Zenith Minerals Limited

ABN 96 119 397 938

# Interim Financial Report

# for Half-year Ended 31 December 2012

## Contents

## Corporate Information

### Directors

| | |
|---|---|
| Gary Comb | Non-Executive Chairman |
| Neil Martin | Managing Director |
| Rodney Joyce | Non-Executive Director |
| Stanley Macdonald | Non-Executive Director |

### Company Secretary

Alex Dermedgoglou

### Registered Office and Principal Office

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Website: www.zenithminerals.com.au

### Auditors

PKF Mack & Co
Level 4, 35 Havelock Street
West Perth WA 6005

### Share Registry

Security Transfer Registrars Pty Ltd
PO Box 535
APPLECROSS WA 6953

Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233

### Stock Exchange Listing

Australian Securities Exchange

Home Exchange: Perth Western Australia

ASX Code: ZNC

## Directors' Report

The Directors of Zenith Minerals Limited ("the Company") submit herewith the Interim Financial Report for the half-year ended 31 December 2012. In order to comply with the provisions of the Corporation Act 2001, the directors report as follow:

### Directors

The names of the Directors of the Company during the whole of the half-year and up to the date of this report are:

| | | |
|---|---|---|
| Gary E Comb | – | Non-Executive Chairman |
| Neil K Martin | – | Managing Director (appointed 15 October 2012) |
| Rodney M Joyce | – | Non-Executive Director |
| Stanley A Macdonald | – | Non-Executive Director |
| Anthony Hespe | – | Managing Director (resigned 1 August 2012) |

Directors were in office for the entire period unless otherwise stated.

### Review of Operations

In the half year to December 2013 the Company made steady progress at both the Mt Alexander and Earaheedy Projects.

Work at the Mt Alexander Project, where a significant magnetite-iron Inferred Resource has already been defined by Zenith, focussed on long lead time work programmes relating to a future Feasibility Study and mining approvals. Level 2 Fauna and Flora studies have now been completed, with results of the studies indicating no significant environmental impediment to a future mining project. Additional studies in relation to iron concentrate transport options were also encouraging, with indications that a slurry pipeline to the coast is a technically viable alternative to road and rail transport to nearby port facilities.

Additional drilling aimed at adding to the defined resource at Mt Alexander was underway at the end of the period, as only about 40% of the Exploration Target has been drilled to date.

Reverse circulation drilling at the Earaheedy Project confirmed the continuity and grade of high grade manganese mineralisation at the Red Lake prospect. The mineralisation occurs as a flat lying sheet at shallow depth, and results from the recent drilling included; 3 metres @ 34.8% Mn from 19 metres depth (incl. 1m @ 42.3% Mn), 6 metres @ 24.1% Mn from surface (incl. 2m @ 32.8% Mn), and 3 metres @ 32.6% Mn from 20 metres depth (incl. 2m @ 38.4% Mn).

Final data compilation and interpretation of the Red Lake drill results was underway at the end of the period with the aim of progressing toward a maiden resource estimate in 2013.

The Company withdrew from the Snake Well JV during the period, which will allow Zenith to focus on progressing the Mt Alexander and Earaheedy Projects and to evaluate and pursue additional opportunities as they arise.

The net loss of the Group after income tax for the half-year ended 31 December 2012 was $640,205 (2011: $115,790). No dividends were paid or provided for during the half-year.

At 31 December 2012, the Company had $2.53 million (30 June 2012: $1.23 million) in cash and term deposits to finance its operations.

*The information in the Review of Operations that relates to Exploration Results or Mineral Resources is based on information compiled by N K Martin, who is a Member of the Australasian Institute of Geoscientists. Mr Martin has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Martin consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

**Subsequent Events**

No subsequent event of a material nature has occurred.

## Auditor's Independence Declaration

The Auditor's Independence Declaration, as required under Section 307C of the Corporations Act 2001, for the half-year ended 31 December 2012 has been received and included on page 5 of the Interim Financial Report.

Signed in accordance with a Resolution of Directors.

On behalf of the Directors

**Chairman**
Perth

Dated: 11 March 2013

PKF MACK & CO

Chartered Accountants & Business Advisers

# AUDITOR'S INDEPENDENCE DECLARATION

# TO THE DIRECTORS OF ZENITH MINERALS LIMITED

In relation to our review of the financial report of Zenith Minerals Limited for the half year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

PKF Mack and Co.

PKF MACK & CO

SIMON FERMANIS
PARTNER

11 MARCH 2013
WEST PERTH,
WESTERN AUSTRALIA

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## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half-Year ended 31 December 2012

| | 31 December 2012 $ | 31 December 2011 $ |
|---|---|---|
| Net gain on disposal of investment | - | 91,380 |
| Employee benefits expenses | (343,829) | (77,353) |
| Depreciation and amortisation expense | (8,193) | (11,714) |
| Management fee | (60,000) | (60,000) |
| Exploration expenditure written off | (82,472) | (10,941) |
| Other operating expenses | (172,210) | (134,178) |
| **Results from operating activities** | **(666,704)** | **(202,806)** |
| Financing income - interest | 26,499 | 87,016 |
| **Net Finance income** | 26,499 | 87,016 |
| Loss before income tax | (640,205) | (115,790) |
| Income tax benefit | - | - |
| **Loss for the period** | (640,205) | (115,790) |
| **Other comprehensive income** | | |
| Other comprehensive income for the period (net of tax) | - | - |
| **Total comprehensive loss for the period** | **(640,205)** | **(115,790)** |
| **Loss per share** | Cents | Cents |
| Basic and diluted loss per share | (0.76) | (0.14) |

The accompanying notes form part of the Condensed Consolidated Financial Statements.

## Condensed Consolidated Statement of Financial Position as at 31 December 2012

| | Note | 31 December 2012 $ | 30 June 2012 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | 2,529,021 | 1,234,835 |
| Trade and other receivables | | 84,860 | 251,345 |
| Other current assets | | 27,930 | 38,824 |
| **Total current assets** | | 2,641,811 | 1,525,004 |
| **Non-current assets** | | | |
| Plant and equipment | 6 | 51,395 | 57,049 |
| Exploration and evaluation expenditure | | 4,207,850 | 3,815,696 |
| **Total non-current assets** | | 4,259,245 | 3,872,745 |
| **TOTAL ASSETS** | | **6,901,056** | **5,397,747** |
| **Current liabilities** | | | |
| Trade and other payables | | 128,997 | 133,566 |
| Provisions | | 8,534 | 46,298 |
| **Total current liabilities** | | 137,531 | 179,864 |
| **Non-Current liabilities** | | | |
| Provisions | | 2,208 | 23,937 |
| **Total non-current liabilities** | | 2,208 | 23,937 |
| **TOTAL LIABILITIES** | | 139,739 | 203,801 |
| **NET ASSETS** | | 6,761,317 | 5,193,948 |
| **Equity** | | | |
| Issued capital | 7 | 12,015,640 | 10,005,154 |
| Reserves | | 206,688 | 57,900 |
| Accumulated losses | | (5,461,011) | (4,869,106) |
| **TOTAL EQUITY** | | **6,761,317** | **5,193,948** |

The accompanying notes form part of the Condensed Consolidated Financial Statements.

## Condensed Consolidated Statement of Changes in Equity for the Half-Year ended 31 December 2012

| | Issued Capital $ | Share Based Payments Reserve $ | Accumulated Losses $ | Total $ |
|---|---|---|---|---|
| **Balance at 1 July 2012** | 10,005,154 | 57,900 | (4,869,106) | 5,193,948 |
| Loss for the period | - | - | (640,205) | (640,205) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | - | - | (640,205) | (640,205) |
| *Transactions with owners, recorded directly in equity* | | | | |
| Cancellation of staff options | - | (48,300) | 48,300 | - |
| Issue of staff options | - | 197,088 | - | 197,088 |
| Issue of shares | 2,010,486 | - | - | 2,010,486 |
| **Balance at 31 December 2012** | **12,015,640** | **206,688** | **(5,461,011)** | **6,761,317** |

| | Issued Capital $ | Share Based Payments Reserve $ | Accumulated Losses $ | Total $ |
|---|---|---|---|---|
| **Balance at 1 July 2011** | 9,971,604 | 69,450 | (2,268,578) | 7,772,476 |
| Loss for the period | - | - | (115,790) | (115,790) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income | - | - | (115,790) | (115,790) |
| *Transactions with owners, recorded directly in equity* | - | - | - | - |
| **Balance at 31 December 2011** | **9,971,604** | **69,450** | **(2,384,368)** | **7,656,686** |

The accompanying notes form part of the Condensed Consolidated Financial Statements

## Condensed Consolidated Statement of Cash Flows for the Half-Year ended 31 December 2012

| | 31 December 2012 $ | 31 December 2011 $ |
|---|---|---|
| **Cash flow from operating activities** | | |
| Payments paid to suppliers and employees | (476,919) | (342,335) |
| Interest received | 23,380 | 89,613 |
| **Net cash used in operating activities** | (453,539) | (252,722) |
| **Cash flow from investing activities** | | |
| Proceeds from sale of investments | - | 271,380 |
| Receipt of research grant | 176,705 | 251,870 |
| Payments for exploration and evaluation expenditure | (436,926) | (1,181,178) |
| Payments for plant and equipment | (2,540) | (779) |
| **Net cash used in investing activities** | (262,761) | (658,707) |
| **Cash flow from financing activities** | | |
| Proceeds from issue of shares and options | 2,010,486 | - |
| **Net cash provided by financing activities** | 2,010,486 | - |
| Net increase/(decrease) in cash and cash equivalents held | 1,294,186 | (911,429) |
| Cash and cash equivalents at the beginning of the period | 1,234,835 | 3,107,496 |
| Cash and cash equivalents at the end of the period | **2,529,021** | **2,196,067** |

The accompanying notes form part of the Condensed Consolidated Financial Statements

## Notes to the Condensed Consolidated Financial Report for the Half-Year ended 31 December 2012

### 1. Corporate Information

Zenith Minerals Limited is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Securities Exchange.

The Company was granted official quotation on the Australian Securities Exchange ("ASX") on 25 May 2007 as an exploration company.

The Company registered a wholly owned subsidiary, Nanutarra Minerals Pty Ltd, on 16th December 2011.

The Condensed Consolidated Financial report of Zenith Minerals Limited ("the Group") for the half-year ended 31 December 2012 was authorised for issue in accordance with a Resolution of the Directors on 11 March 2013.

### 2. Basis of Preparation and Accounting Policies

#### STATEMENT OF COMPLIANCE

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting', Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 'Interim Financial Reporting'.

The half year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

#### BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2012 annual financial report for the financial year ended 30 June 2012, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

#### ADOPTION OF NEW OR REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year. The Group has not early adopted any accounting Standards or Interpretations.

## Notes to the Condensed Consolidated Financial Report for the Half-Year ended 31 December 2012 (continued)

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

Amendments to AASB 1, 5, 7, 101, 112, 120, 121, 132, 133 and 134 as a consequence of AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior half years. However, the application of AASB 2011-9 has resulted in changes to the group's presentation of, or disclosure in, its half-year financial statements.

AASB 2011-9 introduces new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

(a) items that will not be reclassified subsequently to profit or loss; and

(b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### 3. Estimates

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

In preparing these Condensed Consolidated Financial Statements, the significant judgements made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the financial statements as at and for the year ended 30 June 2012.

# Notes to the Condensed Consolidated Financial Report for the Half-Year ended 31 December 2012 (continued)

## 4. Impairment of Exploration and Evaluation Assets

The ultimate recoupment of the value of exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively, sale of the exploration and evaluation assets.

Impairment tests are carried out on a regular basis to identify whether the assets carrying values exceed their recoverable amounts. There is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverable amounts.

The key areas of judgement and estimation include:

- Recent exploration and evaluation results and resource estimates;
- Environmental issues that may impact on the underlying tenements;
- Fundamental economic factors that have an impact on the operations and carrying values of assets and liabilities.

## 5. Dividends

During the half-year, no dividends were paid or provided for.

## 6. Property, plant and equipment

*Acquisitions and disposals*

During the six months ended 31 December 2012 the Group acquired assets to the value of $2,540 (six months ended 31 December 2011: $779).

## 7. Issuances, Repurchases and Repayments of Equity Securities

During the half year to 31st December 2012, the following changes to Equity Securities took place:

a) 13,575,896 Ordinary Shares were issued at a price of $0.15 per share as part of a non-renounceable 1 for 6 offer to existing shareholders raising gross proceeds of $2,036,385.

b) 1,200,000 fair value options granted

The fair value of options granted during the half year was calculated at the date of grant using the Black-Scholes option-pricing model. The following table gives the assumptions made in determining the fair value of options on grant date:

| Fair value per option | 16.42 cents |
|---|---|
| Grant date | 20 November 2012 |
| Number of options | 1,200,000 |
| Expiry date | 20 August 2016 |
| Exercise price | $0.29 |
| Price of shares on grant date | $0.17 |
| Estimated volatility | 227.66% |
| Risk-free interest rate | 2.90% |
| Dividend yield | 0% |

## Notes to the Condensed Consolidated Financial Report for the Half-Year ended 31 December 2012 (continued)

### 7. Issuances, Repurchases and Repayments of Equity Securities (continued)

The expected price volatility is based on the historical volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to public available information.
Total expense recognised as share-based payments in the half-year was $197,088 (2011:nil).

c) 500,000 $0.16 unlisted options were forfeited upon departure of director from company.

d) 300,000 $0.14 unlisted options were forfeited upon departure of director from company.

### 8. Segment Reporting

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Operating decision maker to make decisions about resources to be allocated to the segments and assess their performance.

Operating segments are identified by management based on the mineral resource and exploration activities in Australia. Discrete financial information about each project is reported to the Chief Operating decision maker on a regular basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the economic characteristics, the nature of the activities and the regulatory environment in which those segments operate.

The Group operates predominantly in one reportable segment based on the geographical areas of the mineral resource and exploration activities in Australia.

### 9. Contingent Liabilities and Assets

The Group has no contingent liabilities or assets as at 31 December 2012.

### 10. Related Party Transactions

Other than as disclosed below, arrangements with related parties continue to be in place. For details on these arrangements, please refer to the 30 June 2012 Annual Report.

*(a) Transactions with key management personnel*

Key management personnel continue to receive remuneration in the form of short term benefits and post employment benefits.

*(b) Transactions with related parties*

*(i)* Zenith Minerals Limited has a service agreement with Avocet Resources Limited, (formally U3O8 Limited) which is also a director-related entity of Mr Stanley A Macdonald. Avocet Resources Limited provides the Company with the following services:

a) accounting and secretarial services;

b) provision of fully furnished and equipped offices.

## Notes to the Condensed Consolidated Financial Report for the Half-Year ended 31 December 2012 (continued)

### 10. Related Party Transactions (continued)

Under the agreement, Avocet Resources Limited (formally U3O8 Limited), is remunerated by the Company monthly on a basis of actual cost reimbursement of services provided, plus a service fee of $10,000 per month. The total management service fee paid for the six months ended 31 December 2012 is $60,000. (Six months ended 31 Dec 2011: $60,000).

*(ii)* As at 31 December 2012, $27,450 is owing to Avocet Resources Limited, a Director related company.

This amount arises out of exploration or administration related expenditure incurred by Avocet Resources Limited on behalf of Zenith Minerals Limited.

### 11. Subsidiaries

Nanutarra Minerals Pty Ltd is a 100% owned and controlled entity of Zenith Minerals Limited. The Group is incorporated in Australia and its principle activity is exploration.

### 12. Events after the reporting period

No matters or circumstance has arisen since 31 December 2012 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of operations, or the consolidated entity's state of affairs in future financial years.

## Directors' Declaration

The Directors of the Company declare that:

1. The Financial Statements and Notes, of the Company are in accordance with the *Corporations Act 2001* including:

   (a) complying with Accounting Standards AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and

   (b) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2012 and of its performance for the half year ended on that date.

2. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a Resolution of the Board of Directors.

**Chairman**

Perth 11 March 2012

# INDEPENDENT AUDITOR'S REVIEW REPORT

# TO THE MEMBERS OF

# ZENITH MINERALS LTD

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Zenith Minerals Ltd (the Company) and controlled entities (the consolidated entity) which comprises the condensed consolidated statement of financial position as at 31 December 2012, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at 31 December 2012 or during the half year.

## Director's Responsibility for the Half-Year Financial Report

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

## Auditor's Responsibility

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

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

## Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. In accordance with the Corporations Act 2001, we have given the directors of the company a written Auditor's Independence Declaration.

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## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Zenith Minerals Ltd and controlled entities is not in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

PKF Mack and Co.

PKF MACK & CO

SIMON FERMANIS
PARTNER

11 MARCH 2013
West Perth,
Western Australia