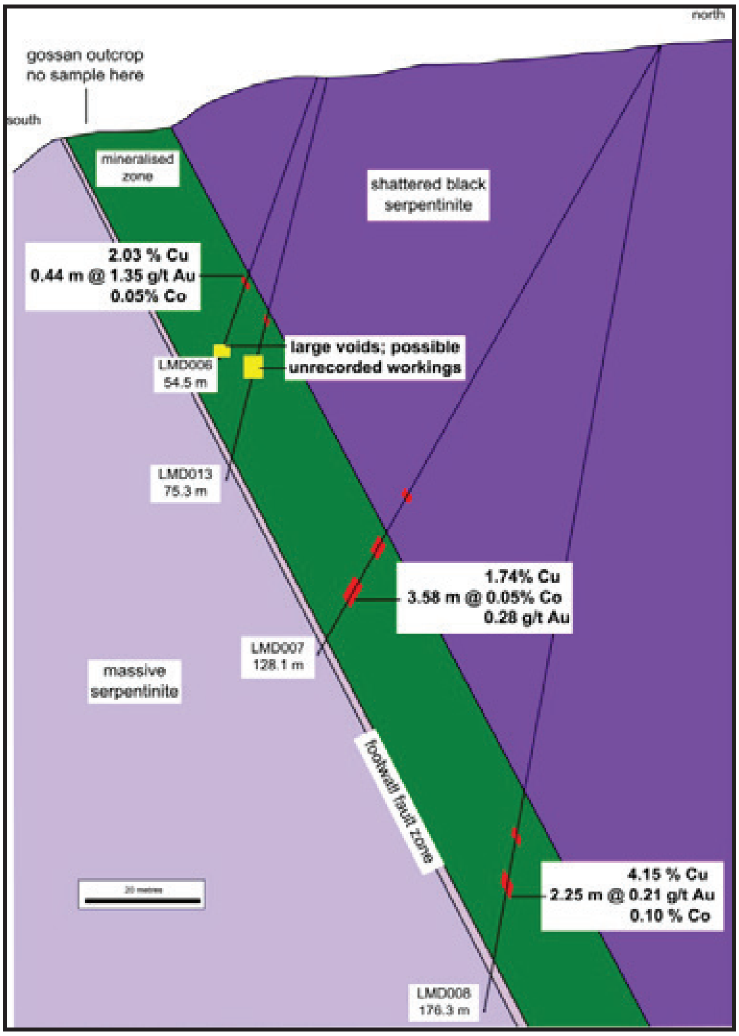



**Figure 7:** Easternmost cross-section at the Laxia Prospect

## KALAVASSOS PROJECT

The Kalavassos Project comprises one granted reconnaissance licence of 10.2km$^2$ covering the entire Kalavassos Mineral Field in the southern part of the Troodos Mountains. Thirteen (13) copper-rich pyrite bodies were discovered and mined at Kalavassos from 1937 to 1977. Total production is recorded as 4,680,900 tonnes at between 0.5 and 3.0% copper, including 4.62 million tonnes at >1.0% copper. Gold and silver assays from the pyrite bodies are not known, but 61,450 tonnes of oxide material was mined between 1937 and 1943 to produce 16,490 ounces of gold (8.3g/t gold) and 34,740 ounces silver (17.6g/t silver). Official records also refer to a combined total of 2.28 million tonnes of massive sulphide being left in some of the mines at unspecified Copper grade.

The copper-rich sulphide mineralisation lies within altered basalt units and the deposits are interpreted to be VHMS deposits. An extensive archive of maps and other related material is currently being collated and verified to identify priority areas for future exploration.

# OPERATIONAL REPORT

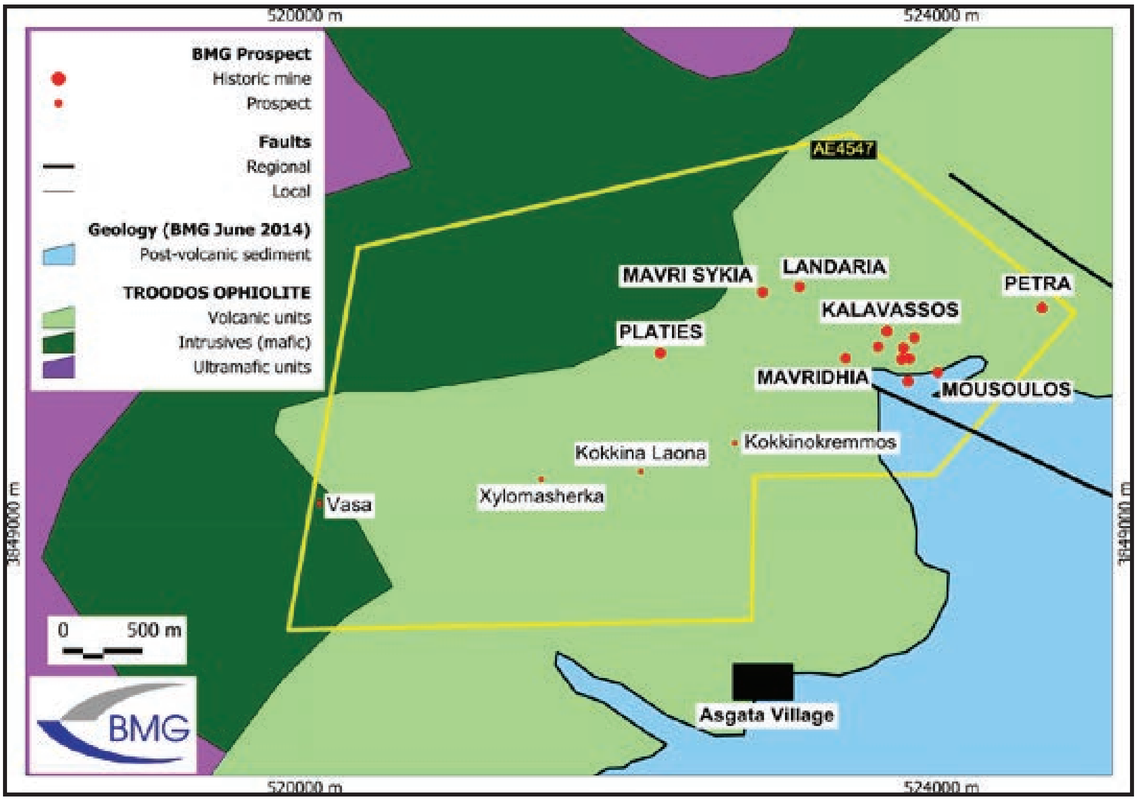



**Figure 8:** 1:250,000-scale published geology map of Kalavassos Mining Centre with location of abandoned mines

| Mine | Years of operation | Mining method | Ore mined (tonnes) | Copper % | Sulphur % | Residual (tonnes) |
|---|---|---|---|---|---|---|
| Kalavassos | 1937-1956 | Underground | 1,910,000 | 1.0-2.5 | 33 | |
| Mousoulos | 1964-1976 | Underground | 1,660,000 | 1.0-2.5 | 40 | 940,000 (mainly sulphur ore) |
| Mavridhia | 1971-1977 | Open cut | 400,000 | 1.5 | 30-40 | 200,000 |
| Petra | 1953-1957 | Underground | 226,000 | 1.0-2.5 | 25-46 | 300,000 |
| Landaria | 1963-1964 | Underground | 65,000 | 0.5 | 35-46 | 250,000 |
| Mavri Sykia1 | 1954-1962 | Underground | 269,000 | 1.5-2.5 | 30-46 | |
| Mavri Sykia2 | 1970-1977 | Open cut | 107,000 | 1.5-2.5 | 30-46 | 590,000 |
| Platies | 1955-1958 | Glory hole | 43,900 | 2.5-3.0 | 46 | |

**Table 6:** Published production and residual figures for Kalavassos copper deposits (Cyprus Geological Survey Department)

# OPERATIONAL REPORT

## KAMBIA PROJECT

The Kambia Project comprises three (3) granted exploration licences covering 8.7km$^2$ along the northeastern flank of the Troodos Mountains. The area is considered prospective for VHMS deposits and there are numerous abandoned copper mines in the greater area. Historic copper grades from some of these deposits are reported, but generally gold, silver and zinc grades were not. Gold and silver contents, however, can be significant as demonstrated by reports that between 1936 and 1938, 26,691 ounces of gold and 154,719 ounces of silver were recovered from near-surface mining at North Mathiatas and South Mathiatas combined. In general, it does not appear that gold and silver have been tested in the sulphide-rich parts of the VHMS systems. BMG's licences cover the abandoned Kokkinochoma (formerly referred to as Kappedhes) and North Mathiatas mines and the Pitharachoma Prospect.

In 2014, BMG completed an extensive evaluation of the Kambia Project area such that a number of licences were relinquished. Work is now focussed on developing high-quality drill targets at North Mathiatas, Kokkinochoma and Pitharachoma. This will be achieved by more detailed geological mapping and detailed geochemical work with the portable XRF analyser.

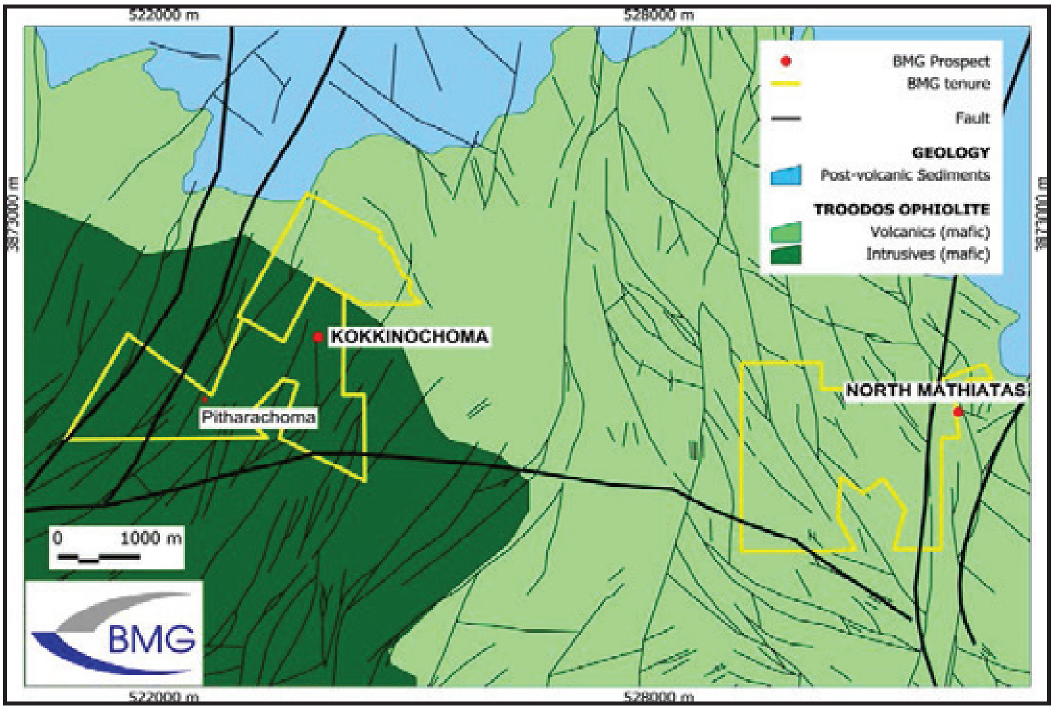



**Figure 9:** BMG's tenure at the Kambia Project

| Area | Ore produced (tonnes) | Cu Grade (%) |
|---|---|---|
| Mathiatas | 2,100,000 | 0.2 |
| Sha | 334,179 | 0.5-1.2 |
| Kokkinochoma (Kappedhes) | 54,666 | not quoted |
| Kambia (Kokkinonero) | 658, 354 | not quoted |
| Peristerka-Pytharochoma | 557,540 | 1.5 |

**Table 7:** Published production figures for Copper deposits in greater Kambia area (Cyprus Geological Survey Department)

# OPERATIONAL REPORT

## VRECHIA PROJECT

The Vrechia Project comprises three (3) granted exploration and reconnaissance licences covering approximately 23.6km$^2$ along the southern flank of the Troodos Mountains. The area is considered prospective for VHMS deposits and includes the small abandoned Mala (formerly referred to as Vrechia) open-cut mine. A number of other prospects have been identified in the project area where there are significant gossan outcrops or slag heaps remaining from ancient copper smelting.

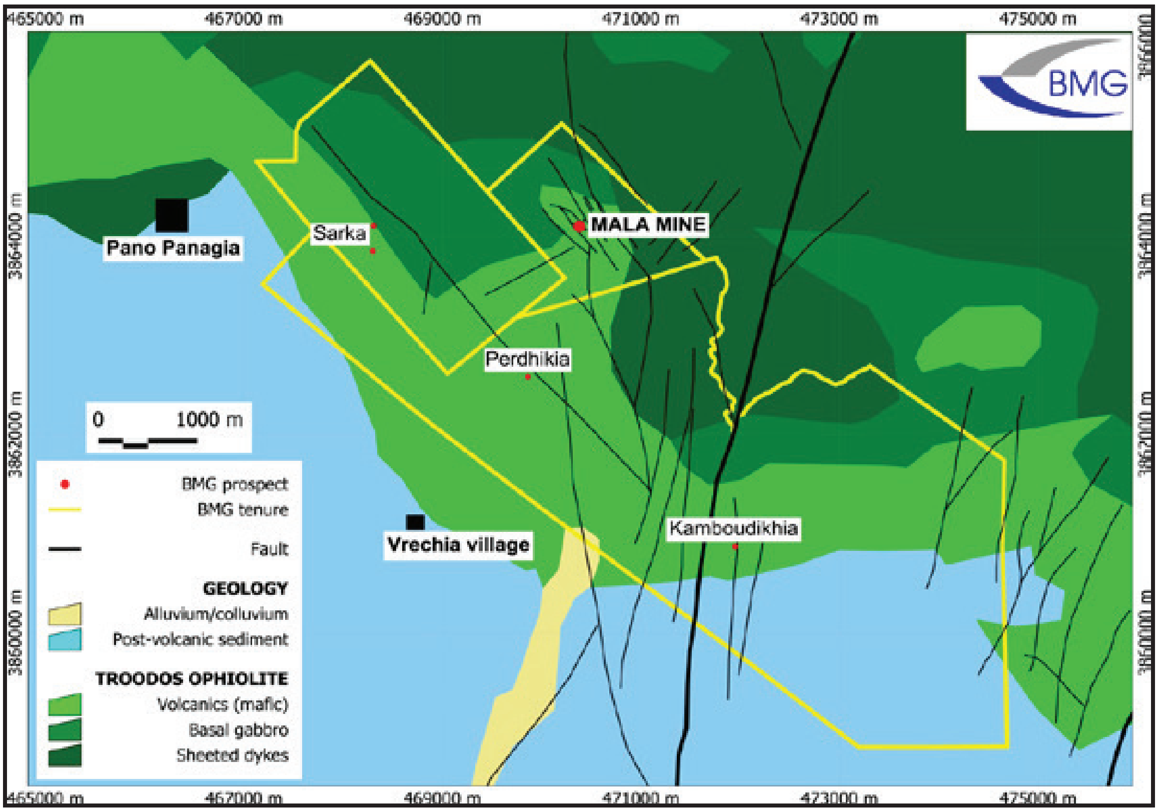



**Figure 10:** BMG's tenure at the Vrechia Project

The Mala Prospect comprises a modest open-cut mine where pyrite was excavated in the 1980's within a large area of gossan outcrops. The Mala open-pit is approximately 100m x 100m wide and is only about 30 metres deep, though the pit floor is flooded so it is possibly deeper. The excavation has revealed a massive pyrite body beneath pillow basalts with the entire package tilted about 20° southwest due to uplift of the Troodos Mountains. Prior to mining at Mala, three separate drilling programmes identified widespread copper-zinc mineralisation, including a high-grade zone (maximum copper >2 %) delineated in eight (8) adjacent drill holes. Reconciling the historic work shows that a significant amount of the high-grade copper-zinc was not removed by mining and remains *in situ* to the north of the mine. In addition, none of the historic drilling was assayed for gold or silver, but subsequent surface work has suggested that they are widely present.

In 2014, BMG completed thirteen (13) RC drill holes at Mala for a total of 1,092 metres. The programme was designed to confirm high-grade copper-zinc results from historic drilling, to determine whether gold-silver are present and determine whether the known high-grade mineralisation extends along strike. All holes intersected pyrite-rich sulphide zones related to the VHMS system. The drilling has also provided a more complete and robust geological dataset for the prospect that will assist in targeting future exploration. A widespread selection of samples has been submitted for assay and results are pending.

# OPERATIONAL REPORT

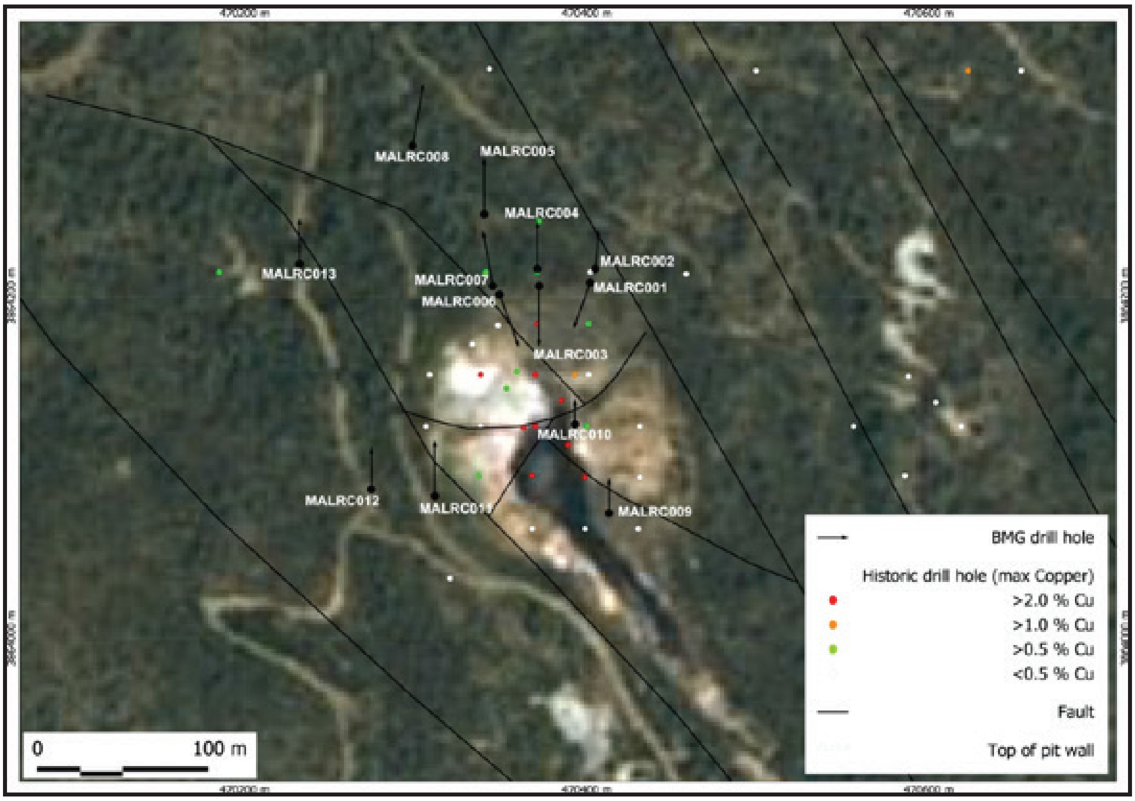



**Figure 11:** Location of drill holes at Mala Prospect with SPOT satellite image as background

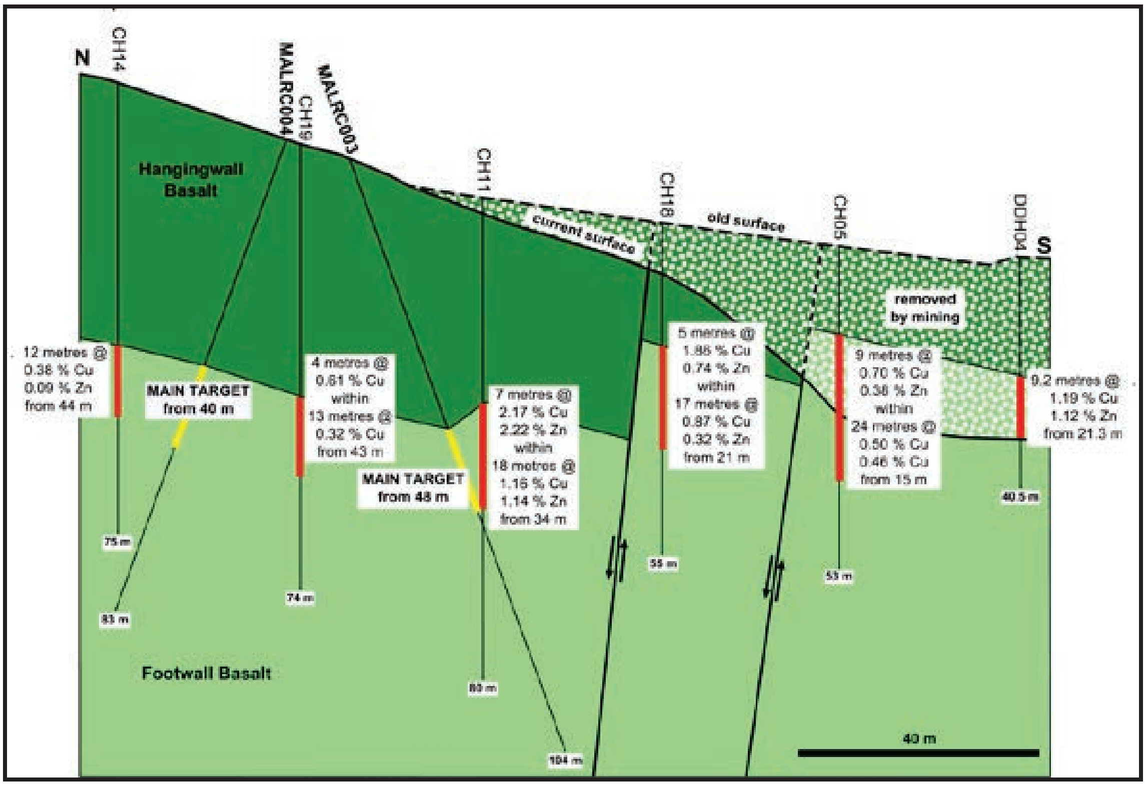



**Figure 12:** Section looking east showing preliminary drilling results at Mala.

# OPERATIONAL REPORT

The basic geological model for Mala is that the VHMS system developed in a northwest-trending (present-day orientation) basin during a hiatus of local magmatic activity. An extensive VHMS system developed within the Footwall Basalt with a high-grade copper-zinc (and possible gold-silver pending assay results) zone, possibly corresponding to "black smokers", at the very top. The extent of the gossan suggests that the original basin was at least 600 metres wide. The Hangingwall Basalt was subsequently deposited onto the VHMS deposit and locally shut down the hydrothermal system. Dolerite dykes cut all units. Much later, the uplift of the Troodos Mountains led to movement along the original basin faults and other faults were developed across the mineralised basin. The fault displacements appear to be relatively small (<50 metres) but have shuffled the VHMS system such that it is not straightforward.

The above geological model greatly expands the prospective area around the Mala Prospect and downgrades some other areas. Previous work has focused largely around the exposed gossans, but if these areas are below the "black smoker" unit then the exploration for such mineralisation in the gossan areas could be futile. Some of the historic drill holes which intersected massive pyrite but returned poor copper-zinc results sit in such unfavourable positions. The Mala Prospect is now being remapped to define the fault blocks and determine their relative displacements. This will outline new highly prospective domains to target for future explorations drilling.

| Hole ID | East | North | RL | Dip | Azimuth | Depth |
|---|---|---|---|---|---|---|
| MALRC001 | 470402 | 3864208 | 522 | 70° | 200° | 85 |
| MALRC002 | 470405 | 3864216 | 523 | 70° | 355° | 67 |
| MALRC003 | 470372 | 3864206 | 517 | 70° | 180° | 104 |
| MALRC004 | 470371 | 3864216 | 520 | 70° | 360° | 83 |
| MALRC005 | 470340 | 3864248 | 528 | 70° | 360° | 97 |
| MALRC006 | 470349 | 3864201 | 512 | 70° | 160° | 97 |
| MALRC007 | 470345 | 3864206 | 514 | 70° | 350° | 97 |
| MALRC008 | 470298 | 3864288 | 536 | 70° | 010° | 109 |
| MALRC009 | 470413 | 3864073 | 477 | 70° | 360° | 61 |
| MALRC010 | 470393 | 3864125 | 473 | 70° | 360° | 43 |
| MALRC011 | 470311 | 3864083 | 500 | 70° | 360° | 97 |
| MALRC012 | 470274 | 3864087 | 510 | 70° | 360° | 73 |
| MALRC013 | 470232 | 3864219 | 533 | 70° | 360° | 79 |

**Table 8:** Drill hole information. Co-ordinates in WGS84, Zone 36N and collected with handheld GPS. Holes not surveyed.

*The information in this report that relates to Exploration Results is based on information compiled by Dr Michael Green, a Competent Person who is a Member of the Australian Institute of Geoscientists (MAIG). Dr Green is a full-time employee and an Executive Director of BMG Resources Limited. Dr Green has sufficient experience that is relevant to the styles of mineralisation and types of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Green consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

# OPERATIONAL REPORT

*The drilling results referenced herein for the Pevkos Prospect (Black Pine Project) were reported to the ASX on 28 August 2014 [**Assay Results Confirm Discovery of High Grade Nickel-Copper-Cobalt-Gold Mineralisation, Pevkos Prospect, Cyprus**] under the 2012 JORC Code. There has been no material changes since these results were last reported.*

*The historic assay results referenced herein from adit TW3C, Pevkos Prospect (Black Pine Project) were reported to the ASX on 25 January 2013 [**Independent Geologist's Report on the Base and Precious Metal Assets of Treasure Development Limited in the Republic of Cyprus**] under the 2012 JORC Code. There has been no material changes since these results were last reported.*

*The drilling results referenced herein for the Laxia Prospect (Black Pine Project) were reported to the ASX on:*

- *22 July 2013 [**High Grade Copper Intersected in Maiden Drilling Programme**], and*
- *11 October 2013 **[High Grade Copper-Gold Mineralisation Confirmed at Laxia Prospect, Cyprus].***

*under the 2004 JORC Code. There has been no material changes since these results were last reported.*

*The historic results referenced herein for the Kalavassos Project were reported to the ASX on 29 May 2014 [**New Licence Approved at Historic Kalavassos Copper Mines, Cyprus**] under the 2012 JORC Code. There has been no material changes since these results were last reported.*

*The results referenced herein for the Mala Prospect (Vrechia Project) were reported to the ASX on:*

- *18 December 2013 **[High Grade Copper-Zinc Mineralisation at Mala Prospect – Vrechia]**, and*
- *9 September 2014 **[Continued Success in Cyprus Drilling Program – Massive Sulphides Intersected in all 13 Drill Holes at Mala Prospect].***

*under the 2012 JORC Code. There has been no material changes since these results were last reported.*

## FINANCIAL

With our projects being in the exploration phase and our activities centred on exploration activities, the Company posted an operating loss of $841,065 for the year ended 30 June 2014 with $46,247 relating to the impairment of exploration assets in Brazil and Cyprus. Our cash position at 30 June 2014 was $696,944. We will continue to manage our costs and cash resources carefully and review appropriate funding options to meet our requirements moving forward.

Transcontinental Group, one of BMG's major Shareholders and the provider of company administration and management support services to BMG, has provided a letter of financial support to the Company for the forecast period.

We thank Shareholders for their support during the year and look forward to a positive year ahead as we continue to progress our exploration programme in Cyprus and seek other new value enhancing opportunities for the Company.

**Bruce McCracken**
Managing Director
BMG Resources Limited

# DIRECTORS' REPORT

Your Director's present their report on the Consolidated Entity (referred to hereafter as the **Group**) consisting of BMG Resources Limited (**BMG** or **the Company**), being the Company and its subsidiaries (**Consolidated Entity**), at the end of, or during, the year ended 30 June 2014 and the Auditor's report thereon.

## DIRECTORS

The names and details of the Directors in office during the financial year and until the date of this report are set out below. Directors have been in office the entire period unless otherwise stated.

- Christopher Eager (Non-Executive Chairman)
- Bruce McCracken (Managing Director)
- Michael Green (Chief Operating Officer)
- Anthony Trevisan (Non-Executive Director – Resigned on 10 October 2013)
- Malcolm Castle (Non-Executive Director)

## PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year focused on exploring highly prospective copper-gold projects in the Republic of Cyprus (**Treasure Project**). BMG's strategic acquisition of the Treasure Copper-Gold Project has provided the Company with an exploration footprint of approximately 120km² in Cyprus and provides significant leverage to an exciting mix of advanced prospects in a proven mineral district. The Treasure Project has multiple high quality exploration targets with copper and gold mineralisation identified across four main project areas Black Pine, Kambia, Vrechia and Kalavassos.

There were no other significant changes in the nature of the Consolidated Entity's activities during the financial year.

## OPERATING RESULTS

The Consolidated Entity's loss after providing for income tax for the year ended 30 June 2014 amounted to $841,065 (2013: $20,026,349).

## DIVIDENDS PAID OR RECOMMENDED

The Directors' of the Company do not recommend the payment of a dividend in respect of the current financial year ended 30 June 2014.

## REVIEW OF OPERATIONS

The Consolidated Entity's operations are discussed in the Directors' Report from page 22.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There are no other significant changes in the state of affairs of the Consolidated Entity during the financial year.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Transcontinental Group (TRG) has provided a letter of support to the Company in which TRG confirmed it will provide financial support to BMG Resources Limited if required to enable the Company to carry on its business as a going concern during the 12 month period from the date of signing the annual financial report for the period ended 30 June 2014.

# DIRECTORS' REPORT

On 17 September 2014 the Company executed a 12 month Option Agreement with Imperial Granite and Minerals Pty Ltd (**Imperial Granite**) to acquire Imperial Granite's 90% interest in Mining Lease 23868 in the Harts Range district of the Northern Territory on agreed terms as set out in the option agreement. The Company paid an option fee of $43,463 and may exercise the option at any time until 17 September 2015 at the Company's discretion. Refer to the Company's ASX announcement titled "BMG secures low cost option to acquire advanced heavy Mineral Sands Project in Australia" on Wednesday, 24 September 2014 for further details of the Option Agreement and the project opportunity.

## LIKELY DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Directors are of the opinion that further information as to the likely developments in operations of the Consolidated Entity and the expected results of those operations, would be speculative and prejudicial to the interests of the Group and its Shareholders. More information on the development is included in the Operational Report on Page 4.

## ENVIRONMENTAL REGULATION

The Board believe that the Consolidated Entity has adequate systems in place for the management of environmental requirements and is not aware of any breach of environmental requirements as they apply to the Consolidated Entity.

### *National Greenhouse and Energy Reporting Act 2007*

This is an Act to provide for the reporting and dissemination of information related to greenhouse gas emissions, greenhouse gas projects, energy production and energy consumption, and for other purposes. The Consolidated Entity is not subject to the National Greenhouse and Energy Reporting Act 2007.

## BOARD OF DIRECTORS

**Mr Christopher Eager** BE, MBA – **Non-Executive Chairman**

**Experience and Expertise**

Mr Eager is a Mining Engineer who has spent the majority of the past 26 years in mine development, management of mining companies and resources banking.

Mr Eager is currently Executive Chairman of Resmin Plc, a private mining group based in the UK and Resmin Commodities Marketing Pte Ltd which is engaged in marketing mineral commodities. From 2001 to 2007 he was a founding Director and the CEO of Monterrico Metals Plc, a mineral resources development company. Mr Eager was responsible for seeing Monterrico through completion of a BFS for a 25 million tonne per annum copper porphyry project in Peru, IPO on the AIM market and sale of the Company in 2007 to a Chinese consortium.

From 2004 to 2006, Mr Eager was a founding Director and Chairman of AIM listed coal development company Asia Energy Plc. He was also founding Director and Chairman of Bluestone Offshore Pte Ltd, a deepwater geotechnical services company based in Singapore.

Mr Eager has gained significant management and operational experience during his career through a variety of roles across a range of resources companies, as a resources banker with NM Rothschild (Australia) Limited providing project finance to the mining sector and as an independent consulting mining engineer with Gemcom and Snowden Consultants.

Mr Eager has a Bachelor of Engineering (Mining) from the University of Wollongong, NSW and an MBA from Insitut Surperior de Gestion, France.

Mr Eager is a Chairman of the Board's Nomination and Remuneration Committee and a member of the Board's Audit and Risk Committee.

# DIRECTORS' REPORT

| | |
|---|---|
| **Other Current Directorships** | Resmin Plc |
| **Former Directorships in last 3 years** | None |
| **Special Responsibilities** | Chairman<br>Chairman of the Nomination and Remuneration Committee<br>Member of the Audit and Risk Committee |
| **Interests in Shares and Options** | 5,000,000 Unlisted Options over ordinary shares in BMG Resources Limited |

**Mr Bruce Alexander McCracken** B Com, LLB, MBA, GAICD – **Managing Director**

| | |
|---|---|
| **Experience and Expertise** | Mr McCracken is an experienced business executive having spent 21 years working across a broad range of industries based in Perth, Melbourne and Sydney.<br>Prior to joining BMG Resources Limited Mr McCracken worked in the Corporate sector as a Senior Executive with the Kirin Group-owned Lion Pty Ltd (previously Lion Nathan) and the private equity owned Amatek Group, now part of the Fletcher Building Group.<br>Before working in the corporate environment he was an Investment Banker based in both Perth and Melbourne in specialist corporate advisory and project finance roles and has also practiced as a Banking and Finance Solicitor. During his time as an Investment Banker Mr McCracken worked across a broad range of corporate and financial advisory assignments, primarily in the diversified industrials and mining and resources sectors.<br>Mr McCracken holds Bachelor of Commerce and Bachelor of Laws degrees from the University of Western Australia, an MBA from Melbourne Business School and is a graduate of the Australian Institute of Company Directors.<br>Mr McCracken is the Chairman of the Board's Share Trading Committee. |
| **Other Current Directorships** | Regalpoint Resources Ltd |
| **Former Directorships in last 3 years** | None |
| **Special Responsibilities** | Managing Director<br>Chairman of the Share Trading Committee |
| **Interests in Shares and Options** | 10,000,000 Ordinary shares in BMG Resources Limited<br>4,000,000 Unlisted Options over ordinary shares in BMG Resources Limited |

**Dr Michael Green** B.Sc. (Hons) PhD MAIG - **Chief Operating Officer**

| | |
|---|---|
| **Experience and Expertise** | Dr Green is a Geologist with over 16 years' experience in Australia and worldwide with managing all aspects of exploration programs targeting a broad range of commodities but particularly gold, copper and nickel.<br>For the 6 years prior to joining BMG in February 2014, Dr Green operated as an independent Geological Consultant with Remote Area Geoscience. During this time he has worked with numerous ASX listed companies, both in Australia and worldwide.<br>He had extensive involvement with copper exploration in Cyprus and the Treasure Project prior to joining BMG. |

# DIRECTORS' REPORT

| | |
|---|---|
| | Dr Green is a Member of Australian Institute of Geoscientists (MAIG) and is a Competent Person for the purposes of Australian Stock Exchange releases on mineral resources. |
| **Other Current Directorships** | None |
| **Former Directorships in last 3 years** | Motopia Limited |
| **Special Responsibilities** | Chief Operating Officer |
| **Interests in Shares and Options** | 4,000,000 Ordinary shares in BMG Resources Limited |

| **Mr Anthony Augustine Trevisan – Non-Executive Director (Resigned on 10 October 2013)** | |
|---|---|
| **Experience and Expertise** | During a period spanning some twenty five years Mr Trevisan played major roles in a large number of corporate scenarios involving financing mergers and acquisitions, the restructuring of property and petroleum and mineral resources based public companies and the establishment from start-up of substantial operating businesses.<br><br>Mr Trevisan has had extensive experience in raising and structuring financial instruments to fund the development of a number of significant projects in Australia and overseas. He has been responsible for public offerings and the floating of companies on the Australian Stock Exchange and other major exchanges internationally involving well over a billion dollars.<br><br>He has held senior executive positions in listed public companies with a wide range of interests including oil & gas, mining, industrial and property. These include Mediterranean Oil & Gas Plc (Founder and Executive Director, Ombrina Mare oil discovery), Arabex Petroleum NL (Founder and Executive Director, Rubiales oil discovery), Callina NL (Executive Chairman, petroleum work-over project at Komi Oil field, Russia), Aqua Vital (Australia) Ltd (Executive Chairman, now owned by Coca Cola), TRG Properties and the Roy Weston Group (Executive Chairman) amongst others. He was a founding Director of Star Castle Holdings Ltd and Brilliant City Holdings Ltd and substantially responsible for their identifying and acquiring the Rio Pardo Project.<br><br>Mr Trevisan was a member of the Board's Nomination and Remuneration Committee, Audit and Risk Committee and the Board's Share Trading Committee. |
| **Other Current Directorships** | Not in public entities |
| **Former Directorships in last 3 years** | None |
| **Special Responsibilities** | None |
| **Interests in Shares and Options** | 59,859,842 Ordinary shares in BMG Resources Limited |

| **Mr Malcolm John Castle** B.Sc. (Hons), GCertAppFin (Sec Inst), MAusIMM **– Non-Executive Director** | |
|---|---|
| **Experience and Expertise** | Mr Castle has over 40 years' experience in exploration geology and property evaluation, working for major companies for 20 years as an Exploration Geologist. He has wide experience in a number of commodities including iron ore, gold, base metals, uranium and mineral sands. He has been responsible for project discovery through to feasibility |



| | |
|---|---|
| | study and development in Indonesia and the Pilbara in Western Australia and technical audits in many countries. Mr Castle was a founding member and permanent employee of Fortescue Metals Group as Technical Services Manager for expansion projects and was an integral member of the team developing the definitive feasibility study for start-up projects at Cloudbreak and Christmas Creek. Mr Castle is Chief Geologist for the Transcontinental Group.<br><br>Mr Castle completed a Bachelor's Degree in Applied Geology with the University of New South Wales in 1965 and has been awarded a B.Sc (Hons) degree. He has completed postgraduate studies with the Securities Institute of Australia in 2001 and has been awarded a Graduate Certificate in Applied Finance and Investment in 2004.<br><br>He is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM), and has the appropriate relevant experience and qualifications to be an 'Expert' and 'Competent Person' under the Australian Valmin and JORC Codes respectively.<br><br>Mr Castle is a member of the Board's Nomination and Remuneration Committee, a member of the Board's Audit and Risk Committee and a member of the Board's Share Trading Committee. |
| **Other Current Directorships** | None |
| **Former Directorships in last 3 years** | None |
| **Special Responsibilities** | Member of the Audit and Risk Committee<br>Member of the Nomination and Remuneration Committee<br>Member of the Share Trading Committee |
| **Interests in Shares and Options** | 5,978,559 Ordinary shares in BMG Resources Limited<br>1,500,000 Unlisted Options over ordinary shares in BMG Resources Limited expiring in 2 December 2014 |

## COMPANY SECRETARY

| **Mrs Fleur Hudson** BA, LLB, LLM (Disp. Res.) | |
|---|---|
| **Experience and Expertise** | Mrs Hudson has a Bachelor of Arts, a Bachelor of Laws and Master of Laws degrees. She has been a Director of Transcontinental Group since 2009 and was appointed as Company Secretary of Ausgold Limited (resigning in November 2011), Regalpoint Resources Limited and BMG Resources Limited in 2010.<br><br>Prior to that, Mrs Hudson has practiced as a Solicitor with international law firms in Perth and London since 1998. As a Solicitor, she has advised large national and international companies with respects to a variety of civil construction, infrastructure and commercial issues. |
| **Other Current Directorships** | Transcontinental Group |
| **Former Directorships in last 3 years** | None |
| **Special Responsibilities** | Company Secretary |
| **Interests in Shares and Options** | NIL |

# DIRECTORS' REPORT

## DIRECTORS' MEETINGS

During the financial year, 7 meetings (including Committees of Directors) were held. Attendances by each Director during the year were as follows:

| | Directors' Meetings | | Audit Committee* | | Remuneration Committee** | | Share Trading Committee*** | |
|---|---|---|---|---|---|---|---|---|
| | Number Eligible to Attend | Number Attended | Number Eligible to Attend | Number Attended | Number Eligible to Attend | Number Attended | Number Eligible to Attend | Number Attended |
| Christopher Eager | 5 | 5 | 2 | 2 | - | - | - | - |
| Anthony Trevisan | 1 | 1 | 1 | 1 | - | - | - | - |
| Bruce McCracken | 5 | 5 | - | - | - | - | - | - |
| Malcolm Castle | 5 | 5 | 2 | 2 | - | - | - | - |
| Michael Green | 5 | 5 | - | - | - | - | - | - |

* During the financial year Mr Trevisan was Chairman of the Audit and Risk Committee until his resignation on 10 October 2013. Mr Eager then became Chairman of the Audit and Risk Committee with Mr Castle being a member.

** During the financial year Mr Eager was Chairman of the Nomination and Remuneration Committee with Mr Castle being a member.

*** During the financial year the members of the Share Trading Committee were Mr McCracken and Mr Castle.

## DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares and options of the Company for the year ended 30 June 2014.

| Director | Number Shares | Number Options |
|---|---|---|
| Christopher Eager | - | 5,000,000 |
| Anthony Trevisan[1] | 11,953,599 | - |
| Anthony Trevisan[2] | 46,846,243 | - |
| Anthony Trevisan[3] | 400,000 | - |
| Anthony Trevisan | 660,000 | - |
| Bruce McCracken[4] | 10,000,000 | 4,000,000 |
| Malcolm Castle | 150,000 | 1,500,000 |
| Malcolm Castle[5] | 398,959 | - |
| Malcolm Castle[6] | 5,429,600 | - |
| Michael Green | 4,000,000 | - |

Note 1: Relevant interest as Director and sole shareholder of AAT Holdings Ltd.

Note 2: Relevant interest as Director and sole shareholder of Transcontinental Resources Group 2013 Pty Ltd.

Note 3: Indirect interest as a spouse of Karen Trevisan.

Note 4: Relevant interest in 9,700,000 shares as a beneficiary of the McCracken Family Trust and 300,000 shares directly held.

Note 5: Indirect interest as a spouse of Susan Castle.

Note 6: Relevant interest as Director and sole Shareholder of Agricola Mining Consultants Pty Ltd.

# DIRECTORS' REPORT

## AN EQUITY BASED INCENTIVE SCHEME FOR KEY EXECUTIVES

On 6 June 2013, the Company announced an equity based incentive scheme for Key Management Personnel, which was subsequently approved at the Company's AGM (Annual General Meeting) on 18 November 2013. The incentive scheme for Executives is linked to successfully achieving key milestones in the Company's core Treasure Project, or otherwise as specified by the Board.

The table below summarises the potential grant of options to the Chairman, Managing Director and Chief Operating Officer under the scheme, subject to the achievement of milestones.

| Class | Expiry Date | Exercise Price | Number of Options |
|---|---|---|---|
| Christopher Eager | 13 December 2016 | $0.035 | 5,000,000 |
| Christopher Eager | 3 years from the date of issue | $0.05 | 5,000,000 |
| Bruce McCracken | 3 years from the vesting date | $0.035 | 5,000,000 |
| Bruce McCracken | 3 years from the vesting date | $0.04 | 5,000,000 |
| Bruce McCracken | 3 years from the vesting date | $0.045 | 5,000,000 |
| Bruce McCracken | 3 years from the vesting date | $0.05 | 10,000,000 |
| Michael Green | 3 years from the vesting date | $0.035 | 3,000,000 |
| Michael Green | 3 years from the vesting date | $0.04 | 3,000,000 |
| Michael Green | 3 years from the vesting date | $0.045 | 3,000,000 |
| Michael Green | 3 years from the vesting date | $0.05 | 8,000,000 |
| | | | **52,000,000** |

At the date of this report, the unissued ordinary shares of BMG Resources Limited under option are as follows:

| Date of Expiry | Exercise Price | Number under Option |
|---|---|---|
| 09/12/2014 | $0.22 | 1,500,000 |
| 01/07/2016 | $0.20 | 1,400,000 |
| 01/07/2016 | $0.22 | 2,600,000 |
| | **TOTAL** | **5,500,000** |

Options granted under the plan carry no dividend or voting rights.

# DIRECTORS' REPORT

## REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the Director and Executive remuneration arrangements of the Company and the Consolidated Entity and has been audited in accordance with the requirements by section 308(3C) of the *Corporations Act 2001* and the Corporations Regulations 2001.

For the purposes of this report, Key Management Personnel of the Consolidated Entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Consolidated Entity, directly or indirectly, including any Director (whether Executive or otherwise) of the Company. The Consolidated Entity presently employs a Non-Executive Director, Managing Director, Chief Operating Officer and Non-Executive Chairman. During the year one of the Non-Executive Directors resigned from the Board.

### Key Management Personnel Disclosed in the Report

Names and positions held of Parent Entity Directors and Key Management Personnel in office at any time during the financial year are:

| | |
|---|---|
| Christopher Eager | (Non-Executive Chairman) |
| Bruce McCracken | (Managing Director) |
| Michael Green | (Chief Operating Officer) |
| Malcolm Castle | (Non-Executive Director) |
| Anthony Trevisan | (Non-Executive Director – Resigned on 10 October 2013 ) |
| ***Other Key Management Personnel*** | |
| Fleur Hudson | (Company Secretary) |

### *Key Management Personnel Compensation*

The Key Management Personnel compensation disclosed below represents an allocation of the Key Personnel's estimated compensation from the Group in relation to their services rendered to the Company.

The individual Directors and Executives compensation comprised as at 30 June 2014.

| | Consolidated | |
|---|---|---|
| | **2014 $** | **2013 $** |
| **Short-term employee benefits** | | |
| Christopher Eager [1] | 72,000 | 27,000 |
| Anthony Trevisan [2] | 49,839 | - |
| Bruce McCracken [3] | 196,000 | 217,500 |
| Malcolm Castle [4] | 40,000 | 10,000 |
| Michael Green [5] | 225,000 | 84,375 |
| | **582,839** | **338,875** |

# DIRECTORS' REPORT

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| **Post- employee benefits** | | |
| Bruce McCracken | 18,130 | 19,575 |
| Malcolm Castle | 3,700 | 900 |
| Michael Green | 20,813 | 7,594 |
| | **42,643** | **28,069** |
| **Share-based payments** | | |
| Christopher Eager | 41,908 | 1,359 |
| Bruce McCracken | 19,634 | 3,355 |
| Malcolm Castle | 14,444 | 2,271 |
| | **75,986** | **6,985** |

(1) Mr Eager received $6,000 per month as remuneration.

(2) Mr Trevisan has not received remuneration from the Company for the year ended 30 June 2014. BMG has an Agreement with Transcontinental Investments Pty Ltd under management commitment which is a Director related entity (Anthony Trevisan). Transcontinental Investments Pty Ltd which charged a management and administrative fee for office space and services, accounting and administration services totalling $180,000 during the financial year (2013: $57,581). Mr Trevisan is a Director of Transcontinental Investments Pty Ltd which is associated with Mr Trevisan's children.

(3) Mr McCracken received $20,833 per month as a remuneration plus super as Managing Director and recharged 28.8% of $20,833 (equivalent to $6,000 per month) to Regalpoint Resources Ltd for the period from 01 October 2013.

(4) Mr Castle received $43,700 (2013: 45,150) as a remuneration plus super as Non-Executive Director.

(5) Mr Green received $18,750 per month as a remuneration plus super as Chief Operating Officer.

### *Remuneration Policy*

The Remuneration and Nomination Committee provides assistance to the Board with respect to the following:

(a) remuneration policies and practices;

(b) remuneration of the Executive Officer and Executive Directors;

(c) composition of the Board; and

(d) performance Management of the Board and of the Executive Officer.

### *Membership and Composition*

The minimum number of members required on the Committee is two Directors. At least one member of the Committee must be a Non-Executive Director of the Board.

The Chair of the Committee is to be a Non-Executive Director, nominated by the Board, who may be the Chairman of the Board.

The Secretary of the Committee shall be the Company Secretary or such other person as nominated by the Board.

# DIRECTORS' REPORT

***Responsibilities***

The Remuneration and Nomination Committee is to review and make recommendations regarding the following:

(a) strategies in relation to Executive remuneration policies;

(b) compensation arrangements for the Managing Director, Non-Executive Directors and other Senior Executives as appropriate;

(c) performance related incentive policies;

(d) the Company's recruitment, retention and termination policies;

(e) the composition of the Board having regard to the skills/experience desired and skills/experience represented;

(f) the appointment of Board members;

(g) the evaluation of the performance of the Managing Director and Chief Operating Officer;

(h) consideration of potential candidates to act as Directors; and

(i) succession planning for Board members.

***Processes***

The Committee shall meet as frequently as required to undertake its role effectively and properly. A quorum for the Committee meeting is when at least two members are present. Any relevant employees may be invited to attend the Committee meetings.

The issues discussed at each Committee meeting as well as the Minutes of each meeting are reported at the next Board Meeting. The Committee Chair shall report the Committee's recommendations to the Board after each meeting.

The Committee reviews, and may recommend to the Board, any necessary action to require at least annually, and recommends any changes it considers appropriate to the Board. The Committee may undertake any other special duties as requested by the Board.

***Key Management Personnel Remuneration Policy***

The Board's policy for determining the nature and amount of remuneration of Key Management Personnel for the economic entity is as follows:

The remuneration structure for Key Management Personnel is based on a number of factors, including length of service and the particular experience of the individual concerned. The contracts for service between the Group and Key Management Personnel are on a continuing basis, the terms of which are not expected to change in the immediate future. There is no scheme to provide retirement benefits, other than statutory superannuation.

The Remuneration Committee determines the proportion of fixed and variable compensation for each Key Management Personnel. Fees are reviewed annually by the Board taking into account comparable roles and market data provided by the Board's independent remuneration adviser. The current base fees were reviewed with effect from 1 July 2014.

# DIRECTORS' REPORT

Please see the table below for the details of the nature and amount of each major element of remuneration for each Key Management Personnel of the Group during the year.

| | From 1 July 2014 | From 1 July 2013 to 30 June 2014 | From 1 July 2011 to 30 June 2013 |
|---|---|---|---|
| Base fees | | | |
| Non-Executive Chairman | $72,000 | $72,000 | $99,000 |
| Non-Executive Director | $43,800 | $43,700 | $43,600 |
| Executive Technical Director | - | - | $39,542 |
| Managing Director | $194,910 | $214,130 | $552,715 |
| Chief Operating Officer | $250,000 | $245,812 | $144,298 |

There are no other additional fees paid to Non-Executive Chairman and Non-Executive Directors for participating in Audit Committees, Nomination Committees and/or Remuneration Committees.

During the year, the Company has not required or used any remuneration consultants.

***Non-Executive Director Remuneration Policy***

On appointment to the Board, all Non-Executive Directors enter into an agreement with the Company. The letter of appointment summarises the Board's policies and terms, including remuneration, relevant to the Office of Director.

Non-Executive Directors receive a Board fee and fees for chairing or participating on Board committees. The Non-Executive Chairman does not receive additional fees for participating in or chairing committees. Non-Executive Directors do not receive retirement allowances. Fees provided to a Non-Executive Director and Executive Technical Director is inclusive of superannuation.

The Non-Executive Directors do not receive performance-based pay.

***Company Performance, Shareholder Wealth and Director and Executive Remuneration***

The Remuneration Policy has been tailored to increase goal congruence between Shareholders, Directors and Executives. Each year the Board reviews Directors remuneration and will consider the issue of options as part of the Director's remuneration to encourage the alignment of personal interest and shareholder interests. During the year, the Company has not required or used any remuneration consultants.

***Voting and comments made at the Group's 2013 Annual General Meeting***

The Company received more than 80% of "yes" votes on its Remuneration Report for the 2013 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

***Performance based remuneration***

Due to the size of the Group, its current stage of activities and its relatively small number of employees, the Group has not implemented performance-based remuneration for the current year. There is an existing Employee Option Plan based on the achievement of key milestones and to increase goal congruence between Executives, Directors and Shareholders.



### *Consequences of Group Performance on Shareholder wealth*

The Remuneration Committee has observed the following indices in respect of the current financial year and the previous financial year.

| | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Net loss attributable to owners of BMG Resources Limited | (841,065) | (20,026,349) | (6,301,879) | (4,279,485) | (2,071,271) |
| Change in share price | 0.01 | 0.01 | 0.05 | 1.40 | 2.41 |
| Loss per share for profit from continuing operations attributable to the ordinary equity holders of the Company | | | | | |
| Basic loss per share (cents per share) | (0.13) | (7.31) | (4.32) | (4.27) | (2.87) |
| Diluted loss per share (cents per share) | N/A | N/A | N/A | N/A | N/A |

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

| Name | Fixed Remuneration | | At Risk – Short Term Incentive | | At Risk – Long Term Incentive* | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| Christopher Eager | 63% | 95% | - | - | 37% | 5% |
| Bruce McCracken | 92% | 99% | - | - | 8% | 1% |
| Malcolm Castle | 100% | 100% | - | - | - | - |
| Michael Green | 95% | 98% | - | - | 5% | 2% |

*Since the long-term incentives are provided exclusively by way of options, the percentages disclosed also reflect the value of remuneration consisting of options, based on the value of options expensed during the year. Negative amounts indicate expenses reversed during the year due to a failure to satisfy the vesting conditions.

### *Details of Share Based Payments*

#### *Options*

The term and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

| Grant Date | Vesting and excise date Expiry Date | Expiry date | Exercise price | Balance at start of the year | Granted during the year number | Performance achieved | Balance at end of the year number | Vested % |
|---|---|---|---|---|---|---|---|---|
| 13/12/2013 | 13/12/2016 | 13/12/2016 | $0.035 | - | 5,000,000 | 100% | 5,000,000 | 100% |
| 09/12/2011 | 01/07/2016 | 01/07/2016 | $0.20 | 1,400,000 | - | 100% | 1,400,000 | 100% |
| 09/12/2011 | 01/07/2016 | 01/07/2016 | $0.22 | 2,600,000 | - | 100% | 2,600,000 | 100% |
| 09/12/2011 | 09/12/2014 | 09/12/2014 | $0.22 | 1,500,000 | - | 100% | 1,500,000 | 100% |
| **Total** | | | | **5,500,000** | **5,000,000** | | **10,500,000** | |

# DIRECTORS' REPORT

The primary purpose of the Director options is to provide incentive to the participating Directors to drive the Company's assets forward. All options granted to Key Management Personnel are over ordinary shares in BMG Resources Limited, which confer a right of one ordinary share for every option held.

Options are granted under the plan for no consideration, and options granted under the plan carry no dividend or voting rights. Details refer to Note 5 of the report.

***Options Expensed***

Option expenses related to options issued to Directors during the financial year approved at the AGM on 18 November 2013 with the expenses being recognised over the vesting period.

The fair value of option at grant date is independently determined using a Black Scholes option valuation methodology that takes into account the exercise price.

The following share based payment was made through the issue of equity:

| | Number of Options | Value of options issued | Options expensed during the year ** |
|---|---|---|---|
| Issue of Tranche A management options exercisable at $0.035, vesting immediately and expiring three years from issue | 5,000,000 | 26,710 | 26,710 |
| Issue of Tranche B management options exercisable at $0.05, vesting on 31 December 2014 and expiring three years from issue | 5,000,000 | 24,858 | 13,522 |
| Issue of Tranche C.1 management options exercisable at $0.035, vesting on the Company achieving a JORC inferred resource and expiring three years from issue | 5,000,000 | 26,710 | 4,451 |
| Issue of Tranche C.2 management options exercisable at $0.04, vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes and expiring three years from issue | 5,000,000 | 26,028 | 4,338 |
| Issue of Tranche C.3 management options exercisable at $0.045, vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes and expiring three years from issue | 5,000,000 | 25,415 | 4,235 |
| Issue of Tranche C.4 management options exercisable at $0.035, vesting on the Company achieving a JORC inferred resource and expiring three years from issue | 3,000,000 | 16,026 | 2,671 |
| Issue of Tranche C.5 management options exercisable at $0.04, vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes and expiring three years from issue | 3,000,000 | 15,617 | 2,603 |
| Issue of Tranche C.6 management options exercisable at $0.045, vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes and expiring three years from issue | 3,000,000 | 15,249 | 2,542 |
| Issue of Tranche D.1 management options exercisable at $0.05, vesting on the Company's completion of a successful Feasibility Study and expiring three years from issue | 10,000,000 | 49,717 | 8,286 |
| Issue of Tranche D.1 management options exercisable at $0.05, vesting on the Company's completion of a successful Feasibility Study and expiring three years from issue | 8,000,000 | 39,773 | 6,629 |
| **Total** | **52,000,000** | **266,103** | **75,987** |

****** - Options calculated on a per day ratio

### *Details of Remuneration*

| 2014 Key Management Person | Short-term Benefits | | | Post-employment Benefits | | Share-based payment | | |
|---|---|---|---|---|---|---|---|---|
| | Salary $ | Other Fees $ | Non-monetary benefits $ | Superannuation $ | Termination benefits $ | Equity $ | Options $ | Total $ |
| **DIRECTORS** | | | | | | | | |
| Christopher Eager[1] | 72,000 | - | - | - | - | - | 41,908 | 113,908 |
| Anthony Trevisan[2] | - | 49,839 | - | - | - | - | - | 49,839 |
| Bruce McCracken[3] | 196,000 | - | - | 18,130 | - | - | 19,634 | 233,764 |
| Malcolm Castle[4] | 40,000 | - | - | 3,700 | - | - | - | 43,700 |
| Michael Green[5] | 225,000 | - | - | 20,813 | - | - | 14,444 | 260,257 |
| **SPECIFIED EXECUTIVES** | | | | | | | | |
| Fleur Hudson | - | - | - | - | - | - | - | - |
| **TOTAL** | **533,000** | **49,839** | **-** | **42,643** | **-** | **-** | **75,986** | **701,468** |

*The fair value of the options are calculated at the date of grant using the Black-Scholes model and allocated to each reporting period over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account.*

(1) Mr Eager received $6,000 per month as remuneration.

(2) Mr Trevisan has not received remuneration from the Company for the year ended 30 June 2014. BMG has an Agreement with Transcontinental Investments Pty Ltd under management commitment which is a Director related entity (Anthony Trevisan). Transcontinental Investments Pty Ltd which charged a management and administrative fee for office space and services, accounting and administration services totalling $180,000 during the financial year (2013: $57,581). Mr Trevisan is a Director of Transcontinental Investments Pty Ltd which is associated with Mr Trevisan's children.

(3) Mr McCracken received $250,000 as a remuneration plus super as Managing Director during the year and for the period from 01 October 2013 - 28.80% of this remuneration totalling $54,000 which was reimbursed from Regalpoint Resources Limited.

(4) Mr Castle received $43,700 (2013: 10,900) as a remuneration plus super as Non-Executive Director.

(5) Mr Green received $18,750 per month as a remuneration plus super as Chief Operating Officer.

| 2013 Key Management Person | Short-term Benefits | | Post-employment Benefits | Share-based payment | | |
|---|---|---|---|---|---|---|
| | Salary $ | Other Fees $ | Superannuation $ | Equity $ | Options $ | Total $ |
| **DIRECTORS** | | | | | | |
| Christopher Eager[1] | 27,000 | - | - | - | 1,359 | 28,359 |
| Anthony Trevisan[2] | - | - | - | - | - | - |
| Malcolm Castle[3] | 10,000 | 34,250 | 900 | - | - | 45,150 |
| Bruce McCracken[4] | 217,500 | 30,000 | 19,575 | - | 3,355 | 270,430 |
| Michael Green[5] | 84,375 | 10,000 | 7,594 | - | 2,271 | 104,240 |
| Peter O'Connor[6] | - | - | - | - | - | - |
| Robert Pett[7] | - | - | - | - | - | - |
| **SPECIFIED EXECUTIVES** | | | | | | |
| Fleur Hudson | - | - | - | - | - | - |
| **TOTAL** | **338,875** | **74,250** | **28,069** | **-** | **6,985** | **448,179** |

*The fair value of the options are calculated at the date of grant using the Black-Scholes model and allocated to each reporting period over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options allocated to this reporting period. In valuing the options, market conditions have been taken into account. It is noted that no options have been issued as they are subject to Shareholder approval at the AGM and the achievement of specified milestones.*

(1) Mr Eager received $27,000 (2012: Nil) in salary as Non-Executive Chairman effective from the date of the appointment 15 February 2013 during the year.

(2) Mr Trevisan has not received remuneration from the Company for the year ended 30 June 2013. BMG Resources Ltd has an Agreement with Transcontinental Investments Pty Ltd under management commitment which is a Director related entity (Anthony Trevisan). Transcontinental Investments Pty Ltd which charged a management and administrative fee for office space and services, accounting and administration services totalling $57,581 (2012: $240,000) during the financial year. Mr Trevisan is a Chairman of Transcontinental Investments Pty Ltd which is associated with Mr Trevisan's children.

(3) Mr Castle received $10,900 (2012: $28,642) in salary plus super as Non-Executive Director for the period from 01 April 2013 to 30 June 2013 and received consultancy fees of $34,250 (2012: $211,650) paid to The MJ Castle Family Trust of which Mr Castle is a Director and Beneficiary.

(4) Mr McCracken received $267,075 (2012: 337,020) in salary plus super as Managing Director during the year. The bonus payment of $30,000 has been accrued and/or payment has not been made to Mr McCracken during the year.

(5) Mr Green received $101,969 (2012: Nil) in salary plus super as Chief Operating Officer effective from the date of the appointment 15 February 2013 during the year. The bonus payment of $10,000 has been accrued and/or payment has not been made to Mr Green during the year.

(6) Mr O'Connor has not received remuneration from the Company for the year ended 30 June 2013 and he has resigned on 1 October 2012.

(7) Mr Pett has not received remuneration from the Company for the year ended 30 June 2013 and he has resigned on 9 April 2013.

# DIRECTORS' REPORT

### *Service Agreements*

On appointment to the Board, all Directors enter into a Service Agreement with the Company in the form of a Letter of Appointment. The letter summarises the Board Policies and Terms, including remuneration, relevant to the Office of Director.

The Company has entered the following Service Agreement with the Non-Executive Chairman, Managing Director, Chief Operating Officer and Non-Executive Director.

All contracts with Executives may be terminated early by either party, subject to termination payments as detailed below.

| Name | Term of Agreement | Base salary including superannuation* |
|---|---|---|
| Christopher Eager<br>(Non-Executive Chairman) | On-going commencing from<br>15 February 2013 | $72,000<br>($6,000 per month) |
| Bruce McCracken<br>(Managing Director) | Commencing from 01 July 2013 to<br>30 September 2013 | $273,125<br>($22,760.42 per month) |
| Bruce McCracken<br>(Managing Director) | 01 October 2013 due to the recharging<br>28.8% potion to Regalpoint Resources<br>Limited | $194,465<br>($16,205.42 per month) |
| Malcolm Castle<br>(Non-Executive Director) | On-going commencing from<br>1 April 2013 | $43,700<br>($3,641.67 per month) |
| Michael Green<br>(Chief Operating Officer) | On-going commencing from<br>15 February 2013 | $245,813<br>($20,484.42 per month) |

* Base salaries quoted are for the year ended 30 June 2014 including 9.25% of superannuation guarantee; they are reviewed annually by the Remuneration Committee. Superannuation guarantee has increased from 9.25% to 9.50% for the period from 01 July 2014.

### *Equity Instruments Disclosure Relating to Key Management Personnel Shareholdings*

Number of shares held by Parent Entity Directors and other Key Management Personnel of the Group, including their personally related parties, are set out below.

| 2014 Name | Balance at the start of the year | Allotment during the year | Received during the year on the exercise of options | Other Changes during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Directors of BMG Resources Limited Ordinary Shares** | | | | | |
| *Non-Executive* | | | | | |
| Christopher Eager | - | - | - | - | - |
| Bruce McCracken [1] | 10,000,000 | - | - | - | 10,000,000 |
| Malcolm Castle [2] | 5,978,559 | - | - | - | 5,978,559 |
| Michael Green [3] | 4,000,000 | - | - | - | 4,000,000 |
| Anthony Trevisan [4] | 59,859,842 | - | - | - | 59,859,842 |
| **Other Key Management Personnel of the Group Ordinary Shares** | | | | | |
| *Specified Executive* | | | | | |
| Fleur Hudson | - | - | - | - | - |

Note 1: Relevant interest in 9,700,000 shares as a beneficiary of the McCracken Family Trust and 300,000 shares directly held.

Note 2: Relevant interest as Director and sole Shareholder of Agricola Mining Consultants Pty Ltd and indirect interest as a spouse of Susan Castle.

Note 3: Relevant indirect interest as a spouse of Ms Natalie Joan Maloney.

Note 4: Relevant interest as Director and sole Shareholder of AAT Holdings Ltd, Transcontinental Resources Group 2013 Pty Ltd and indirect interest as spouse of Karen Trevisan. Mr Trevisan resigned from the Board of Directors on 10 October 2013 and there are no Key Management Personnel Shareholdings effective from 10 October 2013.

| 2013 Name | Balance at the start of the year | Allotment during the year | Received during the year on the exercise of options | Other Changes during the year | Balance at the end of the year |
|---|---|---|---|---|---|
| **Directors of BMG Resources Limited Ordinary Shares** | | | | | |
| *Non-Executive* | | | | | |
| Peter O'Connor [1] | 500,000 | - | - | - | 500,000 |
| Christopher Eager | - | - | - | - | - |
| Anthony Trevisan [2] | 12,143,599 | - | - | 47,716,243 | 59,859,842 |
| Malcolm Castle [3] | 3,978,559 | - | - | 2,000,000 | 5,978,559 |
| Bruce McCracken [4] | 75,000 | - | - | 9,925,000 | 10,000,000 |
| Michael Green [5] | - | - | - | 4,000,000 | 4,000,000 |
| Robert Pett [6] | - | - | - | - | - |
| **Other Key Management Personnel of the Group Ordinary Shares** | | | | | |
| *Specified Executive* | | | | | |
| Fleur Hudson | - | - | - | - | - |

Note 1: Relevant interest as Director and a Trustee of Avonmore Holdings Group Ltd. Mr O'Connor has resigned as a Director on 01 October 2013.

Note 2: Relevant interest as Director and sole Shareholder of AAT Holdings Ltd, Transcontinental Resources Group 2013 Pty Ltd and indirect interest as spouse of Karen Trevisan.

Note 3: Relevant interest as Director and sole Shareholder of Agricola Mining Consultants Pty Ltd and indirect interest as a spouse of Susan Castle.

Note 4: Relevant interest in 9,700,000 shares as a beneficiary of the McCracken Family Trust and 300,000 shares directly held.

Note 5: Relevant indirect interest as a spouse of Ms Natalie Joan Maloney.

Note 6: Mr Pett has resigned as a Director on 09 April 2013.

### *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 term and conditions of the options.

### *Option Holdings*

The numbers of options over ordinary shares in the Company held during the financial year by each Director of BMG Resources Limited and other Key Management Personnel of the Group, including their personally related parties, are set out below.

| 2014 Directors | Balance at the start of the year | Granted as compensation | Exercised | Other changes during the year (expired) | Balance at the end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| **Directors of BMG Resources Limited Option Holdings** | | | | | | | |
| *Non-Executive* | | | | | | | |
| Christopher Eager | - | 5,000,000 | - | - | 5,000,000 | - | 5,000,000 |
| Bruce McCracken [1] | 4,075,000 | - | - | (75,000) | 4,000,000 | - | 25,000,000 |
| Malcolm Castle [2] | 5,254,600 | | | (3,754,600) | 1,500,000 | - | - |
| Michael Green [3] | - | - | - | - | - | - | 17,000,000 |
| Anthony Trevisan [4] | 15,383,199 | - | - | (15,383,199) | - | - | - |
| **Other Key Management Personnel of the Group Option Holdings** | | | | | | | |
| *Specified Executive* | | | | | | | |
| Fleur Hudson | - | - | - | - | - | - | - |

Note 1: Relevant interest in 4,000,000 options as a beneficiary of the McCracken Family Trust.

Note 2: Relevant interest as Director and sole Shareholder of Agricola Mining Consultants Pty Ltd and indirect interest as a spouse of Susan Castle.

Note 3: Relevant indirect interest as a spouse of Ms Natalie Joan Maloney.

Note 4: Relevant interest as Director and sole Shareholder of AAT Holdings Ltd, Transcontinental Resources Group 2013 Pty Ltd and indirect interest as spouse of Karen Trevisan. Mr Trevisan resigned from the Board of Directors on 10 October 2013 and there are no Key Management Personnel Option Holdings effective from 10 October 2013.

# DIRECTORS' REPORT

| 2013 Directors | Balance at the start of the year | Granted as compensation | Exercised | Other changes during the year | Balance at the end of the year | Vested and exercisable | Unvested |
|---|---|---|---|---|---|---|---|
| **Directors of BMG Resources Limited Option Holdings** | | | | | | | |
| *Non-Executive* | | | | | | | |
| Christopher Eager | - | - | - | - | - | - | - |
| Peter O'Connor [1] | 3,000,000 | - | - | (3,000,000) | - | - | - |
| Anthony Trevisan [2] | 11,978,599 | - | - | 3,404,600 | 15,383,199 | - | - |
| Bruce McCracken [3] | 4,075,000 | - | - | - | 4,075,000 | - | - |
| Malcolm Castle [4] | 5,254,600 | - | - | - | 5,254,600 | - | - |
| Michael Green | - | - | - | - | - | - | - |
| Robert Pett [5] | 2,098,242 | - | - | | 2,098,242 | - | - |
| **Other Key Management Personnel of the Group Option Holdings** | | | | | | | |
| *Specified Executive* | | | | | | | |
| Fleur Hudson | - | - | - | - | - | - | - |

Note 1: Relevant interest as Director and a Trustee of Avonmore Holdings Group Ltd. Mr O'Connor has resigned as a Director on 01 October 2013.

Note 2: Relevant interest as Director and sole Shareholder of AAT Holdings Ltd, Transcontinental Resources Group 2013 Pty Ltd and indirect interest as spouse of Karen Trevisan.

Note 3: Relevant interest in 4,000,000 options as a beneficiary of the McCracken Family Trust and 75,000 options directly held.

Note 4: Relevant interest as Director and sole Shareholder of Agricola Mining Consultants Pty Ltd and indirect interest as a spouse of Susan Castle.

Note 5: Relevant interest as Director of Batterbury Holdings Pty Ltd and Economic Consultants Pty Ltd. Mr Pett resigned as a Director on 09 April 2013.

# DIRECTORS' REPORT

***Options issued as part of Remuneration for the Year ended 30 June 2014***

Options are issued to Directors and Executives as part of their remuneration. The options are issued to Directors and Executives of BMG Resources Limited based on the achievement of key milestones to increase goal congruence between Executives, Directors and Shareholders.

Details of grant of options over ordinary shares in the Company is provided as an incentive scheme to each Director of BMG Resources Limited and each of the Key Management Personnel of the Parent Entity and the Group approved by the Shareholders at the Company's AGM are set out below:

| Name | Number of options provided as an incentive scheme | Number of grant of options during the year | Total value of options at grant date * | Number of options vested during the year | Number of options lapsed during the year | Value at lapse date ** |
|---|---|---|---|---|---|---|
| Christopher Eager | 5,000,000 | 5,000,000 | $22,381 | 5,000,000 | - | - |
| Christopher Eager | 5,000,000 | 3 years from the date of issue | $20,129 | - | - | - |
| Bruce McCracken | 5,000,000 | 3 years from vesting date | $22,381 | - | - | - |
| Bruce McCracken | 5,000,000 | 3 years from vesting date | $21,542 | - | - | - |
| Bruce McCracken | 5,000,000 | 3 years from vesting date | $20,798 | - | - | - |
| Bruce McCracken | 10,000,000 | 3 years from vesting date | $40,259 | - | - | - |
| Michael Green | 3,000,000 | 3 years from vesting date | $13,429 | - | - | - |
| Michael Green | 3,000,000 | 3 years from vesting date | $12,925 | - | - | - |
| Michael Green | 3,000,000 | 3 years from vesting date | $12,479 | - | - | - |
| Michael Green | 8,000,000 | 3 years from vesting date | $32,207 | - | - | - |
| | **52,000,000** | | **$218,530** | **5,000,000** | **-** | **-** |

* The value at grant date calculated in accordance with AASB 2 Share-based payment of options granted during the year as part of remuneration.

** The value at lapse date of options that were granted as part of remuneration and that lapsed during the year because a vesting condition was not satisfied. The value is determined at the time of lapsing, but assuming the condition was satisfied.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The principal terms and conditions of the unlisted options granted during the year are as follow:

- 5,000,000 exercisable at $0.05 each; expiring on the earlier of the third anniversary of the date of issue or six months after Mr Christopher Eager's employment with the Company ceases; vesting on 31 December 2014.



- 5,000,000 exercisable at $0.035 each; expiring on the earlier of the third anniversary of the date on which they vest or six months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource.

- 5,000,000 exercisable at $0.04 each; expiring on the earlier of the third anniversary of the date on which they vest or six months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes.

- 5,000,000 exercisable at $0.045 each; expiring on the earlier of the third anniversary of the date on which they vest or six months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes.

- 10,000,000 exercisable at $0.05 each; expiring on the earlier of the third anniversary of the date on which they vest or six months after Mr Bruce McCracken's employment with the Company ceases; vesting on the Company's completion of a successful Feasibility Study.

- 3,000,000 exercisable at $0.035 each; expiring on the earlier of the third anniversary of the date on which they vest or six months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource.

- 3,000,000 exercisable at $0.04 each; expiring on the earlier of the third anniversary of the date on which they vest or six months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes.

- 3,000,000 exercisable at $0.045 each; expiring on the earlier of the third anniversary of the date on which they vest or six months after Dr Michael Green's employment with the Company ceases; vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes.

- 8,000,000 exercisable at $0.05 each; expiring on the earlier of the third anniversary of the date on which they vest or six months after Dr Michael Green's employment with the Company ceases; vesting on the Company's completion of a successful Feasibility Study.

During the year, the Company has not required or used any remuneration consultants and remuneration package with external consultants.

***Shares issued on Exercise of Compensation Options***

There were no compensation options exercised by Directors or Key Management Personnel during the year ended 30 June 2014.

***Loans to/from Key Management Personnel***

There were no loans to individuals or Directors of the Company during the year ended 30 June 2014.

**OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL**

***Transactions with the Company***

A number of Key Management Personnel or their related parties hold positions in other Entities that result in them having control or significant influence over the financial or operating policies of those Entities. A number of those Entities transacted with the Company during the year. The terms and conditions of those transactions were no more



favorable than those available or, which might reasonably be expected to be available, on similar transactions to unrelated Entities on an arm's length basis.

***Transactions with Related Parties***

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

The following transaction occurred with related parties for the year ended 30 June 2014:

| | 2014 $ | 2013 $ |
|---|---|---|
| **Other transactions** | | |
| Administration and Office Services Fee to Transcontinental Investments | 49,839 | 57,581 |

Note: Mr Trevisan resigned from the Board of Directors on 10 October 2013 and there are no other related parties transactions effective from 10 October 2013.

The aggregate amount recognised during the year relating to Key Management Personnel and their related parties were as follows:

| Director | Transaction | Transactions Value for the Year Ended 30 June | | Balance Outstanding as at 30 June | |
|---|---|---|---|---|---|
| | | **2014** | **2013** | **2014** | **2013** |
| Anthony Trevisan (Director of Transcontinental Investments Pty Ltd) | Administration and Office Services fees | 49,839 | 57,581 | 30,000 | - |

Note: Mr Trevisan resigned from the Board of Directors on 10 October 2013 and there are no other related parties transactions effective from 10 October 2013.

***Notes in relation to the table of related party transactions:***

A Company associated with Mr Trevisan's family provides office space, office equipment and supplies and corporate management and administration services in connection with the operations of the Company and amounts are payable on a monthly basis.

Corporate administration services include those services necessary for the proper administration of a small public Company, including:

(a) administrative, management, corporate, advisory and other similar services;

(b) management of third party professional and expert services including legal and audit and investment banking, independent technical expert and other services;

(c) head office support services including provision of office space for the Company's Managing Director and one other Company appointee, shared access to Transcontinental's office IT and telecommunications equipment and access to third party provided communications systems and support;

(d) company secretarial, administrative support, accounting, payroll business analysis and recruitment and employee administration services; and



(e) other administration services as may be requested from time to time by the Board and as agreed by Transcontinental.

Corporate administration services include those services necessary for the proper administration of a small public Company, including:

(a) company secretarial and accounting, Corporate Governance and reporting and administration support, management of the Company's website, management of third party professional and expert service providers including legal, accounting, tax, audit and investment banking, independent technical expert and other services associated with proper administration of a listed public Company;

(b) operating, marketing, strategic and financial activities required in relation to the Company's Australian mining and exploration projects; and

(c) provision of 'A' grade office space in a central business district office for the Company's main corporate office including use of IT, photocopying and other office equipment and supplies.

The Company must pay a monthly fee to Transcontinental plus reimbursement each month for certain costs, expenses and liabilities incurred and/or paid by Transcontinental on behalf of the Company during the month.

On and from 1 April 2013, the Company agreed to pay a monthly fee of $15,000 (plus GST) to Transcontinental Investments plus reimbursement each month for certain costs, expenses and liabilities incurred and/or paid by Transcontinental Investments on behalf of the Company during the month.

On and from 1 January 2014 TRG agreed to accrue $5,000 of $15,000 the monthly fee for Administration Services, without charging any interest instead of requiring payment of the full invoice on ordinary terms.

Anthony Trevisan (a Director of the Company) is a Director of Transcontinental. Anthony Trevisan resigned from the Board of Directors on 10 October 2013 and therefore Transcontinental is no longer a related party effective from 10 October 2013.

***This is the end of the Audited Remuneration Report.***

### *Indemnifying Directors and Officers*

The Company has made an Agreement to indemnify all the Directors and Officers of the Company against all losses or liabilities incurred by each Director and Officer in their capacities as Directors and Officers of the Company. During the period ended 30 June 2014, the Company paid insurance premiums in respect of Directors and Officers Liability Insurance for Directors and Officers of the Company. The liabilities insured are damages and legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and Officers in their capacity as Directors and Officers of the Entity and related joint venture companies. On 30 April 2014, the Company paid an insurance premium of $5,730 covering the period 30 April 2014 to 30 April 2015 (2013: $9,785).

## NON-AUDIT SERVICES

The Board of Directors, in accordance with advice from the Audit Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for Auditors imposed by the *Corporations Act 2001*.

The Board and the Audit and Risk Committee have considered the non-audit services provided during the financial year by the Auditor and are satisfied that the provision of those non-audit services during the financial year by the Auditor is compatible with, and did not compromise, the Auditor's independence requirements of the *Corporations Act 2001* for the followings reasons:

(a) all non-audit services were subject to the Corporate Governance procedures adopted by the Group; and

(b) the non-audit services provided do not undermine the general principals relating to Auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the Auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

Details of the amount paid to the Auditor of the Group, BDO Audit (WA) Pty Ltd and its related practices for audit and non-audit services provided during the financial year are set out below. In addition, amounts paid to other Auditors for the statutory audit have been disclosed:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Audit and Other Assurance Services** | | |
| BDO Audit (WA) Pty Ltd | 44,318 | 44,374 |
| G. Kalopetrides & Partners Limited | 4,919 | 6,957 |
| **Total remuneration for Audit and Other Assurance Services** | **49,237** | **51,331** |
| **G. Kalopetrides & Partners Limited – Other Services** | | |
| Non Auditing Service | 240 | 235 |
| Taxation Service | 579 | 504 |
| **Total remuneration for G. Kalopetrides & Partners Limited** | **819** | **739** |

## AUDITORS INDEPENDENCE DECLARATION

The Auditors Independence Declaration for the year ended 30 June 2014 has been received and can be found on page 55.

Signed in accordance with a resolution of the Board of Directors.

B. a. McC

**Bruce McCracken**
Managing Director
Dated at Perth, Western Australia, this 25th September 2014.

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors is responsible for the overall Corporate Governance of the Company and the Entity, and is committed to the principles underpinning best practice in Corporate Governance, applied in a manner that meets ASX standards and best addresses the Directors' accountability to Shareholders.

Whilst the Company will endeavour to comply with all of the guidelines under the ASX Corporate Governance Recommendations, the Board considers that the Company is not currently of a size, nor are its affairs of such complexity, to justify the additional expense of compliance with all recommendations. The Board will consider on an ongoing basis its Corporate Governance procedures and whether they are sufficient given the Company's nature of operations and size.

This statement outlines the main Corporate Governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

The Company's Corporate Governance policies are available on the Company's website: http://www.bmgl.com.au/corporate/corporate-governance

Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2014.

### Board Composition

When determining whether a Non-Executive Director is independent the Director must not fail any of the following materiality thresholds:

- less than 10% of Company shares are held by the Director and any Entity or individual directly or indirectly associated with the Director;
- is employed, or has previously been employed in an executive capacity by the Company or another Group member, and there has not been a period of at least three years between ceasing such employment and serving of the Board;
- has been a material professional adviser or a material consultant to the Company or another Group member within the last three years, or an employee materially associated with the service provided;
- no sales are made to or purchases made from any Entity directly or indirectly associated with the Director; and
- none of the Directors income or the income of an individual or Entity directly or indirectly associated with the Director is derived from a contract with any member of the economic entity other than income derived as a Director of the Entity.

The Board currently comprises two Non-Executive Directors being Mr Christopher Eager and Mr Malcolm Castle. Both Mr Eager and Mr Castle are considered independent. The Company has passed a resolution to allow Mrs Hudson to also sit on the Audit and Risk Committee, if required.

The skills, experience and expertise relevant to the position of each Director who is in office at the date of the annual report is detailed on the Directors' Report.

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 the quality of the individual, experience and achievement, credibility within the Company's scope or activities, intellectual ability to contribute to the Board's duties and ability to undertake Board duties and responsibilities.

# CORPORATE GOVERNANCE STATEMENT

## Role of the Board

The management and control of the business is vested in the Board. The Board's primary responsibility is to oversee the Company's business activities and management for the benefit of Shareholders.

The Board strives to create shareholder value and ensure that Shareholders' funds are safeguarded.

The key responsibilities to the Board include:

- setting objectives, goals and strategic direction with management with a view to maximising shareholder value;
- overseeing the financial position and monitoring the business and affairs of the Company;
- establishing corporate governance, ethical, environmental and health and safety standards;
- ensuring significant business risks are identified and appropriately managed; and
- ensuring the composition of the Board is appropriate, selecting Directors for appointment to the Board and reviewing the performance of the Board and the contributions of individual Directors.

The Board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits, require Board approval.

## Audit and Risk Committee

The names and qualifications of those appointed to the Audit and Risk Committee and their attendance at meetings of the Committee are included in the Directors' Report. For further information regarding the Audit and Risk Committee please refer to the Audit and Risk Committee Charter.

## Nomination and Remuneration Committee

The names of all the members of the Nomination and Remuneration Committee and their attendance at meetings of the Committee are detailed in the Directors' Report.

The amount of remuneration for all Directors and Executives, including all monetary and non-monetary components, are detailed in the Directors' Report under the heading Key Management Personnel Remuneration. Shares given to Executives are valued as the difference between the market price of those shares and the amount paid by the Executive. Options are valued using the Black-Scholes methodology.

The Board expects that the remuneration structure implemented will result in the Company being able to attract and retain the best Executives to run the economic entity. It will also provide Executives with the necessary incentives to work to grow long-term Shareholder value.

The payment of bonuses, options and other incentive payments are reviewed by the Nomination and Remuneration Committee annually as part of the review of Executive and Management Remuneration and a recommendation is put to the Board for approval. The Board can exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the Committee's recommendations. Any changes must be justified by reference to measurable performance criteria.

There are no schemes for retirement benefits other than the statutory superannuation for Non-Executive Directors.

For further information regarding the Nomination and Remuneration Committee please refer to the Nomination and Remuneration Committee Charter.

# CORPORATE GOVERNANCE STATEMENT

### Independent Professional Advice

Each Director has the right to access all relevant Company information, and may seek independent professional advice at the Company's expense, in connection with their duties and responsibilities. The Director must first obtain the prior written approval of a Non-Executive Director, not to be unreasonably withheld, before consulting with an advisor suitably qualified in the relevant field. A copy of the advice received by the Directors must be made available to all other members of the Board.

### Share Trading Policy

With respect to share dealings and disclosures, the Company's Share Trading Policy regarding "Restricted Persons" (including the Directors, Executives and Employees) dealing in its securities states the following:

- Consistent with the legal prohibitions on insider trading contained in the *Corporations Act 2001*, all Restricted Persons are prohibited from trading in the Company's securities (and any financial products issued or created over or in respect of the Company's securities) while in possession of unpublished price sensitive information.

- Restricted Persons are required to receive clearance from the Share Trading Committee and the Chairman prior to undertaking any transaction in Company securities. If a Restricted Person is considered to possess unpublished price sensitive information, they will be precluded from making a security transaction until 1 trading day after the time of public release of that information.

- As required by the ASX Listing Rules, the Company will notify the ASX of all transactions of securities in the Company conducted by a Director of the Company.

The Company has a formally appointed Share Trading Committee to ensure that the Share Trading Policy is properly followed. At the date of this document, the members of the Share Trading Committee are Mr McCracken and Mr Castle.

For further information regarding the Share Trading Committee please refer to the Share Trading Committee Charter and the Share Trading Policy.

### Diversity Policy

In July 2011 the Company adopted a Diversity Policy.

All Executives are responsible for promoting and implementing diversity within the Company. This is supported by the Company's efforts to ensure gender based equity and transparency in the recruitment of employees and the nomination of Board members.

For further information please refer to the Diversity Policy.

## COMPLIANCE TO BEST PRACTICE RECOMMENDATIONS

| ITEM | BEST PRACTICE RECOMMENDATION | COMMENT |
|---|---|---|
| **1.** | **Lay solid foundations for management and oversight** | |
| 1.1 | Formalise and disclose the functions reserved to the Board and those delegated to management. | The Company's Corporate Governance policies include a Board Charter, which discloses the specific responsibilities of the Board and provides that the Board shall delegate responsibility for the day-to-day operations and administration of the Company to the Key Executives.<br>A copy of the Board Charter and the Code of Conduct is available on the Company's website (www.bmgl.com.au). |
| **2.** | **Structure the Board to add value** | |
| 2.1 | A majority of the Board should be independent Directors. | A majority of the Board is considered independent. |
| 2.2 | The Chairperson should be an independent Director. | The Chairman is considered independent. |
| 2.3 | The roles of Chairperson and Managing Director should not be exercised by the same individual. | The roles of Chairman and Managing Director are not exercised by the same individual. |
| 2.4 | The Board should establish a Nomination Committee. | A Nomination and Remuneration Committee has been established and is comprised of:<br>• Mr Christopher Eager<br>• Mr Malcolm Castle; and<br>• Mr Anthony Trevisan (resigned on 10 October 2013).<br>The Board considers that this composition is appropriate given the current size of the Company.<br>The Company has passed a resolution to allow Mrs Hudson to also sit on the Nomination and Remuneration Committee, if required. |
| 2.5 | Process for evaluating the performance of the Board, its Committees and individual Directors. | A copy of the Board Charter and the Procedures for Selection and Appointment of Directors is available on the Company's website. |
| 2.6 | Provide the information indicated in Guide to Reporting on Principle 2. | Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. The Board also has a policy under which individual Directors and Board committees may obtain independent professional advice at the Company's expense in relation to the execution of their duties, after consultation with the Managing Director. |

# CORPORATE GOVERNANCE STATEMENT

| ITEM | BEST PRACTICE RECOMMENDATION | COMMENT |
| --- | --- | --- |
| **3.** | **Promote ethical and responsible decision-making** | |
| 3.1 | Establish a code of conduct as to:<br>• the practices necessary to maintain confidence in the Company's integrity;<br>• the practices necessary to take into account legal obligations and the reasonable expectations or their stakeholders; and<br>• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | The Company's Corporate Governance policies include a Corporate Code of Conduct, which provides a framework for decisions and actions in relation to ethical conduct in employment. A copy of this policy is available on the Company's website. |
| 3.2 | Establish a policy concerning trading in Company securities by Directors, Senior Officers and Employees. | The Company's Corporate Governance policies include a Share Trading Policy for buying and selling securities in the Company. A copy of this policy is available on the Company's website. |
| 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. | The Company will proactively monitor Company performance in meeting its diversity standards and policies by:<br>• the Board establishing, and reviewing on an annual basis, measurable objectives for achieving improvement in the diversity mix of the workforce and particularly gender diversity;<br>• recruiting and managing on the basis of an individual's competence and performance;<br>• creating a culture that empowers and rewards people to act in accordance with the policy;<br>• appreciating and respecting the unique attributes that each individual brings to the workplace;<br>• fostering an inclusive and supportive culture to enable people to develop to their full potential;<br>• ensuring we have clear reporting processes in place;<br>• promoting diversity through our actions and interactions;<br>• taking action to prevent and stop discrimination, bullying and harassment; and<br>• actively monitoring recruitment, promotions and turnover and communicating statistics.<br>The Company will continue to up hold the Diversity Policy where and when appropriate. |

# CORPORATE GOVERNANCE STATEMENT

| ITEM | BEST PRACTICE RECOMMENDATION | COMMENT |
|---|---|---|
| 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. | Mrs Hudson (Company Secretary) is currently the only female Key Management person; however given the small scale of the Company this represents 20% of the total Key Management Personnel. |
| 3.5 | Provide the information indicated in Guide to Reporting on Principle 3. | The Company's Diversity Policy is publicly available on the Company's website. |
| **4.** | **Safeguard integrity in financial reporting** | |
| 4.1 | The Board should establish an Audit Committee. | An Audit and Risk Committee has been established consisting of:<br>• Mr Castle (Chairman of the Committee); and<br>• Mr Eager.<br>The Company has passed a resolution to allow Mrs Hudson to sit on the Audit and Risk Committee, if required. |
| 4.2 | Structure the Audit Committee so that it consists of:<br>• only Non-Executive Directors;<br>• a majority of independent Directors;<br>• an independent Chairperson, who is not Chairperson of the Board; and<br>• at least three members. | The Audit and Risk Committee consists of two Non-Executive Directors, both of which are independent, and the Chairperson is not the Chairperson of the Board.<br>Due to the current size of the Company and its activities the Company does not currently comply with Recommendation 4.2. The Company has passed a resolution to allow Mrs Hudson to also sit on the Audit and Risk Committee, if required. |
| 4.3 | The Audit Committee should have a formal charter. | A copy of the Audit and Risk Committee Charter is available on the Company's website. The Audit Committee Charter also contains details on the procedure for the selection and appointment of the external auditor, and the rotation of external audit engagement partners. |
| 4.4 | Provide the information indicated in Guide to Reporting on Principle 4. | The following material is included in the Corporate Governance statement in the Company's annual reports:<br>• the names and qualifications of those appointed to the Audit and Risk Committee and their attendance at meetings of the Committee;<br>• the number of meetings of the Audit and Risk Committee;<br>• explanation of any departures from Recommendations 4.1, 4.2, 4.3 or 4.4.<br>The following material is publicly available on the Company's website:<br>• the Audit and Risk Committee Charter. |

# CORPORATE GOVERNANCE STATEMENT

| ITEM | BEST PRACTICE RECOMMENDATION | COMMENT |
|---|---|---|
| **5.** | **Make timely and balanced disclosure** | |
| 5.1 | Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. | The Company has a continuous Disclosure Policy in place designed to ensure the factual presentation of the Company's position. A copy of this policy is available on the Company's website. |
| **6.** | **Respect the rights of shareholders** | |
| 6.1 | Design and disclose a communications strategy to promote effective communication with shareholders and encourage their participation at general meetings. | The Company has a Shareholder Communication Policy in place which set out procedures to provide Shareholders with relevant information which includes identifying matters that may have a material effect on the price of the c=Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases where required. A copy of this policy is available on the Company's website. |
| **7.** | **Recognise and manage risk** | |
| 7.1 | Establish policies on risk oversight and management of material business risk. | The Company's Risk Management and Internal Compliance and Control Policy and Audit and Risk Committee Charter are available on the Company's website.<br><br>Under the Risk Management and Internal Compliance and Control Policy the Board determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies for internal compliance and internal control. |
| 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 to report to the Board on whether those risks are being managed effectively. | The Risk Management and Internal Control System are reviewed annually in September, at the completion of the financial statements reporting. |
| 7.3 | The Chief Executive Officer (or equivalent) and the Chief Financial Officer (or equivalent) should state to the Board in writing that declaration in accordance with section 295A of the Corporations Act is founded on the Company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects. | The Board will request that the relevant Directors and Company Secretary provide such a statement at the relevant time. |
| 7.4 | Provide the information indicated in Guide to Reporting on Principle 7. | The Company will continue to recognise and manage risk in accordance with the methods referred to above and will explain any departures from Recommendations 7.1, 7.2 and/or 7.3 in its future reports if necessary. |
| **8.** | **Remunerate fairly and responsibly** | |
| 8.1 | The Board should establish a Remuneration Committee. | A Nomination and Remuneration Committee has been established. The Nomination and Remuneration Committee Charter is available on the Company's website. |

# CORPORATE GOVERNANCE STATEMENT

| ITEM | BEST PRACTICE RECOMMENDATION | COMMENT |
|---|---|---|
| 8.2 | Structure the Remuneration Committee so that it consists of:<br>• a majority of independent Directors;<br>• an independent Chairperson; and<br>• at least three members. | The Nomination and Remuneration Committee has delegated responsibilities in relation to the Company's remuneration policies which reflect the matters set out in the commentary and guidance for Recommendation 8.1. Further details of the Nomination and Remuneration Committee are set out at point 2.4.<br>The Board considers that this composition is appropriate given the current size of the Company. |
| 8.3 | Clearly distinguish the structure of Non-Executive Directors' remuneration from that of Executives. | Please refer to Remuneration Report. |
| 8.4 | Provide the information indicated in Guide to Reporting on Principle 8. | The following material is included in the Corporate Governance statement in the Company's annual reports:<br>• the names of the members of the Nomination and Remuneration Committee and their attendance at meetings of the committee;<br>• the existence and terms of any schemes for retirement benefits, other than superannuation, for Non-Executive Directors;<br>• an explanation of any departures from Recommendations 8.1, 8.2, 8.3 or 8.4.<br>The Company's Nomination and Remuneration Committee Charter and the Company's Share Trading Policy are publicly available on the Company's website. |

# AUDITORS INDEPENDENCE DECLARATION

BDO

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

**DECLARATION OF INDEPENDENCE BY CHRIS BURTON TO THE DIRECTORS OF BMG RESOURCES LIMITED**

As lead auditor of BMG Resources Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of BMG Resources Limited and the entities it controlled during the period.

**Chris Burton**

Director

**BDO Audit (WA) Pty Limited**

Perth, 25 September 2014

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2014

| | | Consolidated | |
|---|---|---|---|
| | Notes | 30 June 2014<br>$ | 30 June 2013<br>$ |
| **Revenue from continuing operations** | 7 | 50,543 | 17,215 |
| Other income | 7 | - | 76,256 |
| Employee benefits expense | 8 | (230,911) | (252,224) |
| Employee share based payments | | (75,987) | (6,985) |
| Depreciation and amortisation expense | 12 | (20,390) | (24,787) |
| Accounting & audit fee | | (79,629) | (65,753) |
| Corporate and administration expenses | | (329,809) | (196,563) |
| Exploration assets write off | 13 | (46,247) | (19,052,989) |
| Write off asset | | - | (353,754) |
| Other expenses from ordinary activities | | (108,635) | (166,765) |
| **LOSS BEFORE INCOME TAX** | | **(841,065)** | **(20,026,349)** |
| Income tax expense | 9 | - | - |
| **LOSS AFTER INCOME TAX** | | **(841,065)** | **(20,026,349)** |
| Loss is attributable: | | | |
| Owner Of BMG Resources Limited | | **(841,065)** | **(20,026,349)** |
| **NET LOSS FOR THE YEAR** | | **(841,065)** | **(20,026,349)** |
| **Other Comprehensive Loss** | | | |
| **Items that may be reclassified to profit and loss** | | | |
| Changes in foreign operations translation | | (8,851) | 1,799,302 |
| | | **(849,916)** | **(18,227,047)** |
| **TOTAL COMPREHENSIVE LOSS FOR THE YEAR** | | **(849,916)** | **(18,227,047)** |
| Total comprehensive loss for the year is: | | | |
| Attributable to the owner of BMG Resources Limited | | **(849,916)** | **(18,227,047)** |
| Basic loss per share (cents per share) | 19 | (0.13) | (7.31) |

The Consolidated Statement of Profit or Loss and Other Comprehensive Income are to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## As at 30 June 2014

| | Notes | Consolidated 30 June 2014 $ | Consolidated 30 June 2013 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 10 | 696,944 | 2,350,464 |
| Prepayments | 11 | 4,644 | 4,666 |
| Trade and other receivables | 11 | 5,174 | 15,475 |
| **TOTAL CURRENT ASSETS** | | **706,762** | **2,370,605** |
| **NON-CURRENT ASSETS** | | | |
| Trade and other receivables | 11 | - | 68,863 |
| Property, plant and equipment | 12 | 54,091 | 74,271 |
| Exploration and evaluation expenditure | 13 | 2,271,852 | 1,409,594 |
| **TOTAL NON-CURRENT ASSETS** | | **2,325,943** | **1,552,728** |
| **TOTAL ASSETS** | | **3,032,705** | **3,923,333** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 14 | 100,712 | 217,412 |
| **TOTAL CURRENT LIABILITIES** | | 100,712 | 217,412 |
| **TOTAL LIABILITIES** | | 100,712 | 217,412 |
| **NET ASSETS** | | **2,931,993** | **3,705,921** |
| **EQUITY** | | | |
| Contributed equity | 15 | 39,777,644 | 39,777,644 |
| Reserves | 16 | 934,625 | 867,489 |
| Accumulated Loss | 17 | (37,780,276) | (36,939,211) |
| **TOTAL EQUITY** | | **2,931,993** | **3,705,921** |

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

| | Contributed Equity $ | Accumulated Losses $ | Option Reserve $ | Financial Assets Reserve $ | Foreign Currency Reserve $ | Total $ |
|---|---|---|---|---|---|---|
| **BALANCE AT 1 JULY 2013** | **39,777,644** | **(36,939,211)** | **444,166** | **-** | **423,323** | **3,705,921** |
| Total loss for the year | - | (841,065) | - | - | - | (841,065) |
| Foreign exchange movement | | | | | (8,851) | |
| *Transactions with owners in their capacity as owners:* | | | | | | |
| Employee share options | - | - | 75,987 | - | - | 75,987 |
| **BALANCE AT 30 JUNE 2014** | **39,777,644** | **(37,780,276)** | **520,153** | **-** | **414,472** | **2,931,993** |
| | | | | | | |
| **BALANCE AT 1 JULY 2012** | **35,406,374** | **(16,912,862)** | **437,181** | **-** | **(1,375,979)** | **17,554,714** |
| Total loss for the year | - | (20,026,349) | - | - | - | (20,026,349) |
| Foreign exchange movement | - | - | - | - | 1,799,302 | 1,799,302 |
| *Transactions with owners in their capacity as owners:* | | | | | | |
| Share issued to raise capital | 4,381,708 | - | - | - | - | 4,381,708 |
| Share issued on acquisition | 450,000 | - | - | - | - | 450,000 |
| Share issue cost | (460,438) | - | - | - | - | (460,438) |
| Employee share options | - | - | 6,985 | - | - | 6,985 |
| **BALANCE AT 30 JUNE 2013** | **39,777,644** | **(36,939,211)** | **444,166** | **-** | **423,323** | **3,705,921** |

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS
## For the year ended 30 June 2014

| | | Consolidated | |
|---|---|---|---|
| | Notes | 30 June 2014 $ | 30 June 2013 $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Royalty Bonus | | - | 101,054 |
| Payments to suppliers and employees | | (822,669) | (380,021) |
| Interest received | | 50,543 | 17,215 |
| **NET CASH (USED IN)/PROVIDED BY OPERATING ACTIVITIES** | 18 | **(772,126)** | **(261,751)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (209) | (14,566) |
| Payments for exploration and evaluation | | (950,685) | (778,021) |
| Payment for acquisition of subsidiary | | - | (481,133) |
| Security deposit paid | | 68,862 | (5,368) |
| Cash received on acquisition | | - | 1,720 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(882,032)** | **(1,277,368)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares and other securities (net of costs) | | - | 3,921,270 |
| Repayment of Borrowings | | - | (974,000) |
| Loan from/(to) related party | | - | 774,000 |
| **NET CASH (USED IN)/PROVIDED BY FINANCING ACTIVITIES** | | **-** | **3,721,270** |
| | | | |
| **NET INCREASE/(DECREASE) IN CASH HELD** | | **(1,654,158)** | **2,182,151** |
| | | | |
| Cash and cash equivalents at beginning of year | | 2,350,464 | 166,054 |
| Effect of exchange rates on cash holdings in foreign currencies | | 638 | 2,259 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 10 | **696,944** | **2,350,464** |

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The primary accounting policies adopted in the preparation of the Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Reporting Company

BMG Resources Limited ('the **Group**') is a Company domiciled in Australia. BMG Resources Limited is a Company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The Consolidated Financial Report of the Company as at and for the year ended 30 June 2014 comprises the Company and its subsidiaries (together referred to as the '**Consolidated Entity'**).

The Group advises that in accordance with ASX Listing Rule 4.10.19 during the financial year ended 30 June 2014 it used its cash and assets that are readily convertible to cash in a way that is consistent with its business objectives.

The nature of the operations and principal activities of the Consolidated Entity are described in the Directors' Report.

### (b) Basis of Preparation

#### *(i) Statement of Compliance*

The Consolidated Financial Statements are general purpose Financial Statements for the reporting year ended 30 June 2014 and have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, Interpretations and the *Corporations Act 2001*. BMG Resources Limited is a for profit entity for the purpose of preparing the Financial Statements.

#### *Compliance with IFRS*

The Consolidated Financial Statements of BMG Resources Limited Group also comply with the International Financial Reporting Standards (IFRS and IFRIC interpretations) issued by the International Accounting Standards Board (IASB).

The Board of Directors have prepared the financial report on a going concern basis, any additional funding that may be required is anticipated to be obtainable and will allow the Group to continue to fund its operations and further develop their mineral exploration and evaluation assets during the twelve month period from the date of this financial report.

The Financial Statements were approved by the Board of Directors on 18th September 2014.

#### *(ii) Historical cost convention*

The financial report has been prepared on an accrual basis and is based on historical costs *modified* by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

#### *(iii) New and amended standards adopted by the Company*

BMG Resources Limited had to change some of its accounting policies as a result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013.

The affected policies and standards are:

- Principles of consolidation – new standards AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standard, AASB 12 Disclosure of Interest in Other Entities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standard arising from AASB 13.

- AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and other Amendments which provides an exemption from the requirement to disclose the impact of the change in accounting policy on the current period.

- Accounting for Employee Benefits – revised AASB 119 Employee Benefits.

- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle; and,

- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.

None of the new standards stated above that apply for the first time for the June 2014 Annual Report have a material impact on the current period.

Other new standards that are applicable for the first time for the Annual Report are AASB 13 Fair Value Measurements. This standard has introduced new disclosures for the annual report but did not affect the Entity's accounting policies or any of the amounts recognised in the Financial Statements.

All amounts are presented in Australia dollars, unless otherwise noted.

### (c) Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements requires Management to make judgments, estimates and assumptions that affect the reported amounts in the Financial Statements. Management continually evaluates its judgments and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgments and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the Financial Statements are outlined below:

#### *(i) Significant Accounting Judgments*

***Exploration Expenditure***

The write-off and carrying forward of exploration acquisition costs is based on an assessment of an area of interest's viability and/or the existence of economically recoverable reserves. Information may come to light in a later period which results in the asset being written off as it is not considered viable.

#### *(ii) Significant Accounting Estimates and Assumptions*

***Estimation of Useful Lives of Assets***

The estimation of the useful lives of assets has been based on historical experience. The condition of the assets is assessed at least once per year and considered against the remaining useful life.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

***Critical Accounting Estimate***

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes assumptions concerning the future. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to Management. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgments, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts and assets and liabilities within the next financial year are discussed below.

***Impairment of Assets***

At each reporting date the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amount is determined and impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash-generating unit to which the asset belongs. During the year the Group has impaired (written off) exploration and evaluation expenditure of $46,247.

***Share based payments***

The Group measures the cost of equity settled transactions with employees by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes option pricing model.

**(d) Summary of Significant Accounting Policies**

***(i) Principles of Consolidation***

The Consolidated Financial Statements incorporate the assets and liabilities of all the subsidiaries that BMG Resources Limited ('the **Parent Entity**') has the power to control the consolidated entity when the group is exposed to, or has rights to, variable returns from its involvement with the consolidated `entity and has the ability to affect those returns through its power to direct the activities of the consolidated entity, the financial and operating policies as at 30 June 2014 and the results of all subsidiaries for the year ended 30 June 2014. All inter-company balances and transactions between the Group and the Consolidated Entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Consolidated Entity.

***Subsidiaries***

Subsidiaries are all entities controlled by the Consolidated Entity. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Consolidated Entity.

In the Consolidated Entity's Financial Statements, investments in subsidiaries are carried at cost. The Financial Statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

In preparing the Consolidated Financial Statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from inter-entity transactions have been eliminated in full. 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.

The investments in subsidiaries held by BMG Resources Limited are accounted for at cost in the separate Financial Statements of the Company less any impairment charges. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

***Business Combinations***

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

***Measuring goodwill***

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the Acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the Acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the Acquiree that are replaced mandatorily in the business combination. If a business combination results in the termination of pre-existing relationships between the Group and the Acquiree, then the lower of the termination amount, as contained in the Agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

***Transaction Costs***

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, and other professional and consulting fees, are expensed as incurred. The cost incurred on acquisition of subsidiaries, such as legal fees, due diligence fees, and other professional and consulting fees, are capitalised as an investment in subsidiaries.

***(ii) Foreign Currency***

***Functional and presentation currency***

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Entity operates ('the **functional currency**'). The Consolidated Financial Statements are presented in Australian dollars (A$), which is BMG Resources Limited's functional and presentation currency.

The functional currency used on the subsidiaries of BMG Resources Limited in Brazil is US Dollars (US$) and in Cyprus is the Euro (EUR).

***Foreign currency transactions and balances***

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

***Translation of foreign operations***

The Statement of Profit or Loss and other Comprehensive Income is translated at the average exchange rates for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of the foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation will be recognised in the Statement of Profit or Loss and Other Comprehensive Income.

***(iii) Segment Reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker. The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Strategic Steering Committee.

***(iv) Cash and Cash Equivalents***

'Cash and cash equivalents' includes cash at bank and in hand, deposits held at call with financial institutions, other short-term highly liquid deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

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



### *(v) Trade and Other Receivables*

Trade debtors are recognised at the amount receivable and are due for settlement within 30 days from the end of the month in which services were provided. Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off against the receivable directly unless a provision for impairment has previously been recognised.

A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Loans granted are recognised at the amount of consideration given or the cost of services provided to be reimbursed.

### *(vi) Revenue Recognition*

#### *Interest*

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset.

### *(vii) Fair value estimation for financial instruments*

Fair values may be used for financial asset and liability measurement as well as for sundry disclosures. Fair values for financial instruments traded in active markets are based on quoted market prices at Statement of Financial Position date. The quoted market price for financial assets is the current bid price and the quoted market price for financial liabilities is the current ask price.

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. Assumptions used are based on observable market prices and rates at Statement of Financial Position date. The fair value of long-term debt instruments is determined using quoted market prices for similar instruments. Estimated discounted cash flows are used to determine fair value of the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the Statement of Financial Position date. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows.

The fair value of trade receivables and payables is their nominal value less estimated credit adjustments. A financial instrument is recognised if the Consolidated Entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Consolidated Entity's contractual rights to the cash flows from the financial assets expire or if the Consolidated Entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, (ie the date that the Consolidated Entity commits itself to purchase or sell the asset). Financial liabilities are derecognised if the Consolidated Entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits greater than 3 months are classified as held to maturity investments and valued at amortised costs.

### *(viii) Investments and Other Financial Assets*

#### *Classification*

The Group classifies its financial assets 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 the end of each reporting date.

***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 if they are expected to be settled within 12 months; otherwise they are classified as non-current.

***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 reporting period which are classified as non-current assets. Loans and receivables are included in trade and other receivables and payable in the Statement of Financial Position.

***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 end of the reporting period, which are classified as current assets.

***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 the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investment are designated as 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.

***(ix) Exploration and Evaluation Expenditure***

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

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Exploration and evaluation expenditure encompasses expenditures incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.



Exploration and evaluation expenditure incurred by the Group is accumulated for each area of interest and recorded as an asset if:

A. the rights to tenure of the area of interest are current; and

B. at least one of the following conditions is also met:

(i) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and

(ii) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

For each area of interest, expenditure incurred on the Exploration of Tenements throughout Brazil and Cyprus is capitalised, classified as tangible or intangible, and recognised as an exploration and evaluation asset. Exploration and evaluation assets are measured at cost at recognition. A provision for unsuccessful exploration and evaluation is created against each area of interest by means of a charge to the Statement of Profit or Loss and Other Comprehensive Income. The recoverable amount of each area of interest is determined on a bi-annual basis and the provision recorded in respect of that area adjusted so that the net carrying amount does not exceed the recoverable amount. For areas of interest that are not considered to have any commercial value, or where exploration rights are no longer current, the capitalised amounts are written off against the provision and any remaining amounts are charged against profit. Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

### (e) Property, Plant and Equipment

Items of property, plant and equipment are initially recorded at cost, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition, and depreciated. Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

#### *Plant and Equipment*

Plant and equipment are measured on a cost basis.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

#### *Depreciation*

The depreciation amount of all the fixed assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives to the economic entity commencing from the time the asset is held ready to use at the end of each reporting period.

The depreciation rates used for each class of depreciable assets are:

| Class of Fixed Asset | Depreciation Rate |
|---|---|
| Plant and equipment | 11 - 33% |
| Motor Vehicle | 20% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## (f) Impairment

***Financial Assets***

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

***Non-Financial Assets***

The carrying amounts of the non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Group that generates cash flows that largely are independent from other assets and Groups. Impairment losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## (g) Income Tax Expenses or Benefit

The income tax expense or benefit (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 between the tax base of assets and liabilities and their carrying amounts in the Financial Statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences, between carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases, at the tax rates expected to apply when the assets are recovered or liabilities settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. Exceptions are made for certain temporary differences arising on initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit. Deferred tax assets are only recognised for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities, associates and interests in joint ventures 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 be reversed in the foreseeable future. Current and deferred tax balances relating to amounts recognised directly in equity.

BMG Resources Limited and its resident subsidiaries have unused tax losses. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.



### (h) Goods and Services Tax

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flow on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authorities are classified as operating cash flows.

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

### (i) Comparatives

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### (j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

### (k) Trade and Other Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Consolidated Entity. Trade accounts payable are normally settled within 60 days.

### (l) Employee Benefits

***Short term Employee Benefit Obligations***

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' service up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

***Other long-term Employee Benefit Obligations***

Liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to the expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

The obligations are presented as current liabilities in the Statement of Financial Position if the Entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

***Termination Benefits***

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the followings dates:

(a) when the Company can no longer withdraw the offer of those benefits; and

(b) when the Entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

***Share-based payments***

The fair value of options granted under BMG Resources Limited is recognised as an employee benefit expense with a corresponding increase in equity (share-based payments reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each Statement of Financial Position date, the Entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised in each period takes into account the most recent estimate.

The market value of shares issued to employees for no cash consideration under the Employee Share Scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

### (m) Share-based Payment Transactions

The grant date fair value of options granted to employees (including Key Management Personnel) is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

Share-based payment arrangements in which the Consolidated Entity receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Consolidated Entity.



### (n) Contributed Equity

Ordinary shares are classified as equity.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

### (o) Earnings or Loss per share

Basic earnings or loss per share are calculated by dividing the net profit or loss attributable to members of the Parent Entity for the reporting period by the weighted average number of ordinary shares of the Company.

### (p) Determination of Fair Values

A number of the Consolidated Entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the Notes specific to that asset or liability.

***Trade and Other Receivables***

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### (q) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the year ended 30 June 2014. These are outlined in the table below.

| AASB reference | Title | Summary | Application date of standard | Impact on consolidated financial report | Application date for Group |
|---|---|---|---|---|---|
| AASB 9 Financial Instruments (December 2010)<br>[Also refer to AASB 2013-9 and AASB 2014-1 below] | AASB 139 Financial Instruments: Recognition and Measurement | AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities.<br>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:<br>(a) Financial assets that are debt instruments will be classified based on:<br>(1) the objective of the Entity's business model for managing the financial assets; and<br>(2) the characteristics of the contractual cash flows.<br>(b) Allows 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 (instead of in profit or loss). 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.<br>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.<br>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:<br>(1) The change attributable to changes in credit risk are presented in other comprehensive income (OCI); and<br>(2) The remaining change is presented in profit or loss.<br>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. | Periods beginning on or after 01 January 2018 | *The Entity has not yet assessed the full impact of AASB 9 as this standard does not apply mandatorily before 1 January 2018 and the IASB is yet to finalise the remaining phases of its project to replace IAS 39 Financial Instruments: Recognition and Measurement.*<br>*(AASB 139 in Australia).* | 01 January 2018 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| AASB reference | Title | Summary | Application date of standard | Impact on consolidated financial report | Application date for Group |
|---|---|---|---|---|---|
| | | Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:<br>(a) Classification and measurement of financial liabilities; and<br>(b) Derecognition requirements for financial assets and liabilities.<br>AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.<br>Consequential amendments arising from AASB 9 are contained in AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2010-10 Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters, AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures, AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments and AASB 2014-1 Amendments to Australian Accounting Standards. | | | |
| Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11) | Joint Operations (Amendments to IFRS 11) | The amendments to IFRS 11 state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in IFRS 3 Business Combinations, should:<br>(a) apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except principles that conflict with the guidance of IFRS 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only, i.e. the existing interest is not remeasured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation; and<br>(b) provide disclosures for business combinations as required by IFRS 3 and other IFRSs.<br>The Australian Accounting Standards Board (AASB) is expected to issue the equivalent Australian amendment shortly. | 1 January 2016 | *When these amendments become effective for the first time for the year ending 30 June 2017, they will not have any impact on the Entity.* | 1 January 2016 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| AASB reference | Title | Summary | Application date of standard | Impact on consolidated financial report | Application date for Group |
|---|---|---|---|---|---|
| IFRS (issued December 2011) | Mandatory Effective Date of IFRS 9 and Transition Disclosures | Entities are no longer required to restate comparatives on first time adoption. Instead, additional disclosures on the effects of transition are required. | Annual reporting periods commencing on or after 1 January 2015 | As comparatives are no longer required to be restated, there will be no impact on amounts recognised in the Financial Statements. However, additional disclosures will be required on transition, including the quantitative effects of reclassifying financial assets on transition. | 1 July 2015 |

There are no other standards that are not yet effective and that are expected to have a material impact on the Entity in the current or future reporting periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of components of the Consolidated Entity that are regularly reviewed by the Chief Operating Decision Makers (CODM) in order to allocate resources to the segment and to assess its performance.

The Consolidated Entity has identified the following segments:

(a) Exploration (Chile) – consists of the exploration expenditure involved in the search and discovery of minerals; the Group has decided to write off Chilean assets and liabilities for deregistration of the parent Company who held the entire shares of the Chilean Company during the last financial year;

(b) Exploration (Brazil) – consists of the exploration expenditure involved in the search and discovery of minerals; (During the year ended 30 June 2014, the Group wrote off the entire exploration assets of the Brazilian Segment);

(c) Exploration (Cyprus) – consists of the exploration expenditure involved in the search and discovery of minerals;

(d) Investment (Australia) – consists of financial investments made in Australia;

(e) Corporate (Australia) – includes corporate and other costs incurred by the Parent Entity.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

The Consolidated Entity's principal activities continue to be in mineral exploration and projects are managed on a project-by-project basis.

### (a) Segment Performance

**Year ended 30 June 2014**

| | Exploration (Chile) | Exploration (Brazil) | Exploration (Cyprus) | Investment (Australia) | Corporate (Australia) | Total Consolidated Entity |
|---|---|---|---|---|---|---|
| External revenues | - | - | - | 50,543 | - | 50,543 |
| Inter-segment revenue | - | - | - | - | - | - |
| Corporate and administration | - | (36,455) | (43,210) | (6,049) | (244,095) | (329,809) |
| Depreciation and amortisation expense | - | (2,641) | (2,217) | - | (15,532) | (20,390) |
| Exploration assets write off | - | (2,515) | (43,732) | - | - | (46,247) |
| Employees shares based payments | - | - | - | - | (75,987) | (75,987) |
| Other expenses | - | (33,314) | (29,139) | (9,008) | (347,714) | (419,175) |
| **Reportable segment profit before income tax** | **-** | **(74,925)** | **(118,298)** | **35,486** | **(683,328)** | **(841,065)** |

**Year ended 30 June 2013**

| | Exploration (Chile) | Exploration (Brazil) | Exploration (Cyprus) | Investment (Australia) | Corporate (Australia) | Total Consolidated Entity |
|---|---|---|---|---|---|---|
| External revenues | - | - | - | 17,215 | - | 17,215 |
| Inter-segment revenue | - | - | - | - | 101,054 | 101,054 |
| Corporate and administration | - | (52,842) | (10,247) | (3,572) | (455,852) | (522,513) |
| Depreciation and amortisation expense | - | (4,486) | (136) | (75) | (20,090) | (24,787) |
| Sales of assets / assets write off | (358,115) | (24,798) | - | 4,362 | - | (378,551) |
| Exploration assets write off | - | (19,052,989) | - | - | - | (19,052,989) |
| Other expenses | - | (47,551) | (62,577) | - | (55,650) | (165,778) |
| **Reportable segment profit before income tax** | **(358,115)** | **(19,182,666)** | **(72,960)** | **17,930** | **(430,538)** | **(20,026,349)** |



## (b) Segment Assets and Liabilities

**Year ended 30 June 2014**

| | Exploration (Brazil) | Exploration (Cyprus) | Investment (Australia) | Corporate (Australia) | Total Consolidated Entity |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | 50,614 | 2,250 | 602,344 | 51,554 | 706,762 |
| Property, plant & equipment | - | 8,544 | - | 45,547 | 54,091 |
| Exploration and evaluation expenditure | - | 2,271,852 | - | - | 2,271,852 |
| **Total Segment Assets** | **50,614** | **2,282,646** | **602,344** | **97,101** | **3,032,705** |
| Current liabilities | - | (7,713) | - | (92,999) | (100,712) |
| **Total Segment Liabilities** | **-** | **(7,713)** | **-** | **(92,999)** | **(100,712)** |
| **Net Assets Employed** | **50,614** | **2,274,933** | **602,344** | **4,102** | **2,931,993** |

**Year ended 30 June 2013**

| | Exploration (Brazil) | Exploration (Cyprus) | Investment (Australia) | Corporate (Australia) | Total Consolidated Entity |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | 1,750 | 20,376 | 2,286,189 | 62,290 | 2,370,605 |
| Property, plant & equipment | 2,654 | 10,538 | - | 61,079 | 74,271 |
| Exploration and evaluation expenditure | - | 1,409,594 | - | - | 1,409,594 |
| Other non-current assets | 68,863 | - | - | - | 68,863 |
| **Total Segment Assets** | **73,267** | **1,440,508** | **2,286,189** | **123,369** | **3,923,333** |
| Current liabilities | - | (14,922) | - | (202,490) | (217,412) |
| **Total Segment Liabilities** | **-** | **(14,922)** | **-** | **(202,490)** | **(217,412)** |
| **Net Assets Employed** | **73,267** | **1,425,586** | **2,286,189** | **(79,121)** | **3,705,921** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (c) Major Customers

The Consolidated Entity continues to carry out exploration activities in Brazil and at this time does not provide product or services.

## 3. CONTINGENT LIABILITIES

The Board is not aware of any other circumstance or information which leads them to believe there are any material contingent liabilities outstanding as at 30 June 2014.

## 4. DIVIDENDS

The Company has not paid or provided for dividends during this year.

## 5. SHARE BASED PAYMENTS

The primary purpose of the Director options is to provide incentive to the participating Directors to drive the Company's assets forward. All options granted to Key Management Personnel are over ordinary shares in BMG Resources Limited, which confer a right of one ordinary share for every option held.

### *Employee Option Plan*

The Employee Option Plan is designed to provide long-term incentives for Senior Managers and above (including Executive Directors) to deliver long-term Shareholder returns.

Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Options are granted under the plan for no consideration, and options granted under the plan carry no dividend or voting rights.

Set out below are summaries of options granted under the plan:

| 2014 Grant Date | Expiry Date | Exercise price | Balance at start of the year number | Granted during the year number | Exercised during the year number | Forfeited during the year number | Balance at end of the year number | Vested and exercisable at end of the year number |
|---|---|---|---|---|---|---|---|---|
| 13/12/2013 | 13/12/2016 | $0.035 | - | 5,000,000 | - | - | 5,000,000 | |
| 09/12/2011 | 01/07/2016 | $0.20 | 1,400,000 | - | - | - | 1,400,000 | - |
| 09/12/2011 | 01/07/2016 | $0.22 | 2,600,000 | - | - | - | 2,600,000 | - |
| 09/12/2011 | 09/12/2014 | $0.22 | 1,500,000 | - | - | - | 1,500,000 | - |
| **Total** | | | **5,500,000** | **5,000,000** | **-** | **-** | **10,500,000** | **-** |
| **Weight average exercise price** | | | **$0.17** | **-** | **-** | **-** | **$0.13** | **-** |



| 2013 Grant Date | Expiry Date | Exercise price | Balance at start of the year number | Granted during the year number | Exercised during the year number | Forfeited during the year number | Balance at end of the year number | Vested and exercisable at end of the year number |
|---|---|---|---|---|---|---|---|---|
| 09/12/2011 | 09/12/2015 | $0.20 | 3,000,000 | - | - | 3,000,000 | - | - |
| 09/12/2011 | 01/07/2016 | $0.20 | 1,400,000 | - | - | - | 1,400,000 | 1,400,000 |
| 09/12/2011 | 01/07/2016 | $0.22 | 2,600,000 | - | - | - | 2,600,000 | 2,600,000 |
| 09/12/2011 | 09/12/2014 | $0.22 | 1,500,000 | - | - | - | 1,500,000 | 1,500,000 |
| **Total** | | | **8,500,000** | **-** | **-** | **3,000,000** | **5,500,000** | **5,500,000** |
| **Weight average exercise price** | | | **$0.21** | **-** | **-** | **-** | **$0.21** | **$0.21** |

The weighted average share price at the date of grant/exercise of options during the year ended 30 June 2014 was $0.13 (2013–$0.21).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.86 years (2013–2.86 years).

Options granted by the Company are not based on performance criteria due to the size, its current stage of activities and its relatively small number of employees.

### *Fair value of Options Granted*

The assessed fair value at grant date of options granted during the year ended 30 June 2014 was $0.004 per option (2013– $0.01). The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

### *Options Expensed*

Option expenses related to grant options issued to Directors in prior periods, with the expenses being recognised over the vesting period.

The fair value of option at grant date is independently determined using a Black Scholes option valuation methodology that takes into account the exercise price.

The following share based payment was made through the issue of equity:

| | Number of Options | Value of options issued | Options expensed during the year ** |
|---|---|---|---|
| Issue of Tranche A management options exercisable at $0.035, vesting immediately and expiring three years from issue | 5,000,000 | 26,710 | 26,710 |
| Issue of Tranche B management options exercisable at $0.05, vesting on 31 December 2014 and expiring three years from issue | 5,000,000 | 24,858 | 13,522 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | Number of Options | Value of options issued | Options expensed during the year ** |
|---|---|---|---|
| Issue of Tranche C.1 management options exercisable at $0.035, vesting on the Company achieving a JORC inferred resource and expiring three years from issue | 5,000,000 | 26,710 | 4,451 |
| Issue of Tranche C.2 management options exercisable at $0.04, vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes and expiring three years from issue | 5,000,000 | 26,028 | 4,338 |
| Issue of Tranche C.3 management options exercisable at $0.045, vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes and expiring three years from issue | 5,000,000 | 25,415 | 4,235 |
| Issue of Tranche C.4 management options exercisable at $0.035, vesting on the Company achieving a JORC inferred resource and expiring three years from issue | 3,000,000 | 16,026 | 2,671 |
| Issue of Tranche C.5 management options exercisable at $0.04, vesting on the Company achieving a JORC inferred resource of greater than 2 million tonnes and expiring three years from issue | 3,000,000 | 15,617 | 2,603 |
| Issue of Tranche C.6 management options exercisable at $0.045, vesting on the Company achieving a JORC inferred resource of greater than 4 million tonnes or an indicated/measured resource greater than 2 million tonnes and expiring three years from issue | 3,000,000 | 15,249 | 2,542 |
| Issue of Tranche D.1 management options exercisable at $0.05, vesting on the Company's completion of a successful Feasibility Study and expiring three years from issue | 10,000,000 | 49,717 | 8,286 |
| Issue of Tranche D.1 management options exercisable at $0.05, vesting on the Company's completion of a successful Feasibility Study and expiring three years from issue | 8,000,000 | 39,773 | 6,629 |
| **Total** | **52,000,000** | **266,103** | **75,987** |

** - Options calculated on a per day ratio

The following inputs were used:

| Input | Tranche A | Tranche B | Tranche C.1. | Tranche C.2. | Tranche C.3. |
|---|---|---|---|---|---|
| Underlying share price | $0.008 | $0.008 | $0.008 | $0.008 | $0.008 |
| Exercise price | $0.035 | $0.05 | $0.035 | $0.04 | $0.045 |
| Expected volatility | 155% | 155% | 155% | 155% | 155% |
| Expiry date | 13/12/2016 | 3 years from date of issue | 3 years from vesting date | 3 years from vesting date | 3 years from vesting date |
| Expected dividends | - | - | - | - | - |
| Risk free interest rate | 2.575% | 2.575% | 2.575% | 2.575% | 2.575% |



| Input | Tranche C.4. | Tranche C.5. | Tranche C.6. | Tranche D.1. | Tranche D.2. |
|---|---|---|---|---|---|
| Underlying share price | $0.008 | $0.008 | $0.008 | $0.008 | $0.008 |
| Exercise price | $0.035 | $0.04 | $0.045 | $0.05 | $0.05 |
| Expected volatility | 155% | 155% | 155% | 155% | 155% |
| Expiry date | 3 years from vesting date | 3 years from vesting date | 3 years from vesting date | 3 years from vesting date | 3 years from vesting date |
| Expected dividends | - | - | - | - | - |
| Risk free interest rate | 2.575% | 2.575% | 2.575% | 2.575% | 2.575% |

The options will be expensed over their vesting period in accordance with AASB 2. In the Statement of Financial Position all of the Tranche A and proportional amounts from Tranche B, C.1., C.2., C.3., C.4., C.5., C.6., D.1., D.2., have been expensed.

***Expenses arising from Share-Based Payment Transactions***

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| **Share-based payment** | | |
| Options issued under Employee Option Plan | 26,710 | - |
| Proposed options issued under Employee Option Plan | 49,277 | 6,985 |
| | **75,987** | **6,985** |

## 6. FINANCIAL RISK MANAGEMENT

### (a) Overview

The Company and the Consolidated Entity have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This Note presents information about the Company's and Consolidated Entity's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk and the management of capital.

The Group's Risk Management Framework is supported by the Board, Management and the Audit and Risk Committee. The Board is responsible for approving and reviewing the Company's and Consolidated Entity's Risk Management Strategy and Policy. Management is responsible for monitoring appropriate processes and controls that



are in place to effectively and efficiently manage risk. The Audit and Risk Committee is responsible for identifying, monitoring and managing significant business risks faced by the Company and Consolidated Entity and considering the effectiveness of its internal control system. Management and the Audit and Risk Committee report to the Board.

The Board has established an overall Risk Management Policy which sets out the Company's and Consolidated Entity's system of risk oversight, management of material business risks and internal control.

The Consolidated Entity holds the following financial instruments:

| | Consolidated | |
|---|---|---|
| | 2014 $ | 2013 $ |
| **Financial assets** | | |
| Cash and cash equivalents | 696,944 | 2,350,464 |
| Trade and other receivables | 5,174 | 15,475 |
| | 702,118 | 2,365,939 |
| **Financial liabilities** | | |
| Trade and other payable | 100,712 | 217,412 |
| | **100,712** | **217,412** |

### (b) Financial Risk Management Objectives

The overall financial Risk Management Strategy focuses on the unpredictability of the finance markets and seeks to minimise the potential adverse effects on financial performance and protect future financial security.

### (c) Credit Risk

Credit risk is the risk of financial loss to the Consolidated Entity if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's cash and cash equivalents, deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. For the Company it arises from receivables and cash held due from subsidiaries. The Consolidated Entity does not hold any credit derivatives to offset its credit exposure.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | Consolidated | |
|---|---|---|
| | 2014 $ | 2013 $ |
| **Trade receivables** | | |
| *Counterparties without external credit rating* | | |
| Group 1 | | - |
| Group 2 | 5,174 | 15,475 |
| | 5,174 | 15,475 |
| **Cash at bank and short-term bank deposits** | | |
| Cash at bank | 96,448 | 67,237 |
| Short-term bank deposit at AA | 600,496 | 2,283,227 |
| | **696,944** | **2,350,464** |

Group 1 – new customers (less than 6 months).

Group 2 – existing customers (less than 6 months) with no defaults in the past.

### *Exposure to Credit Risk*

The carrying amount of the Consolidated Entity's financial assets represents the maximum credit exposure. The Consolidated Entity's maximum exposure to credit risk at the reporting date was:

| | Consolidated | |
|---|---|---|
| | 2014 $ | 2013 $ |
| Cash and cash equivalents | 696,944 | 2,350,464 |
| Trade and other receivables | 5,174 | 15,475 |
| Financial assets (non-current) | | - |
| Cash and cash equivalents | **702,118** | **2,365,939** |

## (d) Liquidity Risk

Liquidity risk arises from the financial liabilities of the Consolidated Entity and the Consolidated Entity's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

Ultimate responsibility for Liquidity Risk Management rests with the Board of Directors. The Board has determined an appropriate Liquidity Risk Management Framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and continuously monitoring budgeted and actual cash flows and matching the maturity profiles of financial assets, expenditure commitments and liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying amounts as the impact of discounting is not significant.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Contractual maturities of financial liabilities | Less than 6 months | 6 – 12 months | Total | Carrying Amount |
|---|---|---|---|---|
| **Group - at 30 June 2014** | $ | $ | $ | $ |
| Trade payables | 100,712 | - | 100,712 | 100,712 |
| Total | | | | |
| | | | | |
| **Group - at 30 June 2013** | $ | $ | $ | $ |
| Trade payables | 217,412 | - | 217,412 | 217,412 |
| Total | 217,412 | - | 217,412 | 217,412 |

### (e) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and commodity prices will affect the Consolidated Entity's income or the value of its holdings of financial instruments. The objective of Market Risk Management is to manage and control market risk exposures within acceptable parameters, while optimising return.

***Foreign Currency Risk***

The Consolidated Entity is exposed to currency risk on transactions that are denominated in a currency other than the respective functional currencies of the Consolidated Entity's, primarily the Australian dollar (AUD), but also Euro (EUR) in Cyprus.

The Company and the Consolidated Entity is exposed to changes in foreign exchange rates as it has operational liabilities in Euro. There has been no material exposure to non-functional currency amounts during the financial year.

The Group wishes to highlight that its Euro assets are subject to foreign currency movements due to changes in the exchange rates compared to the Australian dollar. The impact to the Group can be seen within the Statement of Change in Equity (foreign currency reserve) for 2014 with a total movement of $8,851 (2013: $1,799,302) representing a gain for the year.

***Interest Rate Risk***

The Company and Consolidated Entity's exposure to interest rates primarily relates to the Consolidated Entity's cash and cash equivalents. The Consolidated Entity manages market risk by monitoring levels of exposure to interest rate risk and assessing market forecasts for interest rates.

***Profile***

At the reporting date the interest rate profile of the Company's and the Consolidated Entity's interest bearing financial instruments was:

| | 2014 $ | 2013 $ |
|---|---|---|
| Variable Rate Instruments | | |
| Financial Assets | 696,944 | 2,350,464 |
| | **696,944** | **2,350,464** |

The Group manages its interest rate risk by monitoring available interest rates while maintaining an overriding position of security whereby the majority of cash and cash equivalents are held in AA-rated bank accounts. The Group's exposure to interest rate risk and effective weighted average interest rate by maturing periods is set out in tables below.

| | Weighted Average Effective Interest Rate | Floating Interest Rate | Maturing within 1 Year | Non- Interest Bearing | Total |
|---|---|---|---|---|---|
| | 2014 | 2014 | 2014 | 2014 | 2014 |
| **Financial Assets** | | | | | |
| Cash and cash equivalents | 2.50% | 600,496 | - | 96,448 | 696,944 |
| Trade and other receivables | - | - | - | 5,174 | 5,174 |
| **Total Financial Assets** | **-** | **600,496** | **-** | **101,622** | **702,118** |
| Trade and other payables | - | - | - | 100,712 | 100,712 |
| **Total Financial Liabilities** | **-** | **-** | **-** | **100,712** | **100,712** |

| | Weighted Average Effective Interest Rate | Floating Interest Rate | Maturing within 1 Year | Non- Interest Bearing | Total |
|---|---|---|---|---|---|
| | 2013 | 2013 | 2013 | 2013 | 2013 |
| **Financial Assets** | % | $ | $ | $ | $ |
| Cash and cash equivalents | 3.56 | 783,227 | 1,500,000 | 67,237 | 2,350,464 |
| Trade and other receivables | - | - | - | 15,475 | 15,475 |
| **Total Financial Assets** | **-** | **783,227** | **1,500,000** | **82,712** | **2,365,939** |
| Trade and other payables | - | - | - | 217,412 | 217,412 |
| **Total Financial Liabilities** | **-** | **-** | **-** | **217,412** | **217,412** |

### *Other Market Price Risk*

The Company and Consolidated Entity are involved in the exploration and development of mining tenements for minerals. Should the Company successfully progress to a producer, revenues associated with mineral sales and the ability to raise funds through equity and debt will have some dependence upon commodity prices.

### *Cash Flow Sensitivity Analysis for Variable Rate Instruments*

A change of 100 basis points in interest rates at reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. The Board assessed a 100 basis point movement as being reasonably possible based on forward treasury rate projections. This analysis assumes that all other variables remain constant.

A change of 100 basis points in interest rates would have increased or decreased the Consolidated Entity's profit or loss by $6,969 (2013: $23,504).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | Consolidated | |
|---|---|---|
| | +1% (100 basis points) | -1% (100 basis points) |
| | 2014 $ | 2014 $ |
| Cash and cash equivalents | 6,969 | (6,969) |
| | 6,969 | (6,969) |

### (f) Capital Management

When managing capital, the Board's objective is to ensure the Consolidated Entity continues as a going concern as well as to maintain optimal returns to Shareholders and benefits for other Stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the Consolidated Entity.

The Board is constantly adjusting the capital structure to take advantage of favourable costs of capital or high return on assets. As the market is constantly changing Management may issue new shares, sell assets to reduce debt.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position although there is no formal policy regarding gearing levels whilst this position has not changed.

The Consolidated Entity has no formal financing and gearing policy or criteria during the year having regard to the early status of its development and low level of activity. This position has not changed from the previous year.

### (g) Fair value measurements

The fair values of financial assets and liabilities are determined in accordance with generally accepted pricing models based on estimated future cash flow. There are currently no assets and liabilities which require fair valuing under the measurement hierarchy. Due to their short-term nature, the carrying amounts of the current receivables, current payables and current borrowings are assumed to approximate their fair value.

## 7. REVENUE FROM CONTINUING OPERATIONS

| | Consolidated | |
|---|---|---|
| | 2014 $ | 2013 $ |
| Interest received from continuing operation | 50,543 | 17,215 |
| Other income – Lefroy Royalty (Tailings Project)** | - | 101,054 |
| Proceeds on sale of assets | - | (24,798) |
| | **50,543** | **93,471** |

** Amount received on production and royalty return from the Lefroy Tailings Project from BCD Resources (previously Beaconsfield Gold) for the period from 01 July 2012 to 30 June 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. EMPLOYEE BENEFITS EXPENSE

| | Consolidated | |
|---|---|---|
| | 2014 $ | 2013 $ |
| Wages and salaries | (3,509) | (3,434) |
| Directors' fees | (205,670) | (221,500) |
| Superannuation | (16,002) | (17,505) |
| Other personnel expenses | (5,730) | (9,785) |
| | **(230,911)** | **(252,224)** |

## 9. INCOME TAX

| | Consolidated | |
|---|---|---|
| | 2014 $ | 2013 $ |
| Income tax benefit | - | - |
| **Tax Rates** | | |
| The potential tax benefit in respect of tax losses not brought into account has been calculated at 30%. | | |
| **Numerical reconciliation between tax expenses and pre-tax net loss** | | |
| Income tax benefit at the beginning of the year | | - |
| Loss before income tax expense | (841,065) | (20,026,349) |
| Income tax benefit calculated at rates noted above | (252,320) | (6,007,904) |
| Tax effect on amounts which are not tax deductible | 53,922 | 137,793 |
| Financial asset impairment | - | - |
| Write off of exploration costs | 13,874 | 5,715,896 |
| Tax effect on timing differences | 3,300 | 1,208 |
| Tax effect on deductible capital raising costs/other | (61,673) | (61,816) |
| Deferred tax asset on tax losses not brought to account | 242,897 | 214,824 |
| Income tax benefit | **-** | **-** |
| **Net deferred tax assets not brought to account** | | |
| Unused tax losses | 8,570,433 | 7,797,783 |
| Timing differences | 29,883 | 40,159 |
| Capital raising cost in equity | 394,657 | 600,233 |
| **Tax at 30%** | **2,698,492** | **2,531,453** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The benefit for tax losses will only be obtained if:

(a) the Company derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(b) the Company continues to comply with the conditions for deductibility imposed by Law; and

(c) no changes in tax legislation adversely affect the ability of the Company to realise these benefits.

## 10. CASH AND CASH EQUIVALENTS

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| Cash at bank and on hand | 96,448 | 67,237 |
| Short term deposit | 600,496 | 2,283,227 |
| | **696,944** | **2,350,464** |

### (a) Reconciliation to cash at the end of the year

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| The above figures are reconciled to cash at the end of the financial year as shown in the Statement of Cash Flows as follows: | | |
| Balances as above | 696,944 | 2,350,464 |
| Balances per Statement of Cash Flows | **696,944** | **2,350,464** |

### (b) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 6. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above. The Consolidated Entity's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are discussed in Note 6.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. TRADE AND OTHER RECEIVABLES

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| **CURRENT** | | |
| Trade debtors | - | - |
| Taxation receivables | 5,174 | 15,475 |
| Prepayments | 4,644 | 4,666 |
| | **9,818** | **20,141** |
| **NON-CURRENT** | | |
| Bonds and deposits | - | 68,863 |
| | **9,818** | **89,004** |

### (a) Impaired Trade Receivables

There were no impaired trade receivables for the Group in 2014 or 2013. The ageing of these receivables is as follows:

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| 1 to 3 months | 9,818 | 20,141 |
| 3 to 6 months | - | - |
| Over 6 months | - | - |
| | **9,818** | **20,141** |

### (b) Past due but not impaired

As at 30 June 2014, bonds and deposits over operations the office in Brazil of $68,863 has been refunded due to the closure of the office in Brazil (2013: $68,863 - were treated as guarantee bonds and deposits but not impaired). The ageing analysis of these bonds and deposits are as follows:

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| 3 to 6 months | - | - |
| Over 6 months | - | 68,863 |
| | **-** | **68,863** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### (c) Foreign exchange and interest rate risk

Information about the Group's exposure to foreign currency risk and interest rate risk in relation to trade and other receivables is provided in Note 6.

### (d) Fair value and credit risk

Due to the short-term nature of the trade receivables the carrying amount is assumed to approximate their fair value. The exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. Refer to Note 6 for more information on the Risk Management Policy of the Group and the credit quality of the Entity’s trade receivables.

## 12. PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| **Year Ended 30 June 2014** | | |
| At 1 July, net of accumulated depreciation | 74,271 | 115,449 |
| Additions | - | 14,566 |
| Movement in foreign currency assets | 210 | 12,554 |
| Disposals | - | (43,511) |
| Depreciation Charge for the year | (20,390) | (24,787) |
| At 30 June, net of accumulated depreciation | **54,091** | **74,271** |
| **At 30 June 2014** | | |
| Cost | 170,841 | 170,797 |
| Accumulated Depreciation | (116,750) | (96,526) |
| Net carrying amount | **54,091** | **74,271** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. EXPLORATION AND EVALUATION EXPENDITURE

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| Opening balance | 1,409,594 | 17,286,327 |
| Exchange movement | 12,606 | 1,531,539 |
| Exploration expenditure capitalised | 895,899 | 778,021 |
| Exploration expenditure capitalised on acquisition of Treasure Development Ltd | - | 866,696 |
| Written off Investment in Holding Company | - | - |
| Exploration assets written off | (46,247) | (19,052,989) |
| **Exploration and Evaluation Expenditure** | **2,271,852** | **1,409,594** |

Note: The ultimate recoupment of exploration and evaluation expenditure is dependent upon successful development and commercial exploitation, or alternatively sale of the respective area. During the year, the Group has written off the exploration assets totalling $46,247 (2013: $19,052,989).

The Company anticipates the exploration expenditure in Cyprus will be adequate to maintain all tenements in good standing, but less than the specified statutory minimum, as history has shown the minimum statutory commitments are not strictly enforced provided there has been reasonable activity. Should the Cyprus authorities change their practical application of this policy and decide to enforce the commitments the minimum annual expenditure would be €793,260 (A$1,149,269) (30 June 2013: €783,559 (A$1,116,229)). This may also impact the going concern of the Group.

## 14. TRADE AND OTHER PAYABLES

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| **CURRENT LIABILITIES** | | |
| Trade creditors and accruals | 100,712 | 217,412 |
| | **100,712** | **217,412** |

### (a) Risk exposure

Information about the Group's exposure to foreign exchange risk in relation to trade creditor and other payables is provided in Note 6.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15. CONTRIBUTED EQUITY

A reconciliation of the movement in capital and reserves for the Company can be found in the Statement of Changes in Equity.

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| Contributed equity as at 1 July | 39,777,644 | 35,406,374 |
| Share issued to raise capital | - | 4,381,708 |
| Share issued on acquisition | - | 450,000 |
| Share issue cost * | - | (460,438) |
| | **39,777,644** | **39,777,644** |

* Share issue cost included the amount of $414,723 related to the Entitlements Issue during the year

### (a) Movements of share capital during the year

| Date | Details | No of shares | Issue price$ | No of loyalty options | $ |
|---|---|---|---|---|---|
| 01.07.2013 | Opening Balance 36,099,260 fully paid ordinary shares (June 13: 36,099,260) | 629,227,732 | $0.01 | 136,756,414 | 39,777,644 |
| | Movement during the year (expired) | | | (136,756,414) | |
| **Closing Balance as at 30/06/2014** | | **629,227,732** | **$0.01** | **-** | **39,777,644** |

### *Ordinary Shares*

The holder of Ordinary Shares is entitled 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.

Ordinary Shares have no par value and the Company does not have a limited amount of authorised capital.

### *Options*

On 01 April 2014 BMG Resources Limited announced that the Company's listed options of 136,756,414 options expired on 31 March 2014. The total number of options that remained unexercised was 57,500,000.

During or since the end of the year, the unissued ordinary shares of the Company under unlisted option were as follows.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| Date of Expiry | Exercise Price | Options unexercised during period | Number Exercised | Options Lapsed during period | Balance |
|---|---|---|---|---|---|
| 31/04/2014 | $0.20 | 136,756,414 | | (136,756,414) | - |
| 09/12/2014 | $0.22 | 1,500,000 | - | - | 1,500,000 |
| 01/07/2016 | $0.20 | 1,400,000 | - | - | 1,400,000 |
| 01/07/2016 | $0.22 | 2,600,000 | - | - | 2,600,000 |
| 13/12/2016 | $0.035 | 5,000,000 | - | - | 5,000,000 |
| 3 years from the date of issue | $0.05 | 5,000,000 | - | - | 5,000,000 |
| 3 years from the vesting date | $0.035 | 5,000,000 | - | - | 5,000,000 |
| 3 years from the vesting date | $0.04 | 5,000,000 | - | - | 5,000,000 |
| 3 years from the vesting date | $0.045 | 5,000,000 | - | - | 5,000,000 |
| 3 years from the vesting date | $0.05 | 10,000,000 | - | - | 10,000,000 |
| 3 years from the vesting date | $0.035 | 3,000,000 | - | - | 3,000,000 |
| 3 years from the vesting date | $0.04 | 3,000,000 | - | - | 3,000,000 |
| 3 years from the vesting date | $0.045 | 3,000,000 | - | - | 3,000,000 |
| 3 years from the vesting date | $0.05 | 8,000,000 | - | - | 8,000,000 |
| | | **194,256,414** | **-** | **(136,756,414)** | **57,500,000** |

## 16. RESERVES

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| Reserve at the beginning of the year | 867,489 | (938,798) |
| Change in fair value of financial assets | - | - |
| Foreign exchange movement | (8,851) | 1,799,302 |
| Share based payment | 75,987 | 6,985 |
| Reserve at the end of the year | **934,625** | **867,489** |

### (a) Option Reserve

The option reserve is used to record the value of the share based payments provided to employees, consultants and for options issued pursuant to any acquisitions or in exchange for services.

### (b) Foreign Currency Reserve

The foreign currency reserve records foreign currency differences arising from the translation of Financial Statements of all foreign controlled subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. ACCUMULATED LOSS

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| Accumulated loss at the beginning of the year | (36,939,211) | (16,912,862) |
| Net loss attributable to shareholders | (841,065) | (20,026,349) |
| Accumulated loss at end of the year | **(37,780,276)** | **(36,939,211)** |

## 18. CASH FLOW INFORMATION

| | Consolidated | |
|---|---|---|
| | 2014<br>$ | 2013<br>$ |
| Reconciliation of cash flow from operating activities with the loss from continuing operations after income tax: | | |
| **Non-cash flows in profit from ordinary activities** | | |
| Net (Loss) after Income Tax | (841,065) | (20,026,349) |
| Depreciation & Amortisation | 20,390 | 24,787 |
| Employee option expense | 75,987 | 6,985 |
| Exploration assets impaired | 46,247 | 19,052,989 |
| Written off the assets | - | 353,754 |
| Exchange movement | 638 | 5,423 |
| **Changes in assets & liabilities net of purchase & disposal of subsidiaries** | | |
| (Increase)/Decrease in receivables | 10,323 | 238,844 |
| Increase/(Decrease) in creditor & accruals | (84,646) | 81,816 |
| **Cash flow from Operating Activities** | **(772,126)** | **(261,751)** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 19. LOSS PER SHARE

The following reflects the income and share data used in the calculations of basic loss per share:

| | | Consolidated | |
|---|---|---|---|
| | | 2014<br>$ | 2013<br>$ |
| (a) | **Reconciliation of earnings to profit or loss** | | |
| | Net loss used in calculating basic loss per share | (841,065) | (20,026,349) |
| (b) | **Weighted average number of ordinary shares outstanding during the year** | | |
| | Weighted average number of ordinary shares used in calculating basic loss per share | 629,227,732 | 273,812,380 |

Effect of dilutive securities: Share options are not considered dilutive as the conversion of options to ordinary shares will result in a decrease in the net loss per share.

## 20. ASSET ACQUISITION

### *Summary of Acquisition*

There was no asset acquisitions during the year ended 30 June 2014.

In the previous financial year, BMG executed a Share Sale Agreement on 11 April 2013 with the Shareholders of Treasure Development Limited (**TDL**) to purchase 100% of the issued capital of TDL. By acquiring TDL, a privately owned Cypriot Company that owns a portfolio of copper-gold assets in Cyprus that make up the Treasure Project (**Project**), BMG acquired 100% ownership of the Project.

### *Purchase consideration*

In consideration for the acquisition of TDL, BMG will pay a maximum consideration of $1.6 million in combination of cash and shares, as follows:

- $100,000 first instalment - paid on 12 December 2012;
- $300,000 cash - paid on completion of the acquisition on 11 April 2013;
- $450,000 in fully paid ordinary shares in BMG – paid on completion of the acquisition with the issue of 45 million shares in the Company at a deemed issue price of $0.01.

A further $750,000 in fully paid ordinary shares in BMG will be payable as deferred consideration on the delivery of a bankable feasibility study confirming that the exploitation of the Treasure Project is commercially viable. BMG will account for this part of the acquisition if or when the contingency crystallises.

### *Acquisition-related cost*

BMG capitalised $79,373 as an acquisition-related cost on the top of $850,000 paid on completion of the acquisition, totalling $929,373. On the completion of the acquisition, TDL became a wholly owned subsidiary of BMG.

### *Asset & liabilities acquired*

The Group acquired exploration assets with a fair value of $759,756 on consolidation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Transcontinental Group (TRG) has provided a letter of support to the Company in which TRG confirmed it will provide financial support to BMG Resources Limited if required to enable the Company to carry on its business as a going concern during the 12 month period from the date of signing the annual financial report for the period ended 30 June 2014.

On 17 September 2014 the Company executed a 12 month Option Agreement with Imperial Granite and Minerals Pty Ltd (**Imperial Granite**) to acquire Imperial Granite's 90% interest in Mining Lease 23868 in the Harts Range district of the Northern Territory on agreed terms as set out in the option agreement. The Company paid an option fee of $43,463 and may exercise the option at any time until 17 September 2015 at the Company's discretion. Refer to the Company's ASX announcement titled "BMG secures low cost option to acquire advanced heavy Mineral Sands Project in Australia" on Wednesday, 24 September 2014 for further details of the Option Agreement and the project opportunity.

There is no other subsequent event after reporting date.

## 22. REMUNERATION OF AUDITOR

During the year the following fees were paid or payable for services provided by the Auditor of the Entity and its related parties.

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Audit and Other Assurance Services** | | |
| BDO Audit (WA) Pty Ltd | 44,318 | 44,374 |
| G. Kalopetrides & Partners Limited | 4,919 | 6,957 |
| **Total remuneration for Audit and Other Assurance Services** | **49,237** | **51,331** |
| **G. Kalopetrides & Partners Limited – Other Services** | | |
| Non Auditing Service | 240 | 235 |
| Taxation Service | 579 | 504 |
| **Total remuneration for G. Kalopetrides & Partners Limited** | **819** | **739** |

## 23. EXPENDITURE COMMITMENTS

***Mineral Tenement Lease***

Financial commitments for subsequent periods are contingent upon future exploration results and have been disclosed in Note 3.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Exploration Commitments*

The expenditure required to maintain exploration tenements in Cyprus in which the Consolidated Entity has an interest for prospective licenses in Cyprus as per below table.

| | 30 June 2014 $ | 30 June 2013 $ |
|---|---|---|
| Not later than one year | 1,149,269 | 660,164 |
| Later than one year but not later than five years | - | - |
| Later than five years | - | - |
| **TOTAL** | **1,149,269** | **660,164** |

The Company anticipates the exploration expenditure in Cyprus will be adequate to maintain all tenements in good standing, but less than the specified statutory minimum, as history has shown the minimum statutory commitments are not strictly enforced provided there has been reasonable activity. Should the Cyprus authorities change their practical application of this policy and decide to enforce the commitments the minimum annual expenditure would be €793,260 (A$1,149,269) (30 June 2013: €783,559 (A$1,116,229)). This may also impact the going concern of the Group.

### *Management Fees Commitment*

BMG Resources Limited has entered into an Agreement with Transcontinental Investments, under which the Company agreed to retain Transcontinental Investments to provide corporate administration services to the Company. The Agreement states that the Company must pay a monthly fee of $15,000 (plus GST) to Transcontinental Investments plus reimbursement each month for certain costs, expenses and liabilities incurred and/or paid by Transcontinental Investments on behalf of the Company during the month. The fee will be reviewed on a year to year basis until it is terminated.

| | 30 June 2014 $ | 30 June 2013 $ |
|---|---|---|
| Not later than one year | 180,000 | 180,000 |
| Later than one year but not later than five years | 120,000 | 180,000 |
| Later than five years | - | - |
| **TOTAL** | **300,000** | **360,000** |

## 24. RELATED PARTY INFORMATION

### *Parent Entity*

The legal Parent Entity within the Group is BMG Resources Limited. BMG owns 100% of the issued ordinary shares of Treasure Development Limited (directly), Brilliant City Holdings Limited, Star Castle Holdings Limited (directly) and Minas Norte Mineração Ltda (indirectly).

BMG Resources Ltd executed a Share Sale Agreement on 11 April 2013 with the shareholders of TDL to purchase 100% of the issued capital of TDL. By acquiring TDL, a privately owned Cypriot Company that owns a portfolio of copper-gold assets in Cyprus that make up the Treasure Project which BMG acquired 100% ownership of the Project.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Wholly-owned Group transactions*

Loans made by BMG Resources Limited to wholly-owned subsidiary companies are contributed to meet required expenditure payable on demand and are not interest bearing.

### *Key Management Personnel*

The individual Directors and Executives compensation comprised as at 30 June 2014.

| | Consolidated | |
|---|---|---|
| | 2014 $ | 2013 $ |
| **Short-term employee benefits** | | |
| Christopher Eager [1] | 72,000 | 27,000 |
| Anthony Trevisan [2] | - | - |
| Bruce McCracken [3] | 196,000 | 217,500 |
| Malcolm Castle [4] | 40,000 | 10,000 |
| Michael Green [5] | 225,000 | 84,375 |
| | **533,000** | **338,875** |
| **Post- employee benefits** | | |
| Bruce McCracken | 18,130 | 19,575 |
| Malcolm Castle | 3,700 | 900 |
| Michael Green | 20,813 | 7,594 |
| | **42,643** | **28,069** |
| **Share-based payments** | | |
| Christopher Eager | 41,908 | 1,359 |
| Bruce McCracken | 19,634 | 3,355 |
| Malcolm Castle | 14,444 | 2,271 |
| | **75,986** | **6,985** |

(1) Mr Eager received $6,000 per month as remuneration.

(2) Mr Trevisan has not received remuneration from the Company for the year ended 30 June 2014. BMG has an Agreement with Transcontinental Investments Pty Ltd under management commitment which is a Director related entity (Anthony Trevisan). Transcontinental Investments Pty Ltd which charged a management and administrative fee for office space and services, accounting and administration services totalling $180,000 during the financial year (2013: $57,581). Mr Trevisan is a Director of Transcontinental Investments Pty Ltd which is associated with Mr Trevisan's children.

(3) Mr McCracken received $20,833 per month ) as a remuneration plus super as Managing Director and recharged 28.8% of $20,833 (equivalent to $6,000 per month) to Regalpoint Resources Ltd for the period from 01 October 2013.

(4) Mr Castle received $43,700 (2013: 45,150) as a remuneration plus super as Non-Executive Director.

(5) Mr Green received $18,750 per month as a remuneration plus super as Chief Operating Officer.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Transactions with Related Parties*

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

The following transaction occurred with related parties for the year ended 30 June 2014:

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| **Other transactions** | | |
| Administration and Office Services Fee to Transcontinental Investments | 49,839 | 57,581 |

Note: Mr Trevisan resigned from the Board of Directors on 10 October 2013 and there are no other related parties transactions effective from 10 October 2013.

The aggregate amount recognised during the year relating to Key Management Personnel and their related parties were as follows:

| Director | Transaction | Transactions Value for the Year Ended 30 June | | Balance Outstanding as at 30 June | |
|---|---|---|---|---|---|
| | | 2014 | 2013 | 2014 | 2013 |
| Anthony Trevisan<br>(Director of Transcontinental Investments Pty Ltd) | Administration and Office Services fees | 49,839 | 57,581 | 30,000 | - |

Note: Mr Trevisan resigned from the Board of Directors on 10 October 2013 and there are no other related parties transactions effective from 10 October 2013.

### *Notes in relation to the table of Related Party transactions*

A Company associated with Mr Trevisan's family provides office space, office equipment and supplies and corporate management and administration services in connection with the operations of the Company and amounts are payable on a monthly basis.

The Company must pay a monthly fee to Transcontinental plus reimbursement each month for certain costs, expenses and liabilities incurred and/or paid by Transcontinental on behalf of the Company during the month.

On and from 1 April 2013, the Company agreed to pay a monthly fee of $15,000 (plus GST) to Transcontinental Investments plus reimbursement each month for certain costs, expenses and liabilities incurred and/or paid by Transcontinental Investments on behalf of the Company during the month.

On and from 1 January 2014 TRG agreed to accrue $5,000 of $15,000 the monthly fee for Administration Services without charging any interest instead of requiring payment of the full invoice on ordinary terms.

Anthony Trevisan (a Director of the Company) is a Director of Transcontinental.

Anthony Trevisan resigned from the Board of Directors on 10 October 2013 and there are no other related parties transactions effective from 10 October 2013.

### *Loans to/from Related Parties*

There were no loans to individual or Directors of the Company during the year ended 30 June 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### *Individual Key Management Personnel Compensation Disclosures*

Information regarding individual Key Management Personnel compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 are provided in the Remuneration Report section of the Directors' Report.

### *Other Key Management Personnel Transactions with the Company*

A number of Key Management Personnel or their related parties hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. A number of those entities transacted with the Company during the year. The terms and conditions of those transactions were no more favorable than those available or, which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

For details refer to the Remuneration Report.

## 25. PARENT ENTITY INFORMATION

The following details information related to the Parent Entity, BMG Resources Limited, as at 30 June 2014. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

| | 2014<br>$ | 2013<br>$ |
|---|---|---|
| Current assets | 2,048,781 | 2,905,884 |
| Non-current assets | 45,546 | 61,079 |
| Investment and Financial Assets | 929,374 | 929,374 |
| **Total Assets** | **3,023,701** | **3,896,336** |
| | | |
| Current liabilities | 92,999 | 202,490 |
| **Total Liabilities** | **92,999** | **202,490** |
| **Net Assets** | **2,930,702** | **3,693,846** |
| | | |
| Contributed equity | 39,777,644 | 39,777,644 |
| Retained earnings/(accumulated losses) | (37,367,094) | (36,527,963) |
| Option reserve | 520,152 | 444,166 |
| **Total Equity** | **2,930,702** | **3,693,847** |
| | | |
| (loss) for the year | (825,494) | (18,287,243) |
| Other comprehensive (loss) for the year | (13,637) | (5,243) |
| **Total Comprehensive (loss) for the Year** | **(839,131)** | **(18,292,486)** |

# DIRECTORS' DECLARATION

In the opinion of the Directors of BMG Resources Limited (**Company**):

(a) the Financial Statements and Notes set out on pages 56 to 101, are 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 2014 and of their performance, for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and other mandatory professional reporting requirements.

(b) the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1; and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* by the Financial Officer for the financial year ended 30 June 2014.

Signed in accordance with a resolution of the Directors.

**Bruce McCracken**
Managing Director
Dated at Perth, Western Australia, this 25th September 2014.

# INDEPENDENT AUDITOR'S REPORT


BDO

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia


**INDEPENDENT AUDITOR'S REPORT**

To the members of BMG Resources Limited

## Report on the Financial Report

We have audited the accompanying financial report of BMG Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 gives a true and fair view and 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*.

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company'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.

# INDEPENDENT AUDITOR'S REPORT

**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 BMG Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

**Opinion**

In our opinion:

(a) the financial report of BMG 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 2014 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

## Report on the Remuneration Report

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

**Opinion**

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

**BDO Audit (WA) Pty Ltd**

BDO

C Burton

**Chris Burton**

**Director**

Perth, 25 September 2014

# ASX ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 4 August 2014.

### (a) Distribution of equity securities as at 4 August 2014

| Listed Fully Paid Ordinary Shares | Number of Holders | Number of Shares |
|---|---|---|
| 1 - 1,000 | 24 | 7,648 |
| 1,001 - 5,000 | 100 | 362,876 |
| 5,001 - 10,000 | 86 | 744,655 |
| 10,001 - 100,000 | 323 | 15,394,945 |
| 100,001 - and over | 379 | 612,717,608 |
| | **912** | **629,227,732** |

### (b) Top twenty shareholders at 4 August 2014

| | Listed Fully Paid Ordinary Shares | Number of Shares | Percentage of Shares |
|---|---|---|---|
| 1 | Transcontinental Resources Group 2013 Pty Ltd | 46,846,243 | 7.45% |
| 2 | RBC Investor Services Australia Nominees Pty Limited | 42,587,493 | 6.77% |
| 3 | Flush Nominees Pty Ltd | 26,893,447 | 4.27% |
| 4 | Fortune Minerals Limited | 23,826,696 | 3.79% |
| 5 | Mr John William Benger | 22,000,000 | 3.50% |
| 6 | Lan Michael Hsiau Yun | 21,791,234 | 3.46% |
| 7 | TRG Equity Investments Pty Ltd | 17,547,991 | 2.79% |
| 8 | Transcontinental Investments Pty Ltd | 15,888,019 | 2.53% |
| 9 | Upper Rise Group Ltd | 13,750,896 | 2.19% |
| 10 | Jasper Hill Resources Pty Ltd | 13,396,248 | 2.13% |
| 11 | AAT Holdings Ltd | 11,953,599 | 1.90% |
| 12 | Mr Terry Campion | 11,400,000 | 1.81% |
| 13 | D' Antonio Giuseppe | 10,000,000 | 1.59% |
| 14 | Mr Bruce McCracken | 10,000,000 | 1.59% |
| 15 | Mr Latouros Kostas | 9,000,000 | 1.43% |
| 16 | Tt Nicholls Pty Ltd | 8,517,499 | 1.35% |
| 17 | Mrs Pamela Christine Neesham | 7,000,000 | 1.11% |
| 18 | Future Super Pty Ltd | 6,388,124 | 1.02% |
| 19 | Mr Robert Turvey | 6,359,122 | 1.01% |
| 20 | Mr Daniel James Peter Benger | 6,000,000 | 0.95% |
| | | **331,146,611** | **52.63%** |

# ASX ADDITIONAL INFORMATION

### (c) Top twenty Option Holders at 4 August 2014

The total listed options expired on 31 March 2014 and the total numbers of options that remained unexercised and have lapsed were 136,756,414 options.

Unlisted options issued under Employee Share Option Plans (ESOP) are as follows. The information is current as at 4 August 2014.

| | Number of Options (Vested) | Number of Options (Unvested) | Percentage of Options |
|---|---|---|---|
| Mr Bruce Alexander McCracken | 4,000,000 | 25,000,000 | 50.43% |
| Mr Michael Green | | 17,000,000 | 29.57% |
| Mr Christopher John Eager | 5,000,000 | 5,000,000 | 17.39% |
| Mr Malcolm John Castle | 1,500,000 | - | 2.61% |
| | **10,500,000** | **47,000,000** | **100.00%** |

### (d) Substantial Shareholders

The names of Substantial Shareholders who have notified the Company in accordance with section 671B of the *Corporations Act 2001* are:

| | Number of Shares | Percentage of Ordinary Shares |
|---|---|---|
| AAT Holdings Limited | 58,799,842 | 10.06% |
| RBC Investor Services Australia Nominees Pty Limited | 34,992,571 | 5.56% |
| TRG Equity Investments Pty Ltd | 32,836,010 | 5.62% |

### (e) Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

### (f) Unlisted Options

There are no unlisted options over unissued shares.

### (g) Cash Usage

Since the time of listing on the ASX, the Entity has used its cash and assets in a form readily converted to cash that it had at the time of admission to the official list of the ASX in a manner which is consistent with its business objectives.

# SCHEDULE OF MINING TENEMENTS AND INTERESTS

The list of tenements and the percentage interest held by the Company in accordance with ASX Ruling 4.10.15 are:

## CYPRUS

| Permit No. | Project | Area ($km^2$) | Status | Interest |
|---|---|---|---|---|
| EA 4313 | Vrechia | 4.42 | Granted | 100% |
| EA 4314 | Laxia tou Mavrou | 5.2 | Granted | 100% |
| EA 4315 | Kappedhes N | 1.86 | Granted | 100% |
| EA 4316 | Kalo Khoria | 0.98 | Granted | 100% |
| EA 4317 | Louvaras | 1.88 | Granted | 100% |
| EA 4318 | Pevkos | 1.37 | Granted | 100% |
| EA 4447 | North Mathiatis | 4.89 | Granted | 100% |
| EA 4448 | Kappedhes S | 1.905 | Granted | 100% |
| EA 4456 | Laxia South | 4.47 | Granted | 100% |
| EA 4457 | Vrechia Mine | 1.96 | Granted | 100% |
| AE 4461 | Pevkos extra | 24.45 | Granted | 100% |
| AE 4462 | Vrechia SE | 17.23 | Granted | 100% |
| AE 4464 | Laxia1 central | 19.63 | Granted | 100% |
| AE 4465 | Laxia2 W | 21.36 | Granted | 100% |
| AE 4547 | Kalavassos | 10.2 | Granted | 100% |

This page is left intentionally blank.

This page is left intentionally blank.

**BMG RESOURCES LIMITED**
ACN 107 118 678
Level 14, 191 St Georges Terrace
Perth, Western Australia 6000
T: +61(8) 9424 9390 F: +61(8) 9321 5932
www.bmgl.com.au