Variscan Mines

Annual Report 2014

Contents

Chairman's Letter

Dear Fellow Variscan Shareholders

The past year has been one of ongoing progress in implementing our strategy of developing our exploration interests in Europe, and especially France. To date, the progress has been modest as we learn the nuances of the French regulatory systems. To this extent the year may be considered somewhat disappointing as a year ago we were expecting to be further advanced than we are now. However, we anticipate that the pace of PER license awards and on-ground work will accelerate through the coming year.

It is timely to repeat the rationale behind our focus on France. Mineral exploration and development in France almost entirely ceased some 20-25 years ago primarily for socio-political reasons. It most certainly was not for any lack of attractive geology as France has an excellent endowment in many areas for gold, base metals, tin, tungsten and other metals. When the French Government changed its policies to attract mineral exploration and development within France we saw a significant, albeit long term, opportunity.

Our strategic options some four years ago were to:

1. pursue targets in well explored and sound fiscal jurisdictions e.g. Australia where the critical success factor was exploration insight that our competitors did not have; or
2. move to more challenging political jurisdictions where there is a strong geological appeal that is under explored e.g. West Africa; or
3. move to a sound fiscal jurisdiction which is underexplored e.g. Europe.

France fits the last category which we believe reduces both the exploration risk and the political risk.

We established a small and locally well experienced French management team, headed by Dr Jack Testard, who has now also joined our Board of Directors.

This team quickly identified a number of quality exploration targets which include a broad range of advanced opportunities. Some of these have well defined ore deposits from the 'Pre JORC' era with considerable potential for additional discoveries. We consider these to be significantly lower geologic risk than pursuing earlier stage exploration in Australia or elsewhere.

To date, we have been awarded two exploration licenses or PERs (Permis Exclusif de Recherche), St Pierre and Tennie, both located in Brittany. During the year, we commenced an extensive hand auger soil sampling program over parts of the Tennie PER, the first minerals exploration conducted in the country for many years.

In addition to Tennie and St Pierre, Variscan has a further seven PER applications within the approvals process. Each of these covers projects with good potential for short term resources generation and/or major new discoveries. We expect a number of these PER applications will be granted through the coming year which will lead to a significant acceleration in on-ground exploration work, including drilling.

Outside of our activities in France, we have reduced our focus on exploration in Australia but remain alert for any opportunities that we believe are especially interesting from a risk/reward perspective. Our new ventures effort has primarily been focused on targets in Spain, Portugal and Morocco where our France-based geological team have extensive knowledge and experience.

With respect to Variscan's investments, they each have significant upside potential on either an improvement in general mineral exploration market conditions or from exploration results. Unfortunately, these did not transpire in the past year to give us some recognition of our investment's individual potential.

During the year the overall Australian share market measured by the S&P/ASX All Ordinaries Index rose by around 6%. The Small Resources Index performed somewhat better with a 12% gain. This Index is mainly comprised of companies in production rather than explorers such as Variscan. The exploration sector is better measured by the S&P/ASX Gold Stocks Index which remains some 70% lower than three years ago. Further, many individual shares have performed significantly worse. However, we feel this Index and many exploration stocks appear to be 'bumping along the bottom' which may be a precursor to better performance in the coming year.

As always, there are many big picture concerns in the financial markets. Apart from the obvious geo-political tensions, the major concerns revolve around future policy settings by the major central banks. In the past several years, in response to deflationary concerns, the Central Banks have flooded their economies with liquidity resulting in extremely low interest rates by any historical standard. Whilst this liquidity injection has been a large factor behind improved share markets, it has not resulted in any significant upturn in economic growth, employment or inflation. However, there are signs, outside of Europe, that economic growth is starting to pick up somewhat. This leads into the inevitable debate about when and under what conditions the Central Banks will tighten liquidity. We continue to believe that the Central Banks will move slowly and that liquidity conditions will not be a constraint in either equity or commodity markets – even if interest rates do increase somewhat.

With some signs of improving global economic activity the outlook for commodities demand remains favourable especially from China and India where growth rates remain well above developed country levels. Unfortunately, the delayed supply response to higher prices in iron ore and coal has led to those prices becoming quite depressed. Fortunately, at current price levels in both these commodities the higher cost producers will be under pressure to close and the market balance will be restored.

From a Variscan viewpoint, the depressed iron ore prices have affected our 38% owned associate, Eastern Iron Limited, which is completing a Definitive Feasibility Study on the Nowa Nowa iron ore deposit in Victoria.

Elsewhere, our other significant investments – Silver City Minerals Limited and Thomson Resources Ltd – are focused on base metals and gold exploration targets. For these commodities the pricing has generally remained range bound over the past year but we believe the outlook is for improved prices. This is mainly driven by constrained supply increases in the face of demand growth.

During the year the exploration activity for both Silver City Minerals and Thomson Resources has been limited by a need to conserve capital. Nevertheless, Silver City Minerals has made good progress at its Sellheim, Queensland Intrusive-related gold property and the Razorback West base metals property near Broken Hill, NSW.

Variscan is in good financial shape. At year end we had cash of $2.41 million and listed resource investments with a market value of $3.8 million. These levels are less than a year ago as we have used our cash to execute our France strategy and our listed exploration investments remained affected by general market conditions.

Finally, I would like to acknowledge the dedication and hard work of our executive and staff led by our Managing Director, Greg Jones. The team remains enthusiastic despite generally moribund background market conditions as they position Variscan to participate strongly in the inevitable upturn.

The coming year offers a lot of promise as we step up our field activity in France and see more attractive PERs granted. We are well poised for exploration success in France.

Pat Elliott
Chairman

Operations Review

Exploration

FRANCE

Overview

Variscan was granted its first French exploration licence in June 2013 following three years of patient work to identify and secure high quality projects in regions of demonstrated mineral endowment outside Australia.

As detailed in the last annual report, through its wholly owned European subsidiary Variscan Mines SAS, the Company has established and equipped an office in Orleans, France and employed a team of experienced French geologists. Variscan compiled one of the largest and most complete dataset of the geology and mineral deposits of Western Europe and from this, identified, ranked and subsequently applied for a number of prospective mineral projects within Metropolitan France.

The Company has targeted the region due to its favourable geology (notably rocks from the Variscan period), strong mineral endowment, good infrastructure, skilled workforce and moderate sovereign risk.

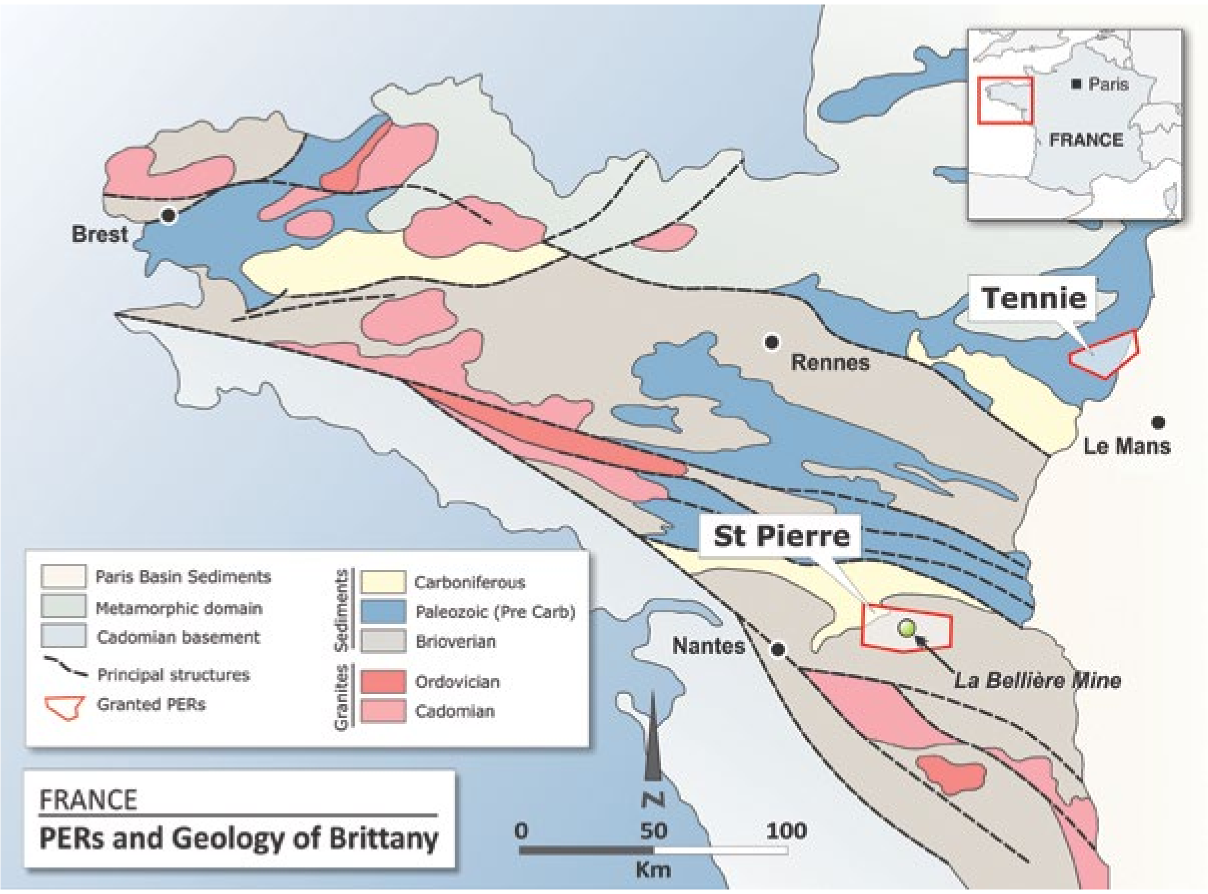
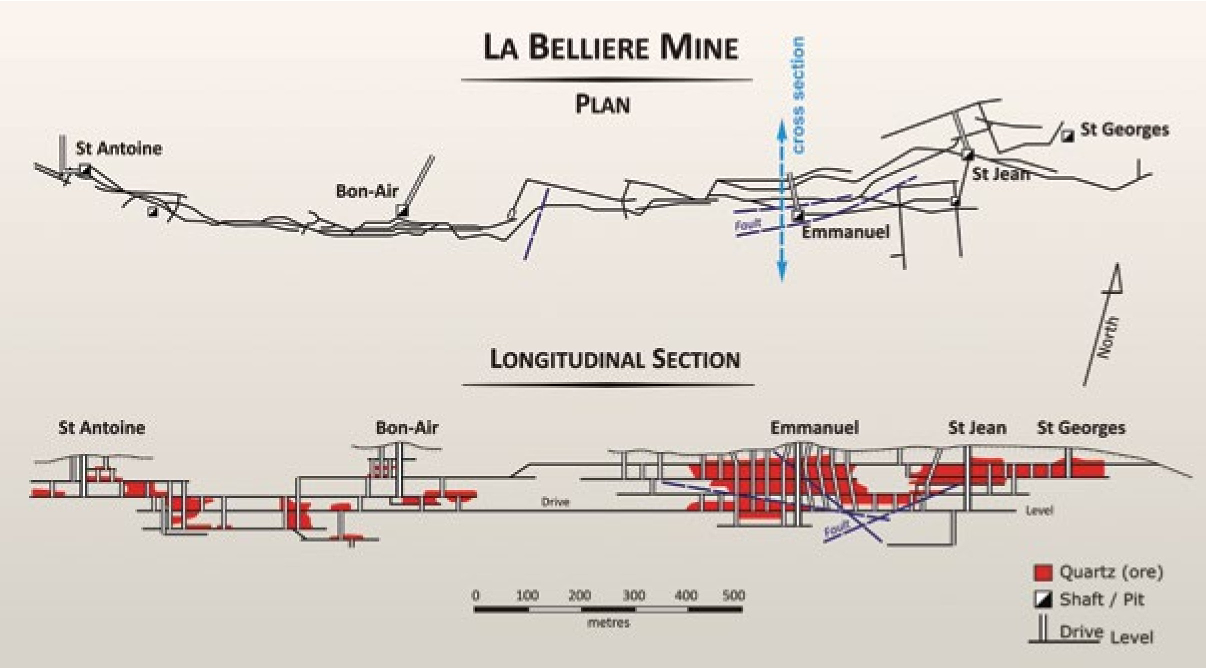


Figure 1: Variscan PER locations in Brittany



In the last 12 months the Company has received approvals for one additional licence (termed a PER) and has a number of others well advanced within the approvals process.

Saint Pierre

The Saint Pierre PER was granted in February 2014 and is located approximately 50 kilometres east of Nantes, Brittany. The licence covers an area of 386 square kilometres (Figure 1) over an important gold district believed to have been the third largest gold producer in France.

Within the licence lies the La Bellière gold mine which is recorded to have produced about 334,000 ounces of gold* (plus silver) from 1906 to 1952, up to a maximum depth of 170 metres intermittently over a strike length of about 1.6 kilometres (Figure 2). The average production grade was 12 g/t gold, mined from a series of stacked, high grade veins hosted within an east-west oriented shear zone. The high grade quartz – sulphide veins individually vary in true thickness from 1 to 16 metres and dip steeply to the south (Figure 3).

* *C Louis. Les exploitations minières dans le Massif Armoricain. Déclin ou progrès. In: Norois. N°141, 1989. pp. 5-3*

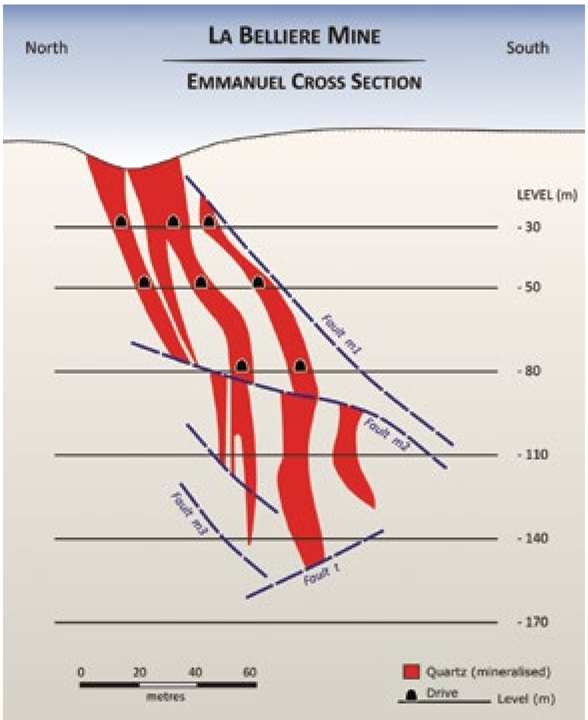
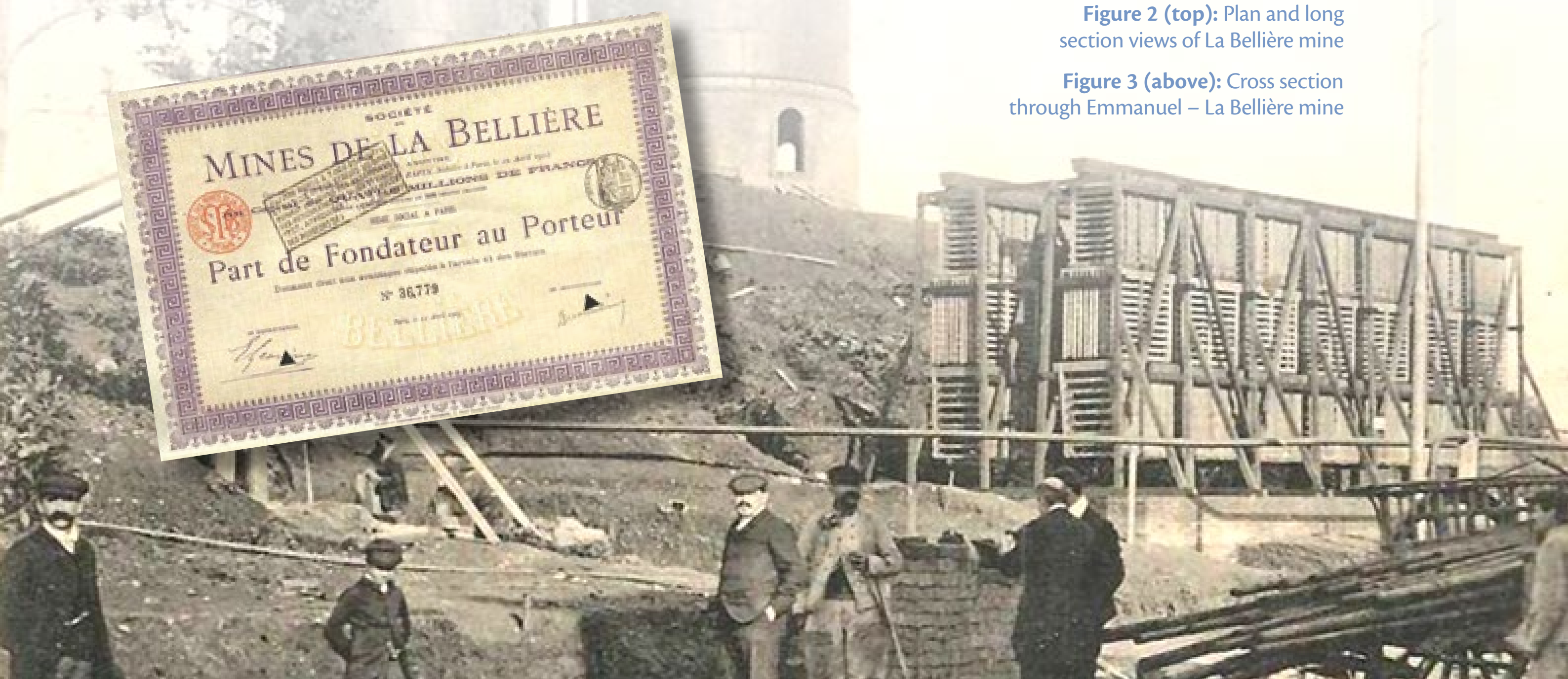
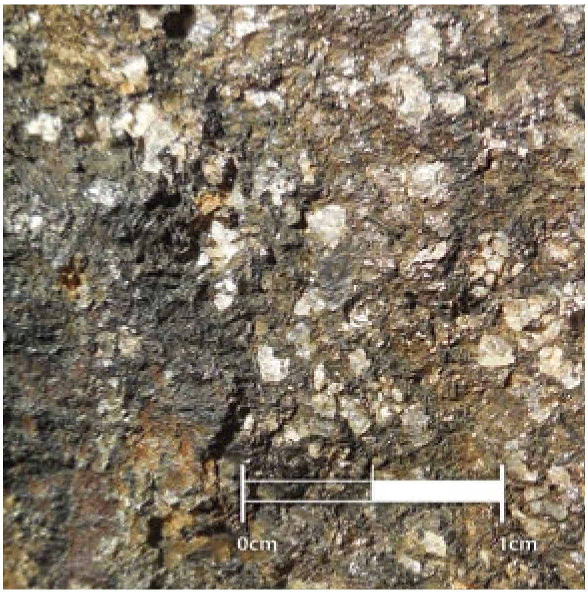


Figure 2 (top): Plan and long section views of La Bellière mine

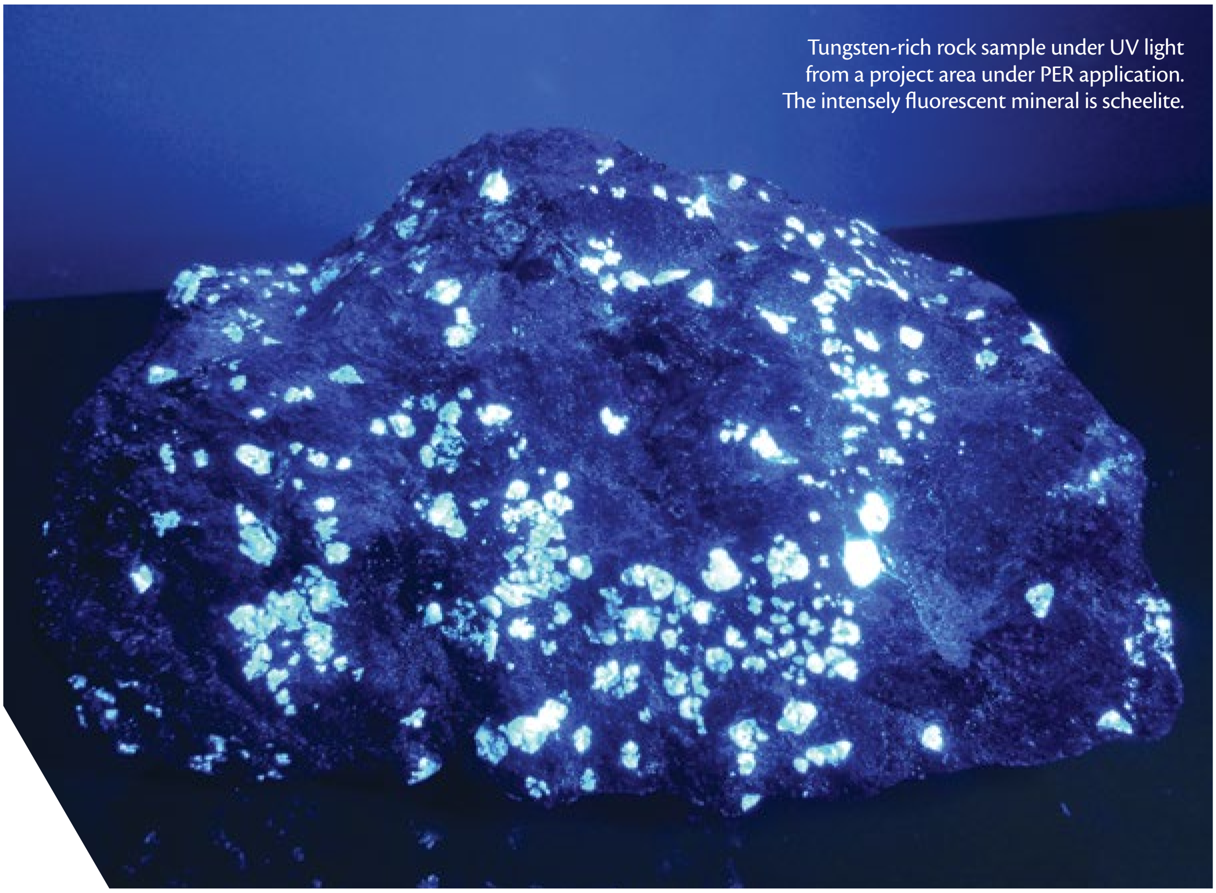
Figure 3 (above): Cross section through Emmanuel – La Bellière mine





Variscan has commenced compiling and electronically converting all available records from the old mining area as well as former exploration conducted by the BRGM (Bureau de Recherches Géologiques et Minières – the French Geological Survey) during the 1980's. With the help of structural studies currently being conducted by the University of Orleans, the Company is constructing a 3D model of the mine which will be used to help elucidate the complex structural controls on mineralisation that are evident and target possible surface core drilling. This work is now well advanced.

In addition, to the north and south of La Bellière old data indicates the presence of parallel shears, highlighting the potential for additional gold deposits within the immediate proximity of the mine and throughout the remainder of the St Pierre PER. The Company has commenced a detailed auger soil geochemistry programme in the mine region to help generate additional drilling targets. Preliminary results are expected later in 2014.



Tungsten-rich rock sample under UV light from a project area under PER application. The intensely fluorescent mineral is scheelite.


St-PIERRE-MONTLIMART (M.-et-L.) - Mines de la Bellière - Cyanuration

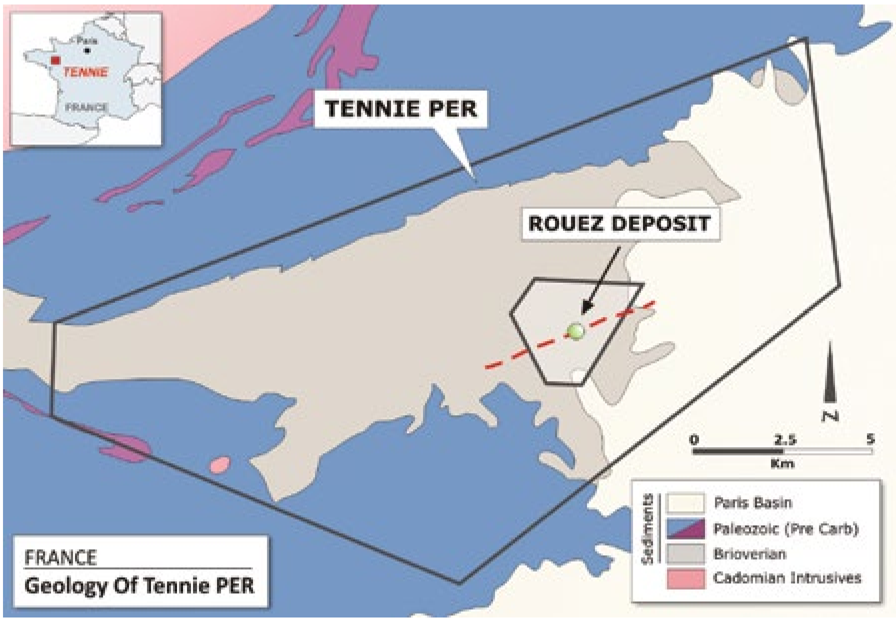


Figure 4: Tennie PER Geology

Tennie

The Tennie PER covers 205 square kilometres of the eastern section of a Palaeozoic sedimentary package which hosts the Rouez copper-gold-lead-zinc-silver deposit (Figures 1 and 4) owned by the French energy group, TOTAL. Rouez is considered to be possibly either VMS or a hybrid SEDEX type and shares a number of geological similarities to deposits such as Rio Tinto and Aljustrel within the Iberian Pyrite Belt of Spain and Portugal.

In late 2013 Variscan commenced an auger soil geochemical survey within the PER which is believed to be the first significant mineral exploration programme conducted in France for decades. The initial programme involves shallow hand auger drilling on a 200 x 200 metre grid over the accessible areas of fertile Brioverian rocks, to penetrate the thin transported loess horizon that blankets the area and thus may hide potential mineral deposits. Work is continuing.

Future Projects

The granting of the exploration licences to Variscan follows the stated intention of the French Government to reinvigorate the minerals sector of Metropolitan France. Although France has a healthy mining history, a strong demonstrated mineral endowment and a workable mining code, the country is unusual in that it currently does not have any metal mines of consequence and, until the granting of the Tennie PER last year, had no active mineral exploration licences. No other major developed economy shares this position.

It is the Company's understanding that PERs are the first new mineral exploration licences granted in France for more than two decades, reflecting the capacity of Variscan to work within the French Mining Code.

Variscan has six other exploration licence applications within the approvals process, each of them over projects with good potential for short term resource generation and/or major new discoveries. The Company has deliberately targeted more advanced project areas containing previously defined mineralised zones or evidence of substantial old mine workings to help fast track the discovery of economic deposits.

AUSTRALIA

In 2014 Variscan relinquished a number of its Australian grass roots exploration properties due to its focus in France. Joint venture interest for new exploration properties has been very subdued for the last few years and despite the good quality of some of the tenements, efforts to attract additional joint venture funding was not successful to maintain many of the tenements.

During the year exploration of Variscan's current joint venture properties was subdued in line with the general restricted risk capital availability in the bearish markets. During 2014 a total of $0.26 million was spent by Variscan's joint venture partners verses $0.7 million from the previous year.

INVESTMENTS

Variscan maintains a diversified portfolio of investments within a number of ASX-listed resource companies. The value of the Variscan shareholdings in its ASX listed resource companies at the end of the year stood at approximately $3.8 million.

EASTERN IRON

Eastern Iron Limited (ASX: EFE) continued with its Mine Feasibility Study on the Nowa Nowa iron project located near Bairnsdale in eastern Victoria, 270 kilometres east of Melbourne.

During the year Eastern Iron undertook a short program of RC drilling to upgrade part of the Inferred Mineral Resource at Five Mile to higher confidence categories for inclusion within a mining study. The results were consistent with assays reported from earlier drilling completed by the Victorian Department of Mines in the 1950's. Significantly it was noted that the thickest intersections were in the easternmost holes NRC044, NRC045 and NRC047 with the resource still open in this direction (Figure 5).

Additional confirmatory metallurgical work was also completed using large, pilot-scale, dry, low intensity magnetic separation (Dry LIMS) equipment to enhance recoveries. Overall results exceeded expectations with significant improvement in the average product grade to 58% iron (versus 56% iron in the feasibility study), at an average iron recovery of more than 90%.

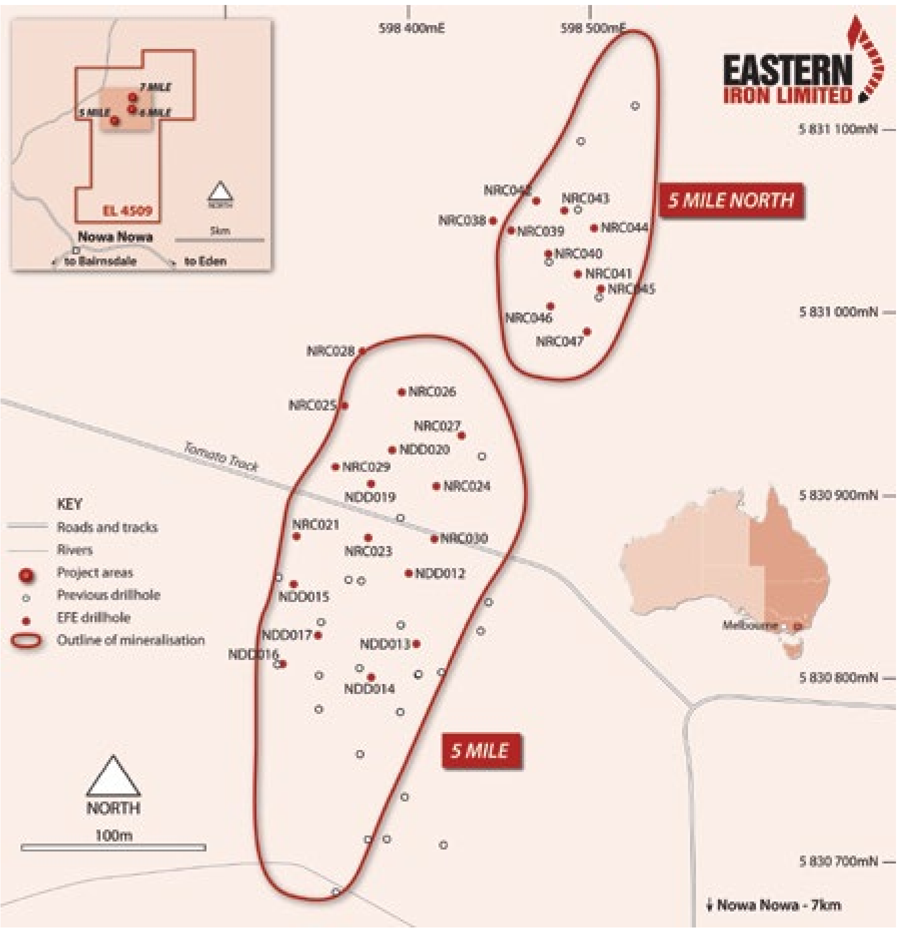


Figure 5: Drilling at Nowa Nowa (courtesy of Eastern Iron)

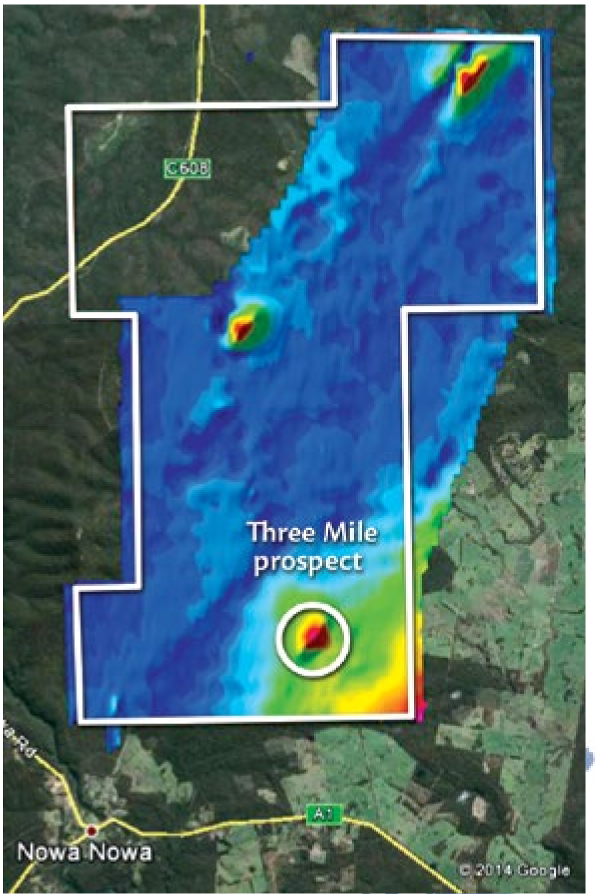


Figure 6: Channel 35, Z component VTEM image from Nowa Nowa (courtesy of Eastern Iron)

Upgrade factors (i.e. from feed grade to product grade) suggest that the Dry LIMS is highly effective in its application to the Nowa Nowa ore, even at a relatively coarse feed size of -6mm. The technique was also successful in reducing sulphur grades to well below 1% sulphur in product.

Also during 2013, Eastern Iron announced a number of significant steps in the progression of the project. These included –

1. The successful granting of a mining licence (MIN 5571)
2. Reaching a native title agreement with GLaWAC representing the Gunaikurnai people, the recognised native title holders of the area.
3. The agreement by the Victorian Government to contribute up to $300,000 towards feasibility study relating directly to the infrastructure requirements of the project.

Following a decision by South East Fibre Exports Pty Ltd (SEFE) the owners of the SEFE bulk ship loader and wharf facility at the Port of Eden, not to enter into a formal agreement to allow the use of the SEFE facility for loading iron ore the company commenced review of other shipping alternatives including the use of the multi user "Naval" wharf which is adjacent to the SEFE wharf.

On 2 September 2014 Eastern Iron reported that it had completed a detailed heli-borne electromagnetic VTEM survey over the Nowa Nowa exploration licence. The survey was completed following a review of previous exploration and the identification of extensive Silurian volcanics believed to be the same rocks that host important volcanogenic massive sulphide (VMS) deposits in Victoria and NSW such as Woodlawn and Benambra (Stockman), approximately 100 kilometres to the north.

Drilling carried out by previous explorers within the Nowa Nowa area intersected significant copper, lead, zinc and gold mineralisation in altered volcanics and sediments, with a best intersection of 13.6 metres assaying 3.8% copper at the Three Mile prospect in the south eastern corner of the licence.

Although final processing of the survey data has yet to be completed, preliminary results indicates the VTEM survey has defined three strong conductors, one of which is located at the Three Mile prospect (Figure 6).

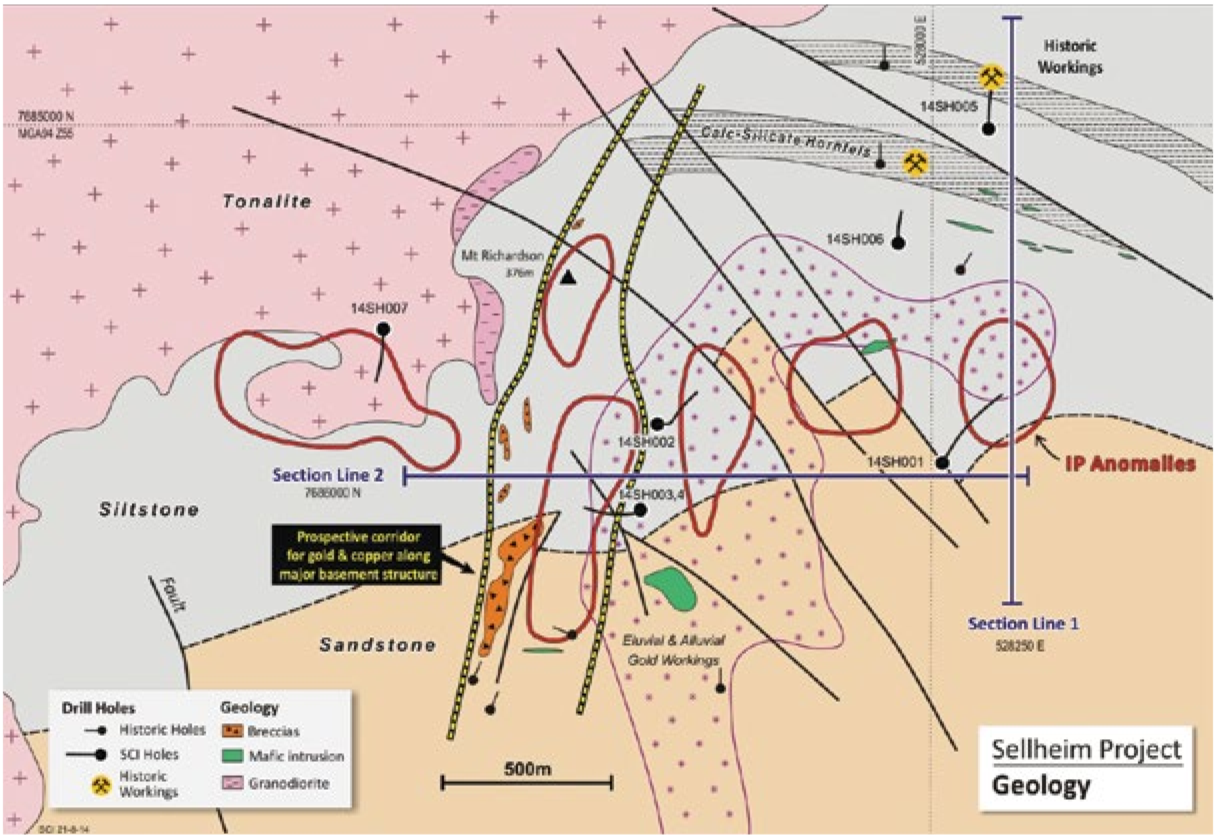


Figure 7: Local geology showing relationship of IP anomalies (modelled at 200 metres below surface) to the eluvial/alluvial goldfield and drill holes. Major structural corridor considered to be favourable for gold-copper mineralisation is shown (courtesy of Silver City)

SILVER CITY MINERALS

Silver City Minerals Limited (ASX: SCI) continued its well-funded programme of exploration within its extensive portfolio of tenements around Broken Hill, NSW and into its new Sellheim copper/gold project in Queensland.

At Sellheim SCI can earn up to an 80% interest in a joint venture over the historic Sellheim gold district near Charters Towers, Queensland, which is considered to have significant potential for large gold deposits associated with intrusive rocks.

Work by SCI during the year included completing a large Induced Polarisation (IP) programme to test beneath the elluvial goldfield and old copper-gold workings. The survey produced a number of very strong (greater than 100 mV/V) and discrete chargeability anomalies grouped in an east-west oriented corridor approxi-mately 1.5 kilometres wide and 4 kilometres long.

SCI tested a number of the anomalies, completing seven diamond core and reverse circulation holes for a total of 2,268.4 metres. The company reported that the drilling returned a number of intersections of gold, copper and silver mineralisation predominantly hosted in skarn alteration and quartz-sulphide veins. The best intersection recorded was 11.1 metres at 0.66 g/t gold and 0.28% copper from 496.9 metres in hole 14SH004 (Figures 7 and 8) hosted in magnetite-quartz skarn close to a major fault and breccia complex.

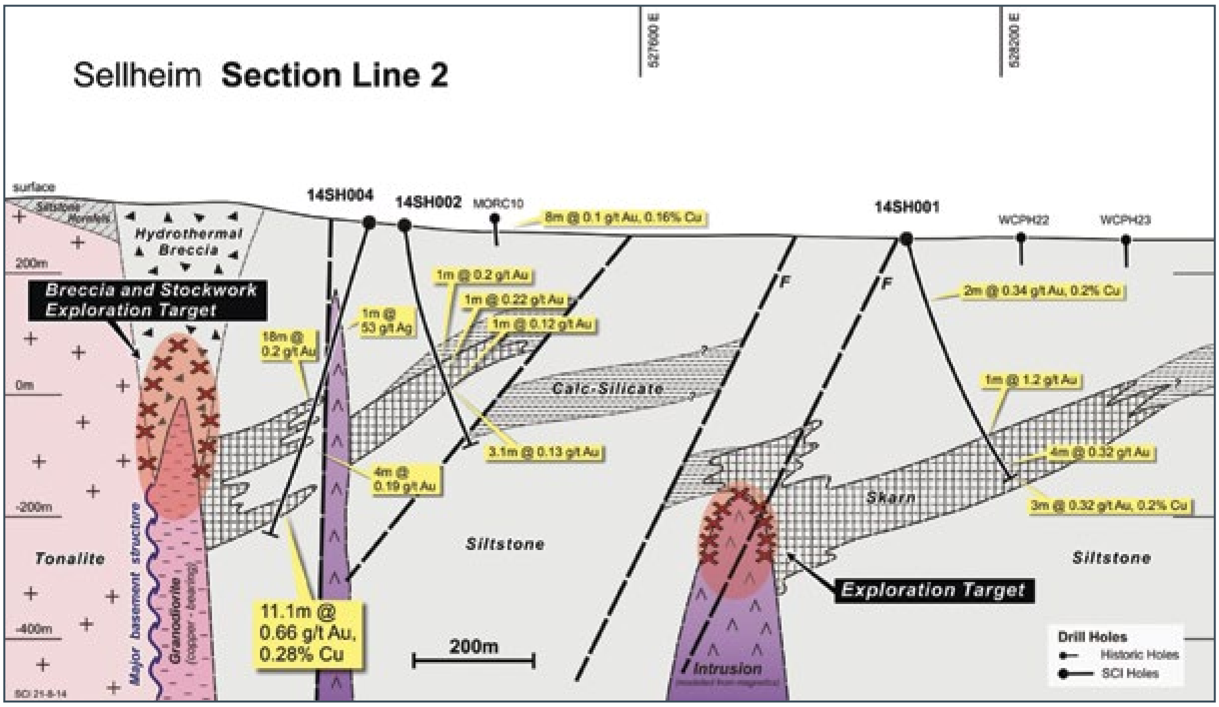
SCI believes that the mineralised skarns formed as a result of fluids emanating from the tonalite intrusion immediately west of Mount Richardson (a north-trending zone of silicification and phyllic alteration with gossanous quartz-sericite rocks and tourmaline breccias), or from other discrete intrusive stocks.

The company has identified a structural corridor at Mount Richardson which it considers to be highly prospective for gold-copper mineralisation. This will be tested with further drilling in Q3 2014.

In the Broken Hill region, drilling below and along strike from old mine workings at Allendale generated a number of high grade, but generally thin lead-zinc-silver intersections within a mineralised corridor approximately 75 metres wide and 450 metres long. Intersections recorded included 10 metres at 3.4% lead, 6.2% zinc and 26 g/t silver in drillhole 12AN035. However, the discontinuous nature of the known mineralisation has not allowed the generation of sufficient tonnage for open pit mining and Silver City completed deeper exploration via a helicopter-borne electromagnetic (EM) survey.

At Razorback West, Silver City believes that the geochemical anomalies previously identified in shallow RAB drilling might represent the northern extension to the famous Broken Hill 'line of lode" corridor, offset westward by at fault structure known as the Stephens Creek Shear Zone.

An induced polarisation (IP) geophysical survey by Silver City generated a number of significant chargeability anomalies coincident with the surface lead-zinc geochemical anomalies and a distinctive ridge of elevated gravity. The company drilled a number of RC holes into the IP/geochemical anomalies



intersecting intervals up to 15 metres wide containing concentrations of blue quartz and disseminated pyrite and pyrrhotite (iron sulphides) with minor sphalerite veins (zinc sulphide) typical of BHT deposits. Evaluation work is continuing.

Figure 8: Interpretive cross-section showing holes 14SH001, 002 and 004. Best gold and copper mineralisation occurs close to the contact between intrusions in the west and sediments to the east. This contact zone is marked by the presence of a breccia complex which hosts quartz-tourmaline and quartz-sericite-gossan breccias. A copper-bearing granodiorite recently identified to the north of the breccia complex is interpreted to also underlie it (courtesy of Silver City).

THOMSON RESOURCES

Thomson Resources Ltd. (ASX: TMZ) continued exploration of its base and precious metal targets in the Cobar Basin and Thomson Fold Belt of north-western NSW. The Thomson Fold Belt targets are covered by the margin of the Eromanga Basin and are hosted within rocks believed to be the northern continuation of the Cobar Basin.

Thomson completed drilling at its wholly owned F1 target within the Falcon project area. Three holes were completed, defining another Intrusion-Related mineral system, hosted entirely in granite at the relatively shallow depth of 100 metres below cover. A sheeted vein system with silica and carbonate alteration was intersected with anomalous gold, molybdenum, tungsten, lead and arsenic results recorded.

As part of its new project generation initiative Thomson also acquired a number of new tin, base and precious metal projects outside the Thomson Fold Belt. These included the Havilah Project near Mudgee, central NSW which lies within the Silurian Hill End Trough. It is believed to have strong potential for volcanogenic massive sulphide (VMS) deposits also found in the region such as Woodlawn and Lewis Ponds.

Previous work at Havilah has defined zinc, lead, gold and silver anomalism in soil and rock chip sampling coincident with a strong sericite-pyrite-silica alteration zone hosted in rhyolitic to dacitic volcaniclastics, a typical setting for VMS deposits. Historical drilling largely targeted more distal parts of the alteration system, returning intercepts including 4 metres at 4.0 g/t gold, 81 g/t silver from 2 metre depth in CPDH10.

To test the Havilah and other key prospects within the Thomson portfolio, a VTEM survey (Versatile Time-Domain Electromagnetic geophysical system) was flown. VTEM is widely considered the best helicopter TEM massive sulphide detection and imaging tool with notable successes including the discovery of the Mallee Bull deposit in the Cobar Basin. A total of 564 line kilometres was acquired over five targets: Havilah, Wilga Downs, Furneys, Kenilworth and the Wilgaroon tin-tungsten project. Processing of results is in progress.

WPG RESOURCES

WPG Resources (ASX: WPG) is an iron ore, coal and gold exploration and development company with exploration tenements in South Australia. WPG's current focus is on two advanced gold projects in the Gawler Craton, South Australia - Tunkillia (WPG holds approximately 70%) and Tarcoola (WPG holds 100%) where previous feasibility and scoping studies at Tarcoola, had defined a significant gold resource. In July 2014, WPG announced that it would fast track development of the Tarcoola project with the objective of commencing operations late next year. The company stated that a review of data had confirmed that the Tarcoola gold project could be successfully developed into a heap leach mining operation with an initial mine life of four to five years.

AGUIA RESOURCES

Aguia Resources Limited (ASX: AGR) is an exploration company that has interests in substantial phosphate and potash projects in Brazil, including three highly prospective and potentially large scale phosphate projects, the Lucena and Mata da Corda Phosphate Projects and the Tres Estradas carbonatite-style phosphate project in Rio Grande do Sul, southern Brazil.

COMPETENT PERSONS STATEMENT

The information in this report that relates to Exploration Results is based on information compiled by Greg Jones, BSc (Hons), who is a member of the Australasian Institute of Mining and Metallurgy. Mr Jones is a Director and full-time employee of Variscan NL and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Jones consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Mining in Europe

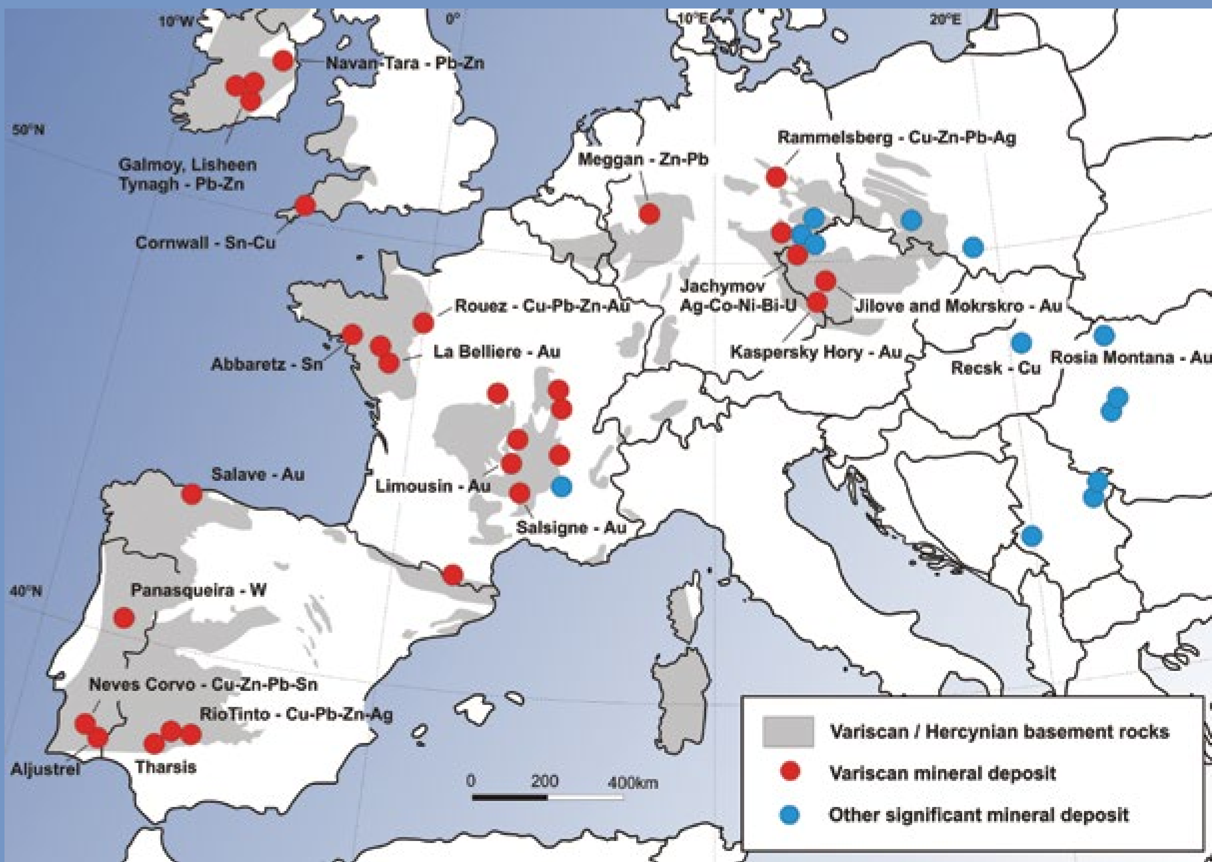
Europe has a long and rich history of mining stretching from early Greek and Roman times through to the present day and is well endowed with mineral deposits that have helped to dramatically shape the history of the region.

Mineral deposits which have been a crucial part of the development and industrialisation of Europe include –

- the rich silver deposits of Laurion on the Attica coast of Greece,
- the world-class copper, silver and iron deposits of Rio Tinto (Spain) which were the most important source of metals for the Roman empire,
- the tin deposits of Cornwall (UK), source of much raw material used in the Bronze age,
- the high grade silver-copper-lead deposits of Rammelsberg (Germany) which were a crucial factor in supporting the Renaissance.

The importance of European mining was clearly defined by Agricola, who in 1556 published his seminal work "De re Metallica" which '...underlined the crucial role being played in the renaissance of Western life, culture and commerce by the continuing infusion of wealth from the mines of central Europe' (R. Raymond - Out of the Fiery Furnace, 1984).

By any metric, the overall metal endowment of Europe is impressive, especially considering that much of the continent, with the exception of Sweden, Finland and Spain, has remained largely unexplored over the last 30-40 years due to a combination of economic and political issues. Countries considered to have strong geological potential to host additional major mineral deposits include Germany, Bulgaria, Romania, France, Hungary, Serbia, Greece and Macedonia.



Significant mineral deposits in Western Europe

Despite this obvious endowment and capacity to potentially produce large quantities of important and strategic metals, mining in Europe is relatively underdeveloped. Modern Europe currently consumes approximately 30% of world mineral production but only produces about 3%, with some of countries having little mineral mining.

This is predicted to change as European countries:

1. Grapple with increased mineral security concerns given huge rises in demand for metals worldwide, and the emergence of China, South East Asia and Brazil as major economic powers; and

2. Recognise the positive impact that a vibrant mining industry can have on a country's balance of payments, GDP and unemployment.

The EU is witnessing increased political and economic awareness of the importance of a strong metal mining industry. Policy changes in certain countries to encourage exploration and make mining more attractive to investors are anticipated.

Tenement Schedule

AS AT 11 SEPTEMBER 2014

Tenement	Tenement Number	Interest	Joint Venture Details
NEW SOUTH WALES			
Yalcowinna	EL 8078	0%	Note 1
Mundi Plains JV	ELs 6404	20%	Teck 80%
Willyama	EL 8075	0%	Note 1
Hillston	EL 6363	39.2%	Perilya can earn 80%, Eaglehawk 9.8%
Woodlawn South	ELs 7257 and 7469	0%	Royalty interest only
Trundle	EL 4512	0%	Royalty interest only
Achilles and Chiron	ELs 7746 and 7931	100%	Kidman can earn 80%
SOUTH AUSTRALIA			
Junction Dam	EL 4509	16%	Teck 80%, Eaglehawk 4%, Marmota 100% in uranium rights only
Quinyambie	EL 4289	52.6%	Red Metal can earn 70%. Note 2
Callabonna	EL 5360	100%	Red Metal can earn 70%
FRANCE			
Tennie	PER	100%	
St Pierre	PER	100%	

EL = Exploration Licence **EPM** = Exploration Permit for Minerals **PER** = Permis Exclusif de Recherche (France)

Note 1: These tenements are subject to agreements with Silver City Minerals Limited whereby Silver City Minerals Limited must meet expenditure commitments within various time frames. Under an agreement with Silver City Minerals Limited, Broken Hill Operations and Eaglehawk Geological Consulting Pty Ltd, Variscan has converted its interest in parts of these tenements to a NSR (Net Smelter Return).

Note 2: EL 4289 held 47.4% by Dolores Group (Allender, Kennedy, Aurelius Resources, Hosking and Houldsworth).

Summary of Joint Ventures

AS AT 4 SEPTEMBER 2014

Achilles and Chiron

ELs 7764 and 7931, NSW

Variscan 100%. Kidman Resources Limited can earn an 80% interest in these tenements by completing expenditure of $210,000 over a three year period. When Kidman has earned a 51% interest Variscan holds 25% and Thomson 24% and when Kidman has earned 80% Variscan and Thomson hold 10% each. At either of these stages any party may contribute according to their interest or dilute. Variscan and Thomson may then elect to revert to a free carried 5% interest.

Callabonna

EL 5360, SA

Variscan 100%. Red Metal can earn a 51% interest by spending $1 million and a 70% interest by spending $3 million. Variscan then can contribute with 30% or reduce to a 15% interest, carried to completion of a BFS and repayable from Variscan's share of net proceeds of mine production.

Hillston

EL 6363, NSW

Variscan 39.2% and Eaglehawk 9.8%, Perilya 51%. Perilya can earn an 80% interest in this tenement by completing expenditure of $1.5 million. Variscan and Eaglehawk can then each participate with their respective interests of 16% and 4% or convert to a 10% and 2.5% free-carried interest to completion of a BFS. On completion of a BFS, Variscan and Eaglehawk can participate or convert their interests to a NSR royalty.

Junction Dam

EL 4509, SA

Variscan 16%, Teck 80% and Eaglehawk 4% in base and precious metal rights. Variscan (and Eaglehawk) can participate with a 16% interest (4% for Eaglehawk) or dilute to a NSR royalty.

Marmota Energy Limited has earned a 100% interest in the uranium rights only. Marmota is sole funding exploration and Variscan, Teck and Eaglehawk are entitled to receive a royalty of 5% Net Profits on production from a uranium mine on the tenement.

Mundi Plains

ELs 6404, NSW

Variscan 20%, Teck Australia 80%. Both parties to contribute to approved programs or dilute their interest. If Variscan's interest falls below 8% it may elect to revert to a 2% NSR interest.

Quinyambie

EL 4289, SA

Variscan 52.6% and Allender, Kennedy, Aurelius Resources, Hosking and Houldsworth (collectively Dolores Group 47.4%). Red Metal can earn a 70% interest by spending $3 million. Variscan can contribute with 15% or reduce to a 7.5% interest, carried to completion of a BFS and repayable from Variscan's share of net proceeds of mine production.

Trundle

EL 4512, NSW

Variscan holds a NSR royalty interest.

Woodlawn South

ELs 7257 and 7469, NSW

Variscan holds a NSR royalty interest.

Willyama, Yalcowinna and Native Dog

ELs 8075, EL 8078 and 8236 NSW

Under various agreements with Silver City Minerals Limited, Variscan holds a NSR royalty interest.

Directors' Report

Your directors submit their report for the year ended 30 June 2014.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Patrick Elliott, *BCom, MBA, CPA*
Chairman

Patrick was appointed a Director of the Company on 22 December 2008 and is a company director specialising in the resources sector with over 40 years' experience in investment and corporate management. His early career was at Consolidated Gold Fields Australia Limited and covered investment analysis and management, minerals marketing (copper, tin, rutile and zircon). In 1979 he went into investment banking and became Head of Corporate Finance for Morgan Grenfell Australia Limited in 1982. Patrick subsequently became Managing Director of Natcorp Investments Ltd in 1986 which owned a number of manufacturing businesses. After its takeover he became an active early stage venture capital investor with an emphasis on resources.

Patrick is Chairman of Argonaut Resources NL and Chairman of Cap-XX Limited (Australian company listed on AIM). He is also a director of a number of privately owned companies.

During the past three years Patrick has also served as a director of the following other listed companies:

- Argonaut Resources NL – appointed June 2003
- Australia Oriental Minerals NL – appointed November 1998, resigned May 2012
- Global Geoscience Limited – appointed April 2003
- Cuesta Coal Limited – appointed October 2011

Gregory Jones, *BSc (Hons 1) (UTS), MAusIMM*
Managing director

Greg was appointed Chief Executive Officer of the Company on 1 January 2009 and Managing Director from 20 April 2009. He is a geologist with over 33 years of exploration and operational experience gained in a broad range of metalliferous commodities both within Australia and overseas. Greg has held senior positions in a number of resource companies including Western Mining Corporation and Sino Gold Limited and his experience spans the spectrum of exploration activity from grass-roots exploration through to resource definition and new project generation, as well as mine geology, ore resource/reserve generation and new mine development.

Greg was awarded the Institute Medal for academic excellence whilst at university and is credited with several economic discoveries including the Blair nickel and the Orion gold deposits in Western Australia.

During the past three years Gregory has also served as a director of the following other listed companies:

- Eastern Iron Limited – appointed April 2009
- Silver City Minerals Limited – appointed April 2009
- Thomson Resources Ltd – appointed July 2009
- Moly Mines Limited – appointed August 2014

Kwan Chee Seng
Non-executive director

Chee Seng was appointed a Director of the Company on 17 February 2009. Chee Seng has investments in the renewable sustainable energy, base metal resources and the biotechnology businesses. He has extensive experience in senior management and in business.

In March 2009, Chee Seng launched his fund management business with the incorporation of Luminor Capital Pte Ltd and Luminor Pacific Fund 1 Ltd (Fund 1). Recently he has launched Luminor Pacific Fund 2 Ltd (Fund 2). The Fund 1 and Fund 2 have been approved by the Economic Development Board of Singapore under the Global Investor Program.

In December 2012, Chee Seng acquired a major shareholder stake in Singapore listed GRP Limited, and in March 2013 he was appointed Executive Director of GRP. He has previously served as

Non-Executive Director of Singapore listed companies Van der Horst Energy Limited (from March 2008 to November 2011) and Viking Offshore and Marine Ltd (from mid-2009 to end 2010).

During the past three years Mr Kwan has not served as a director of any other ASX listed company.

Dr Foo Fatt Kah, *MB, BCh, BAO, MBA*
Non-executive director

Dr Foo was appointed a Director of the Company on 7 October 2009. Dr Foo has over 20 years' experience in the investment banking, fund management and advisory businesses spanning Europe and Asia. He was previously Head of Asian Equities for SG Securities Asia (the Asian Investment Banking business for Societe Generale) covering 10 Asian countries ex-Japan. Since 2004 Dr Foo has been active as an investor, overseeing investments in Resources, Energy and Healthcare.

Dr Foo is qualified in Medicine (MB, B Ch, BAO) and Business Administration (M.B.A.) from the Queen's University, United Kingdom, with further continuing education qualifications from Insead on Economic Value Added (EVA) and International Project Management. He has experience with listed companies in Singapore, being previously Executive Director of CyberVillage Holdings Ltd and currently Lead Independent Director of PEC Ltd.

During the past three years Dr Foo has not served as a director of any other ASX listed company.

Alan Breen, *HNDip Extraction Metallurgy, MBA*
Non-executive director

Alan was appointed as a non-executive director on 6 October 2011. Alan is a metallurgist and with over 35 years operational and executive management experience across a diverse range of commodities in Australasia, Europe and Africa. Alan held senior and executive management roles with Xstrata, Rio Tinto Aluminium and at Ok Tedi Mining where he held the position of Managing Director for 4 years.

Alan has previously held Director positions with Britannia Refined Metals Limited, Brittannia Recycling Limited, MIM Holdings (UK) Ltd and Ok Tedi Mining Limited.

During the past three years Alan has not served as a director any other ASX listed company.

Dr Jack Testard
Executive director (appointed 14 May 2014)

Jack was appointed a Director of the Company on 14 May 2014. Jack is a French geologist with over 40 years of experience in Europe, Africa, CIS countries, Turkey, Saudi Arabia and Guyana. Jack was formerly Head of the Minerals Resources Division of the BRGM (Bureau de Recherches Géologiques et Minières – the French Geological Survey), President of GIP GEODERIS and Manager of the Ovacik gold mine in Turkey under Normandy La Source.

Dr Testard is President of Variscan Mines SAS, the wholly owned French subsidiary of Variscan Mines Limited, based out of Orleans, France.

Jack is currently President of the French Chamber of Mines, Treasurer of the Federation of Minerals and Non Ferrous Metals (FEDEM) and a Director of the Société de l'Industrie Minérale (SIM).

During the past three years Jack has not served as a director of any other ASX listed company.

Kantilal Champaklal
Alternate director to Kwan Chee Seng (resigned 6 March 2014)

Kantilal resigned as an alternate director to Mr Kwan on 6 March 2014.

DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at the date of this report, the interests of the Directors in the shares and options of Variscan Mines Limited were:

Directors	Shares directly and indirectly held	Options directly and indirectly held
P Elliott	2,352,345	1,600,000
G Jones	2,505,000	5,550,000
C S Kwan	52,396,526	2,000,000
F K Foo	1,403,000	1,600,000
A Breen	–	1,000,000
J Testard	200,000	1,500,000

COMPANY SECRETARY

Ivo Polovineo, *FIPA*

Ivo Polovineo was appointed Company Secretary of the Company on 31 December 2010. Ivo has over 30 years' experience in corporate accounting, finance and company secretarial work for a diverse range of companies. He has spent the past 20 years in senior management roles in the resources sector including seven years as Company Secretary (and five years as CFO) of Sino Gold Mining Limited (a former ASX 100 company) until December 2009.

Ivo is currently also Company Secretary of Thomson Resources Ltd, Silver City Minerals Limited, KBL Mining Limited, and is a Director of Eastern Iron Limited.

PRINCIPAL ACTIVITIES

The principal continuing activity of the consolidated entity is the exploration for economic base metals, precious metals, tin and tungsten.

RESULTS

The net result of operations of the consolidated entity after applicable income tax was a loss of $5,717,244 (2013: loss $7,849,724) which includes the write-off of exploration expenditure during the year of $1,531,881 (2013: $3,482,189).

DIVIDENDS

No dividends were paid or proposed during the year.

REVIEW OF OPERATIONS

The most significant developments in the Company's operations and financing activities were:

Exploration

France

Variscan was granted its first French exploration licence in June 2013 following three years of patient work to identify and secure high quality projects in regions of demonstrated mineral endowment outside Australia. In the last 12 months the Company has received approvals for a second licence and has a number of others well advanced within the approvals process.

Saint Pierre

The Saint Pierre PER was granted in February 2014 and covers an area of 386 square kilometres over an important gold district believed to have been the third largest gold producer in France.

Within the licence lies the La Bellière gold mine which is recorded to have produced about 334,000 ounces of gold* (plus silver) from 1906 to 1952, up to a maximum depth of 170 metres intermittently over a strike length of about 1.6 kilometres. The average production grade was 12 g/t gold, mined from a series of stacked, high grade veins hosted within an east-west oriented shear zone. The high grade quartz – sulphide veins individually vary in true thickness from 1 to 16 metres and dip steeply to the south.

Variscan has commenced compiling and electronically converting all available records from the old mining area as well as former exploration conducted by the BRGM (Bureau de Recherches Géologiques et Minières - the French Geological Survey) during the 1980's. With the help of structural studies currently being conducted by the University of Orleans, the Company is constructing a 3D model of the mine which will be used to help elucidate the complex structural controls on mineralisation and target possible surface core drilling. This work is now well advanced.

In addition, to the north and south of La Bellière old data indicates the presence of parallel shears, highlighting the potential for additional gold deposits within the immediate proximity of the mine and throughout the remainder of the St Pierre PER. The Company has commenced a detailed auger soil geochemistry programme in the mine region to help generate additional drilling targets.

Tennie

The Tennie PER covers 205 square kilometres of the eastern section of a Palaeozoic sedimentary package which hosts the Rouez copper-gold-lead-zinc-silver deposit owned by the French energy group, TOTAL. Rouez is considered to be possibly either volcanogenic massive sulphide (VMS) or a hybrid sedimentary exhalative (SEDEX) type and shares a number of geological similarities to deposits such as Rio Tinto and Aljustrel within the Iberian Pyrite Belt of Spain and Portugal.

In late 2013 Variscan commenced an auger soil geochemical survey within the PER which is believed to be the first significant mineral exploration programme conducted in France for decades. The initial programme involves shallow hand auger drilling on a 200 x 200 metre grid over the accessible areas of fertile Brioverian rocks, to penetrate the thin transported loess horizon that blankets the area and thus may hide potential mineral deposits. Work is continuing.

Future Projects

Variscan has six other exploration licence applications within the approvals process, each of them over projects with good potential for short term resource generation and/or major new discoveries. The Company has deliberately targeted more advanced project areas containing previously defined mineralised zones or evidence of substantial old mine workings to help fast track the discovery of economic deposits.

Australia

In 2014 Variscan relinquished a number of its Australian grass roots exploration properties due to its focus in France. Joint venture interest for new exploration properties has been very subdued for the last few years and despite the good quality of some of the tenements, efforts to attract additional joint venture funding was not successful to maintain many of the tenements.

During the year exploration of Variscan's current joint venture properties was subdued in line with the general restricted risk capital availability in the bearish markets. During 2014 a total of $0.26 million was spent by Variscan's joint venture partners verses $0.7 million from the previous year.

Investments

Variscan maintains a diversified portfolio of investments within a number of ASX-listed resource companies. The value of the Variscan shareholdings in its ASX listed resource companies at the end of the year stood at approximately $3.8 million.

Eastern Iron

Eastern Iron Limited (ASX: EFE) continued with its Mine Feasibility Study on the Nowa Nowa iron project located near Bairnsdale in eastern Victoria, 270 kilometres east of Melbourne.

During the year Eastern Iron undertook a short program of reverse circulation (RC) drilling to upgrade part of the Inferred Mineral Resource at Five Mile to higher confidence categories for inclusion within a mining study. The results were consistent with assays reported from earlier drilling completed by the Victorian Department of Mines in the 1950's. Significantly it was noted that the thickest intersections were in the easternmost holes NRC044, NRC045 and NRC047 with the resource still open in this direction.

Additional confirmatory metallurgical work was also completed using large, pilot-scale, dry, low intensity magnetic separation (Dry LIMS) equipment to enhance recoveries. Overall results exceeded expectations with significant improvement in the average product grade to 58% iron (versus 56% iron in the feasibility study), at an average iron recovery of more than 90%.

Upgrade factors (i.e. from feed grade to product grade) suggest that the Dry LIMS is highly effective in its application to the Nowa Nowa ore, even at a relatively coarse feed size of -6mm. The technique was also successful in reducing sulphur grades to well below 1% sulphur in product.

* *C Louis. Les exploitations minières dans le Massif Armoricain. Déclin ou progrès. In: Norois. N°141, 1989. pp. 5–32*

Also during the year Eastern Iron announced a number of significant steps in the progression of the project. These included –

1. The successful granting of a mining licence (MIN 5571)
2. Reaching a native title agreement with GLaWAC representing the Gunaikurnai people, the recognised native title holders of the area.
3. The agreement by the Victorian Government to contribute up to $300,000 towards feasibility study relating directly to the infrastructure requirements of the project.

Following a decision by South East Fibre Exports Pty Ltd (SEFE) the owners of the SEFE bulk ship loader and wharf facility at the Port of Eden, not to enter into a formal agreement to allow the use of the SEFE facility for loading iron ore the company commenced review of other shipping alternatives including the use of the multi user "Naval" wharf which is adjacent to the SEFE wharf.

On 2 September 2014 Eastern Iron reported that it had completed a detailed heli-borne electromagnetic versatile time-domain electromagnetic geophysical system (VTEM) survey over the Nowa Nowa exploration licence. The survey was completed following a review of previous exploration and the identification of extensive Silurian volcanics believed to be the same rocks that host VMS deposits in Victoria and NSW such as Woodlawn and Benambra, approximately 100 kilometres to the north.

Drilling carried out by previous explorers within the Nowa Nowa area intersected significant copper, lead, zinc and gold mineralisation in altered volcanics and sediments, with a best intersection of 13.6 metres assaying 3.8% copper at the Three Mile prospect in the south eastern corner of the licence.

Although final processing of the survey data has yet to be completed, preliminary results indicates the VTEM survey has defined three strong conductors, one of which is located at the Three Mile prospect.

Silver City Minerals

Silver City Minerals Limited (ASX: SCI) continued its well-funded programme of exploration within its extensive portfolio of tenements around Broken Hill, NSW and into its new Sellheim copper/gold project in Queensland.

At Sellheim Silver City can earn up to an 80% interest in a joint venture over the historic Sellheim gold district near Charters Towers, Queensland, which is considered to have significant potential for large gold deposits associated with intrusive rocks. Work by Silver City included completing a large induced polarisation (IP) programme to test beneath the elluvial goldfield and old copper-gold workings. The survey produced a number of very strong (greater than 100 mV/V) and discrete chargeability anomalies grouped in an east-west oriented corridor approximately 1.5 kilometres wide and 4 kilometres long.

Silver City tested a number of the anomalies, completing seven diamond core and reverse circulation holes for a total of 2,268.4 metres. The company reported that the drilling returned a number of intersections of gold, copper and silver mineralisation predominantly hosted in skarn alteration and quartz-sulphide veins. The best intersection recorded was 11.1 metres at 0.66 g/t gold and 0.28% copper from 496.9 metres in hole 14SH004 hosted in magnetite-quartz skarn close to a major fault and breccia complex.

Silver City believes that the mineralised skarns formed as a result of fluids emanating from the tonalite intrusion immediately west of Mount Richardson (a north-trending zone of silicification and phyllic alteration with gossanous quartz-sericite rocks and tourmaline breccias), or from other discrete intrusive stocks. The company has identified a structural corridor at Mount Richardson which it considers to be highly prospective for gold-copper mineralisation. This will be tested with further drilling later in 2014.

In the Broken Hill region, drilling below and along strike from old mine workings at Allendale generated a number of high grade, but generally thin lead-zinc-silver intersections within a mineralised corridor approximately 75 metres wide and 450 metres long. Intersections recorded included 10 metres at 3.4% lead, 6.2% zinc and 26 g/t silver in drillhole 12AN035. However, the discontinuous nature of the known mineralisation has not allowed the generation of sufficient tonnage for open pit mining and Silver City completed deeper exploration via a helicopter-borne electromagnetic (EM) survey.

At Razorback West, Silver City believes that the geochemical anomalies previously identified in shallow rotary air blast (RAB) drilling might represent the northern extension to the famous Broken Hill "line of lode" corridor, offset westward by at fault structure known as the Stephens Creek Shear Zone.

An induced polarisation (IP) geophysical survey by Silver City generated a number of significant chargeability anomalies coincident with the surface lead-zinc geochemical anomalies and a distinctive ridge of elevated gravity. The company drilled a number of RC holes into the IP/geochemical anomalies intersecting intervals up to 15 metres wide containing concentrations of blue quartz and disseminated pyrite and pyrrhotite (iron sulphides) with minor sphalerite veins (zinc sulphide) typical of BHT deposits. Evaluation work is continuing.

Thomson Resources

Thomson Resources Ltd (ASX: TMZ) continued exploration of its base and precious metal targets in the Cobar Basin and Thomson Fold Belt of north-western NSW. The Thomson Fold Belt targets are covered by the margin of the Eromanga Basin and are hosted within rocks believed to be the northern continuation of the Cobar Basin.

Thomson completed drilling at its wholly owned F1 target within the Falcon project area. Three holes were completed, defining another Intrusion-Related mineral system, hosted entirely in granite at the relatively shallow depth of 100 metres below cover. A sheeted vein system with silica and carbonate alteration was intersected with anomalous gold, molybdenum, tungsten, lead and arsenic results recorded.

During the year Thomson acquired a number of new tin, base and precious metal projects outside the Thomson Fold Belt. These included the Havilah Project near Mudgee, central NSW which lies within the Silurian Hill End Trough. It is believed to have strong potential for volcanogenic massive sulphide (VMS) deposits also found in the region such as Woodlawn and Lewis Ponds.

Previous work at Havilah has defined zinc, lead, gold and silver anomalism in soil and rock chip sampling coincident with a strong sericite-pyrite-silica alteration zone hosted in rhyolitic to dacitic volcaniclastics, a typical setting for VMS deposits. Historical drilling largely targeted more distal parts of the alteration system, returning intercepts including 4 metres at 4.0 g/t gold, 81 g/t silver from 2 metres depth in CPDH10.

To test the Havilah and other key prospects within the Thomson portfolio, a VTEM survey was flown. VTEM is widely considered the best helicopter TEM massive sulphide detection and imaging tool with notable successes including the discovery of the Mallee Bull deposit in the Cobar Basin. A total of 564 line kilometres was acquired over five targets: Havilah, Wilga Downs, Furneys, Kenilworth and the Wilgaroon tin-tungsten project. Processing of results is in progress.

WPG Resources

WPG Resources Ltd (ASX: WPG) is an iron ore, coal and gold exploration and development company with exploration tenements in South Australia. WPG's current focus is on two advanced gold projects in the Gawler Craton, South Australia - Tunkillia (WPG holds approximately 70%) and Tarcoola (WPG holds 100%) where previous feasibility and scoping studies at Tarcoola, had defined a significant gold resource. In July 2014, WPG announced that it would fast track development of the Tarcoola project with the objective of commencing operations late next year. The company stated that a review of data had confirmed that the Tarcoola gold project could be successfully developed into a heap leach mining operation with an initial mine life of four to five years.

AGUIA Resources

Aguia Resources Limited (ASX: AGR) is an exploration company that has interests in substantial phosphate and potash projects in Brazil, including three highly prospective and potentially large scale phosphate projects, the Lucena and Mata da Corda Phosphate Projects and the Tres Estradas carbonatite-style phosphate project in Rio Grande do Sul, southern Brazil.

Competent Persons Statement

The information in this report that relates to Exploration Results is based on information compiled by Greg Jones, BSc (Hons), who is a member of the Australasian Institute of Mining and Metallurgy. Mr Jones is a Director and full-time employee of Variscan Mines Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Mr Jones consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Directors are not aware of any significant changes in the state of affairs of the Group occurring during the financial period, other than as disclosed in this report.

SIGNIFICANT EVENTS AFTER THE REPORTING DATE

There were, at the date of this report, no matters or circumstances which have arisen since 30 June 2014 that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has not, during or since the end of the financial period, in respect of any person who is or has been an officer of the Company or a related body corporate, indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings.

Insurance premiums

During the financial period the Company has paid premiums to insure each of the directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

The premiums paid are not disclosed as such disclosure is prohibited under the terms of the contract.

ENVIRONMENTAL PERFORMANCE

Variscan holds exploration licences issued by New South Wales Department of Trade and Investment - Resources and Energy and the South Australian Department for Manufacturing, Innovation, Trade, Resources and Energy which specify guidelines for environmental impacts in relation to exploration activities. The licence conditions provide for the full rehabilitation of the areas of exploration in accordance with the Departments' guidelines and standards. There have been no significant known breaches of the licence conditions.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

As the Company's areas of interest are at an early stage of exploration, it is not possible to postulate likely developments and any expected results. The Company is hoping to identify other precious, base metal and tin / tungsten exploration and evaluation targets within France and western Europe.

SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

Details of unissued shares or interests under option for Variscan Mines Limited as at the date of this report are:

No. shares under option	Class of share	Exercise price of option	Expiry date of options
9,590,000	Ord	$0.18	27 Nov 2014
1,500,000	Ord	$0.18	27 Nov 2014
10,900,000	Ord	$0.30	25 Nov 2015
1,000,000	Ord	$0.25	6 Oct 2014
2,300,000	Ord	$0.14	31 Oct 2015
25,290,000			

The holders of these options do not have the right, by virtue of the option, to participate in any share issue of the Company or of any other body corporate or registered scheme.

There were no shares issued during or since the end of the financial year as a result of exercise of the above options.

Refer to the remuneration report and Note 19 for further details of the options outstanding.

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2014 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

DETAILS OF KEY MANAGEMENT PERSONNEL

Details of KMP including the top five remunerated executives of the Parent and Group are set out below.

Directors

Patrick Elliott	*Chairman (Non-Executive)*
Gregory Jones	*Managing Director*
Kwan Chee Seng	*Non-Executive Director*
Dr Foo Fatt Kah	*Non-Executive Director*
Alan Breen	*Non-Executive Director*
Dr Jack Testard	*Executive Director (appointed 14 May 14) President of Subsidiary – Variscan Mines SAS*
Kantilal Champaklal	*Alternate director for Kwan Chee Seng (resigned 6 Mar 14)*

Executives

Ivo Polovineo	*Company Secretary*
Wendy Corbett	*Managing Geologist*
Michelle Lilley	*Financial Controller*
Greg De Ross	*Managing Director of Subsidiary – Eastern Iron Limited (Deconsolidated 11 March 2014)*
Michel Bonnemaison	*CEO of Subsidiary – Variscan Mines SAS*

REMUNERATION PHILOSOPHY

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board believes that executive remuneration satisfies the following key criteria:

- Competitiveness and reasonableness.
- Acceptability to shareholders.
- Performance linkage/alignment of executive compensation.
- Transparency.
- Capital management.

These criteria result in a framework which can be used to provide a mix of fixed and variable remuneration, and a blend of short and long term incentives in line with the Company's limited financial resources.

Fees and payments to the Company's Non-Executive Directors and Senior Executives reflect the demands which are made on, and the responsibilities of, the Directors and the senior management. Such fees and payments are reviewed annually by the Board. The Company's Executive and Non-Executive Directors, Senior Executives and Officers are entitled to receive options under the Company's Employee Share Option Plan ('ESOP').

NON-EXECUTIVE DIRECTORS REMUNERATION ARRANGEMENTS

Directors are entitled to remuneration out of the funds of the Company but the remuneration of the Non-Executive Directors (NED) may not exceed in any year the amount fixed by the Company in general meeting for that purpose. The aggregate remuneration of the NED's has been fixed at a maximum of $250,000 per annum to be apportioned among the NED's in such a manner as the Board determines. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as Directors.

The Chairman's fee is set at $50,000 p.a. and NED fees at $36,000 p.a. which are consistent with industry average fees. At present, no Committee fees are paid to Directors.

SERVICE AGREEMENTS

Remuneration and other terms of employment for key management personnel are formalised in employment contracts and contractor agreements. Details of these arrangements are set out below:

Managing Director – Greg Jones

- Contract term: No fixed term. Either party may terminate the letter of employment with one months' notice.
- Remuneration: $280,642 p.a. (2013: $280,000) as at 30 June 2014 to be reviewed annually
- Termination payments: A 3 month severance pay with an additional 3 months after more than five years.

Executive Director – Jack Testard

- Contract term: No fixed term.
- Remuneration: Annual salary equivalent to Euro 65,532 (2013: 60,762) as at 30 June 2014, to be reviewed annually.
- Termination payments: Nil.

Company Secretary – Ivo Polovineo

- Contract term: 12 month rolling contract. Either party may terminate the contract with one months' notice.
- Remuneration: $1,300 (2013: $1,300) per day plus GST as at 30 June 2014.
- Termination payments: Nil.

Managing Geologist – Wendy Corbett

- Contract term: Rolling contract. Either party may terminate the agreement with one months' notice.
- Remuneration: $108.16 per hour (2013: $108.16) plus GST for consultancy services as at 30 June 2014.
- Termination payments: Nil.

Financial Controller – Michelle Lilley

- Contract term: No fixed term. Either party may terminate the agreement with one months' notice.
- Remuneration: $92.77 per hour (2013: $92.56) as at 30 June 2014.
- Termination payments: A 1 month severance pay with an additional 2 months after more than five years.

CEO (Variscan Mines) – Michel Bonnemaison

- Contract term: No fixed term.
- Remuneration: Annual salary equivalent to Euro 162,462 (2013: 154,980) as at 30 June 2014, to be reviewed annually.
- Termination payments: In the case of redundancy one month payment for each year of service

Managing Director (Eastern Iron) – Greg De Ross (Subsidiary deconsolidated 11 Mar 14)

- Contract term: No fixed term. Either party may terminate the letter of employment with two months' notice.
- Remuneration: $284,572 p.a. (2013: $283,920) as at 30 June 2014 to be reviewed annually.
- Termination payments: A 3 month severance pay with an additional 3 months after more than five years.

Directors and KMP remuneration (consolidated) for the year ended 30 June 2014

	Short-term benefits		Post employment	Share-based payments		
	Cash salary and fees $	Consulting fees $	Superannuation $	Options $	Total $	Consisting of options %
Directors						
P Elliott	50,000	–	–	–	50,000	0%
G Jones	256,881	25,294*	26,101	–	308,276	0%
C S Kwan	36,000	–	–	–	36,000	0%
F K Foo	36,000	–	–	–	36,000	0%
A Breen	33,024	–	3,055	–	36,079	0%
J Testard	92,711	–	–	–	92,711	0%
Total Directors	504,616	25,294	29,156	–	559,066	
Other key management personnel						
I Polovineo	62,400	27,571*	–	–	89,971	0%
W Corbett	–	91,427*	2,250	–	93,677	0%
M Lilley	106,081	–	9,813	–	115,894	0%
M Bonnemaison	235,769	–	–	–	235,769	0%
G De Ross	181,354	–	16,775	10,580	208,709*	5%
Other KMP	585,604	118,998	28,838	10,580	744,020	
Totals	1,090,220	144,292	57,994	10,580	1,303,086	

* Eastern Iron Limited remuneration from 1 July 2013 to 11 March 2014 (date of deconsolidation).

Directors and KMP remuneration (consolidated) for the year ended 30 June 2013

	Short-term benefits		Post employment	Share-based payments		
	Cash salary and fees $	Consulting fees $	Superannuation $	Options $	Total $	Consisting of options %
Directors						
P Elliott	50,000	–	–	–	50,000	0%
G Jones	252,294	36,330	25,976	3,510	318,110	1%
C S Kwan	36,000	–	–	–	36,000	0%
F K Foo	36,000	–	–	–	36,000	0%
A Breen	33,024	–	2,972	–	35,996	0%
Total Directors	407,318	36,330	28,948	3,510	476,106	
Other key management personnel						
I Polovineo	61,800	38,400	–	12,285	112,485	11%
W Corbett	–	126,739	3,270	6,885	136,894	5%
M Lilley	121,903	–	10,971	–	132,874	0%
N Maund[(a)]	196,724	44,955	15,622	–	257,301	0%
J Testard	76,383	–	–	8,100	84,483	10%
M Bonnemaison	194,822	–	–	8,100	202,922	4%
G De Ross	259,642	–	23,368	7,800	290,810	3%
Other KMP	911,274	210,094	53,231	43,170	1,217,769	
Totals	1,318,592	246,424	82,179	46,680	1,693,875	

(a) Not considered to be key management personnel for the year ending 30 June 2014

Compensation options: granted and vested during the year (parent entity)

There were no share-based payments (options) granted during the financial year to Directors and Key Management Personnel.

The value of options granted during the period is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.

For details on the valuation of the options, including models and assumptions used, please refer to Note 19.

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures during the period.

The Company has established an ESOP for the benefit of Directors, officers, senior executives and consultants.

Directors' Benefits, Emoluments and Share Options

During its annual budget review the Board reviews the Directors' Emoluments. Remuneration levels, including participation in the Company's ESOP, are set to provide reasonable compensation in line with the Company's limited financial resources. During the year no Director of the Company has received or become entitled to receive a benefit (other than a benefit included in Note 22 of the financial statements) by reason of a contract made by the Company or a related corporation with the Director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

Due to the difficulty in the measurement of performance using quantitative indicators in the mineral exploration industry, there is no formal link between financial performance of the group and remuneration levels.

There is no retirement scheme for Non-Executive Directors.

End of Audited Remuneration report.

MEETINGS OF DIRECTORS

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director.

	Board of directors		Remuneration committee		Audit committee	
	Held	Attended	Held	Attended	Held	Attended
Directors						
P Elliott	4	4	1	1	2	1
G Jones	4	4	1	1	2	2
C S Kwan	4	3	1	1	–	–
F K Foo	4	4	–	–	2	2
A Breen	4	4	–	–	–	–
J Testard	1	1	–	–	–	–
K Champaklal	1	1	–	–	–	–

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

HLB Mann Judd
Accountants | Business and Financial Advisers

VARISCAN MINES LIMITED

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Variscan Mines Limited for the year ended 30 June 2014 I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to the Variscan Mines Limited and the entities it controlled during the year.

Sydney, NSW
30 September 2014

M D Muller
Partner

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Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au
Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (NSW Partnership) is a member of HLB International. A world-wide network of independent accounting firms and business advisers.

NON-AUDIT SERVICES

The following non-audit services were provided by the Company's primary auditor, HLB Mann Judd. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditor's imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

HLB Mann Judd received or is due to receive the following amounts for the provision of non-audit services:

- Tax advisory services $5,000

Signed at Sydney this 30th day of September 2014 in accordance with a resolution of the Directors.

Greg Jones
Managing Director

Corporate Governance

The Board has adopted a corporate framework for the Company which is underpinned by the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition) ('the Recommendations') applicable to ASX-listed entities.

This Section addresses each of the Corporate Governance Principles and, where the Company has not followed a Recommendation, this is identified with the reasons for not following the Recommendation.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1 – Functions reserved to the Board and delegated to senior executives

The Company has established functions reserved to the Board and functions delegated to senior executives.

The functions reserved to the Board include:

(1) oversight of the Company, including its control and accountability systems;

(2) appointing and removing the Managing Director (MD) (or equivalent), including approving remuneration of the MD and the remuneration policy and succession plans for the MD;

(3) ratifying the appointment and, where appropriate, the removal of the Chief Financial Officer (or equivalent) and the Secretary;

(4) input into the final approval of management's development of corporate strategy and performance objectives;

(5) reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;

(6) monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;

(7) approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;

(8) approving and monitoring financial and other reporting;

(9) appointment and composition of committees of the Board;

(10) on recommendation of the Audit Committee, appointment of external auditors; and

(11) on recommendation of the Nomination and Remuneration Committee, initiating Board and director evaluation.

The functions delegated to senior executives include:

(1) implementing the Company's vision, values and business plan;

(2) managing the business to agreed capital and operating expenditure budgets;

(3) identifying and exploring opportunities to build and sustain the business;

(4) allocating resources to achieve the desired business outcomes;

(5) sharing knowledge and experience to enhance success;

(6) facilitating and monitoring the potential and career development of the Company's people resources;

(7) identifying and mitigating areas of risk within the business;

(8) managing effectively the internal and external stakeholder relationships and engagement strategies;

(9) sharing information and making decisions across functional areas;

(10) determining the senior executives' position on strategic and operational issues; and

(11) determining the senior executives' position on matters that will be referred to the Board.

Recommendation 1.2 – Performance evaluation of senior executives

The Board reviews the performance of the Managing Director and executives to ensure they execute the Company's strategy through the efficient and effective implementation of the business objectives. The Managing Director and executives are assessed against the performance of the Company and individual performance.

Recommendation 1.3 – Performance evaluation of senior executives during the financial year

During the financial year ended 30 June 2014, given the company's current stage of development, an informal process of performance evaluation of the Managing Director and senior executives was carried out.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1 – A majority of the Board should be independent Directors

Recommendation 2.1 requires a majority of the Board to be independent directors. The Corporate Governance Council defines independence as being free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of unfettered and independent judgement.

The Board has determined that three of its non-executive directors are independent as defined under Recommendation 2.1. The Company is however at variance with Recommendation 2.1 in that a majority of directors are not independent. In accordance with the definition in Recommendation 2.1 above the Board has determined that Messrs Elliott, Foo and Breen are independent. Mr Jones is the managing director of the company, Mr Testard is an executive director and Mr Kwan is a substantial shareholder and accordingly Messrs Jones, Testard and Kwan are not considered by the Board to be independent directors as defined in Recommendation 2.1.

The Board has nevertheless determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise and that can understand and competently deal with current and emerging business issues.

Each individual member of the Board is satisfied that whilst the Company may not comply with Recommendation 2.1, all directors bring an independent judgment to bear on Board decisions.

Recommendation 2.2 – The chair should be an independent director

The Company's chairman, Mr Elliott, is an independent director as defined under Recommendation 2.1.

Recommendation 2.3 – The roles of chair and managing director should be separated

The roles of the Chairman and the Managing Director are not exercised by the same individual. The Board charter summarises the roles and responsibilities of the Chairman, Mr Elliott and the Managing Director, Mr Jones.

Recommendation 2.4 – Nomination Committee

The Board has established a Nomination and Remuneration Committee. The members of the Committee are Messrs Elliott, Kwan and Jones. A copy of the charter of the Nomination and Remuneration Committee is available on the Company's website.

Recommendation 2.5 – Process for evaluating the performance of the Board

In accordance with the charter of the Nomination and Remuneration Committee, the Committee is responsible for the:

(1) annual evaluation and review of the performance of the Board against both measurable and qualitative indicators established by the Committee;

(2) evaluation and review of the performance of individual directors against both measurable and qualitative indicators established by the Committee;

(3) review of and making of recommendations on the size and structure of the Board; and

(4) review of the effectiveness and programme of Board meetings.

Recommendation 2.6 – Additional information concerning the Board and Directors

(1) the skills and experience of each Director is set out in the Directors section of the Director's Report,

(2) the period of office of each Director is as follows:

Name	Term in office
P Elliott	5.5 years
G Jones	5.5 years
J Testard	4 months
C Kwan	5.3 years
K Foo	4.7 years
A Breen	2.7 years

(3) the reasons why Messrs Elliott, Foo and Breen are considered to be independent Directors are disclosed in relation to Recommendation 2.1,

(4) there are procedures in place, agreed by the Board, to enable Directors, in furtherance of their duties, to seek independent professional advice at the company's expense,

(5) details of the names of members of the nomination and remuneration committee are disclosed in relation to Recommendation 2.4 and attendances at meetings are set out in the Directors Meetings section of the Director's Report,

(6) given the current stage of the company's development, the 2014 evaluation of the performance of the Board, its committees and individual Directors was conducted on an agreed informal basis.

(7) the Nomination and Remuneration Committee is responsible for providing the Board with advice and recommendations regarding the ongoing development of:

   (a) a plan for identifying, assessing and enhancing director competencies; and

   (b) a succession plan that is designed to ensure that an appropriate balance of skills, experience and expertise is maintained on the Board.

The charter of the Nomination and Remuneration Committee requires that prior to identifying an individual for nomination for directorship, the Committee must evaluate the range of skills, experience and expertise currently existing on the Board to ensure that the Committee identifies the particular diverse skills, experience and expertise that will most effectively complement the Board's current composition. If a new candidate is approved by the Nomination and Remuneration Committee, the appointment of that new candidate is ultimately subject to shareholder approval in accordance with the Corporations Act 2001 and the Company's Constitution.

Further details are set out in the charter of the Nomination and Remuneration Committee. A copy of the charter of the Nomination and Remuneration Committee is available on the Company's website.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Recommendation 3.1 – Code of Conduct

The Company has established a code of conduct as to the:

(1) practices necessary to maintain confidence in the Company's integrity;

(2) practices necessary to take into account the Company's legal obligations and the expectations of stakeholders; and

(3) responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

A copy of the code of conduct is available on the Company's website.

Recommendation 3.2 – Diversity Policy

The Company has established a policy concerning diversity. The Company recognises the need to set diversity measures in each of its operating locations taking into account the differing diversity issues within each geographic location in which it operates.

A copy of the diversity policy is available from the Company's website. The policy includes requirements for the Board, at the appropriate stage of its development, to establish measurable objectives for achieving gender diversity and, once established, for the Board to assess annually both the objectives and progress in achieving them.

Recommendation 3.3 – Measurable Objectives for Achieving Gender Diversity

Due to the size of the Company and its workforce and its current stage of development the Board does not consider it appropriate to set measurable objectives at this time.

The Company intends to establish measurable objectives at the appropriate stage of its development.

Recommendation 3.4 – Proportion of Women Employees

Refer Recommendation 3.3 above.

At the date of this report the Company has 5 equivalent full time employees (including the Managing Director) of which 2 are female representing 40%. All of the employees are defined as senior management.

The Board comprises six directors all of which are male.

Recommendation 3.5 – Documents on Company website

Copies of the Code of Conduct and the Diversity Policy are available from the Company's website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1 – Audit Committee

The Company has established an Audit Committee.

Recommendation 4.2 – Structure of the Audit Committee

The Company's Audit Committee does not comply with all of the requirements of Recommendation 4.2. Details are as follows:

(1) the Audit Committee consists of two independent non-executive directors and the Managing Director. The members of the Audit Committee are Messrs Elliott, Foo and Jones.

(2) Mr Jones, the Managing Director is not considered to be an independent director for the reasons given under Recommendation 2.1.

(3) the Audit Committee is chaired by Mr Foo, who is an independent director and not the Chairman of the Board.

(4) the Audit Committee has three members.

Although not all of the members of the Audit Committee are independent the Board has nevertheless determined that the composition of the Audit Committee represents the only practical mix of directors that have an appropriate range of qualifications and expertise and that can understand and competently deal with current and emerging relevant business issues.

Recommendation 4.3 – Audit Committee Charter

The Company has adopted an Audit Committee charter which sets out its role, responsibilities and membership requirements and reflects the matters set out in the commentary and guidance for Recommendation 4.3.

Recommendation 4.4 – Additional information concerning the Audit Committee

The skills and experience of each member of the Audit Committee and the number of Audit Committee meetings attended by each member is set out in the Director's Report.

In accordance with the guide to reporting on Principle 4, the Company's Audit Committee charter is available on the Company's website.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1 – ASX Listing Rule Disclosure Requirements

The Company has established a Continuous Disclosure Policy which sets out the key obligations of directors and employees in relation to continuous disclosure as well as the Company's obligations under the Listing Rules and the Corporations Act. The policy also provides procedures for internal notification and external disclosures, as well as procedures for promoting understanding of compliance with disclosure requirements.

The policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.

Recommendation 5.2 – Continuous Disclosure Policy

There were no departures from Recommendation 5.1 during the financial year.

A copy of the Company's Continuous Disclosure Policy is available on the Company's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1 – Shareholder Communications Policy

The Company has adopted a shareholder communications policy for:

(1) promoting effective communication with shareholders; and

(2) encouraging shareholder participation at annual and other general meetings.

A copy of the Company's shareholder communications policy is available on the Company's website.

Recommendation 6.2 – Availability of Shareholder Communications Policy

A copy of the Company's shareholder communications policy is available on the Company's website.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Recommendation 7.1 – Risk Management Policies

(1) The Company has established policies for the oversight and management of its material business risks as follows:

(2) the Audit Committee oversees financial risks pursuant to the Audit Committee charter. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

(3) the finance department of the Company manages financial risks.

(4) a Risk Committee will oversee the Company's other material business risks.

Recommendation 7.2 – Risk Management and Internal Control System

The Company has developed a risk management framework which is supported by the Board of directors and management.

The Board requires management to implement risk management and internal control systems to manage the Company's business risks.

The Board requires management to report to it on whether those risks are being managed effectively.

Recommendation 7.3 – Statement from the Chief Executive Officer and the Chief Financial Officer

When considering the Audit Committee's review of financial reports the Board will receive a signed statement declaration in accordance with section 295A of the Corporations Act. This statement will also confirm whether the Company's financial reports are founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks.

Similarly, in a separate written statement the Chief Executive Officer and the Chairman of the Audit Committee will also confirm to the Board whether the Company's risk management and internal control, and that the system is operating effectively in all material respects in relation to financial risks and that nothing has occurred since period-end that would materially change the position.

Recommendation 7.4 – Additional information concerning Risk Management

The Board has received the report from management under Recommendation 7.2 and the Board has received assurance from the managing director and the chief financial officer under Recommendation 7.3.

The Company is in the process of developing a Risk Committee charter together with a risk management framework.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1 – Remuneration Committee

The Company has established a Nomination and Remuneration Committee which has delegated responsibilities in relation to the Company's remuneration policies as set out in the Company's Nomination and Remuneration Committee charter. The charter reflects the matters set out in the commentary and guidance for Recommendation 8.1.

Recommendation 8.2 – Remuneration of Executive Directors, Executives and Non-Executive Directors

The Company complies with Recommendation 8.2 by clearly distinguishing the structure of non-executive directors' remuneration from that of executive directors and senior executives. The commentary that follows each Recommendation does not form part of the Recommendation. Remuneration for non-executive directors is fixed. Total remuneration for all non-executive directors voted by shareholders at the Annual General Meeting held in November 2010 is not to exceed $250,000 per annum.

Neither the non-executive directors nor the executives of the Company receive any retirement benefits, other than superannuation.

Recommendation 8.3 – Additional information concerning Remuneration

The skills and experience of each member of the Nomination and Remuneration Committee and the number of Committee meetings attended by each member is set out in the Director's Report.

A copy of the Company's Nomination and Remuneration Committee charter is available on the Company's website.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014

	Note	2014 $	2013 $
Revenue and other income	3	1,995,045	2,287,040
ASX and ASIC fees		(50,398)	(49,223)
Auditors' remuneration	5	(108,323)	(95,241)
Contract admin/geological services		(149,238)	(205,213)
Depreciation expense	13	(77,558)	(86,585)
Directors' fees		(289,314)	(360,213)
Exploration expenditure written-off	14	(1,531,881)	(3,482,189)
Finance costs		(279,900)	–
Impairment of investment		(784,909)	(1,476,368)
Interest on convertible note	17	(563,634)	(924,679)
Loss on options – mark to market		(117,221)	(85,960)
Operating lease rental expense		(117,589)	(108,222)
Loss on disposal of subsidiary		(471,845)	–
Employee costs net of on-costs recharged to exploration projects		(1,046,133)	(1,137,770)
Share of net losses of associate accounted for by the equity method	9	(1,389,073)	(163,944)
Other expenses		(777,904)	(733,891)
(Loss) before income tax expense		**(5,759,875)**	**(6,622,458)**
Income tax benefit/(expense)	4	42,631	(1,227,266)
(Loss) after tax		**(5,717,244)**	**(7,849,724)**
Other comprehensive income/(loss)			
Items that may be reclassified to profit or loss			
Net fair value gains/(losses) on available-for-sale financial assets		93,671	(668,732)
Income tax on items of other comprehensive income/(loss)		(28,102)	200,620
Other comprehensive income/(loss) for the period, net of tax		**65,569**	**(468,112)**
Total comprehensive (loss) for the period		**(5,651,675)**	**(8,317,836)**
(Loss) for the period is attributable to:			
Non-controlling interests		24,816	(633,183)
Owners of the parent		(5,742,060)	(7,216,541)
		(5,717,244)	**(7,849,724)**
Total comprehensive (loss) for the period is attributable to:			
Non-controlling interests		24,816	(633,183)
Owners of the parent		(5,676,491)	(7,684,653)
		(5,651,675)	**(8,317,836)**
(Loss) per share			
Basic (loss) per share (cents per share)	21	(3.27)	(4.12)
Diluted (loss) per share (cents per share)	21	(3.27)	(4.12)

The Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2014

	Note	2014 $	2013 $
Assets			
Current assets			
Cash and cash equivalents	6	2,408,993	9,333,933
Receivables	7	414,913	567,987
Tenement security deposits	12	30,000	170,000
Total current assets		2,853,906	10,071,920
Non-current assets			
Investments – available for sale	8	1,433,127	1,400,439
Investment in associates	9	1,850,000	468,000
Derivative financial instruments	11	955	81,176
Receivables	7	32,156	31,932
Tenement security deposits	12	20,000	115,850
Property, plant and equipment	13	203,165	233,771
Deferred exploration and evaluation expenditure	14	918,297	5,793,879
Deferred tax asset	4	828,869	814,339
Total non-current assets		5,286,569	8,939,386
Total assets		8,140,475	19,011,306
Liabilities			
Current liabilities			
Trade and other payables	15	364,555	691,204
Provisions	16	97,103	139,494
Derivative liability	17	–	2,139
Convertible note	17	–	1,969,654
Total current liabilities		461,658	2,802,491
Non-current liabilities			
Provisions	16	54,497	61,867
Total non-current liabilities		54,497	61,867
Total liabilities		516,155	2,864,358
Net assets		7,624,320	16,146,948
Equity			
Equity attributable to equity holders of the parent			
Contributed equity	18	14,526,115	14,515,132
Reserves	20	3,547,839	4,514,098
Accumulated losses		(10,449,634)	(9,004,793)
Parent interests		7,624,320	10,024,437
Non-controlling interests	10	–	6,122,511
Total equity		7,624,320	16,146,948

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2014

	Note	2014 $	2013 $
Cash flows from operating activities			
Payment to suppliers and employees		(2,463,696)	(2,777,015)
Consultancy fees and rental income received		280,568	276,226
R&D tax offset		956,555	1,232,116
Interest received		225,159	524,507
Net cash flows used in operating activities	29	**(1,001,414)**	**(744,166)**
Cash flows from investing activities			
Purchase of plant and equipment		(63,916)	(97,489)
Proceeds from sale of plant and equipment		–	19,656
Sale of mining tenements		200,000	–
Expenditure on mining interests (exploration)		(3,535,397)	(3,221,941)
Purchase of equity investments		(30,000)	–
Tenement security deposits & bank guarantees (paid)/recovered		222,500	(37,500)
Cash forgone on disposal of subsidiary		(86,556)	–
Net cash flows from investing activities		**(3,293,369)**	**(3,337,274)**
Cash flows from financing activities			
Proceeds from issue of shares		16,875	1,348,661
Payment of share issue costs		–	(54,400)
Repayment of convertible note		(2,350,000)	–
Convertible note costs		(308,288)	(201,370)
Net cash flows (used in)/from financing activities		**(2,641,413)**	**1,092,891**
Net increase in cash and cash equivalents		(2,988,549)	5,498,831
Net foreign exchange differences		11,256	(51,027)
Cash and cash equivalents at beginning of period		9,333,933	12,373,509
Cash and cash equivalents at end of period	29	**2,408,993**	**9,333,933**

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

	Note	Contributed equity $	Accumulated losses $	Reserves $	Non–controlling interest $	Total equity $
At 1 July 2012		**14,515,132**	**(1,849,638)**	**2,837,018**	**5,419,932**	**20,922,444**
(Loss) for the period		–	(7,216,541)	–	(633,183)	(7,849,724)
Other comprehensive income		–	–	(468,112)	–	(468,112)
Total comprehensive (loss) for the period		**–**	**(7,216,541)**	**(468,112)**	**(633,183)**	**(8,317,836)**
Transactions with owners in their capacity as owners:						
Issue of share capital (net of share issue costs)		–	–	–	1,421,467	1,421,467
Transfer expired options to Retained Earnings		–	504,113	(389,548)	(114,565)	–
Investment revaluation reserve adjustment	20	–	(442,727)	442,727	–	–
Deferred tax adjustment	20	–	–	745,611	–	745,611
Adjustment relating to impairment of assets	20	–	–	845,817	–	845,817
Share-based payments	20	–	–	50,815	28,860	79,675
Foreign currency translation	20	–	–	449,770	–	449,770
At 30 June 2013	20	**14,515,132**	**(9,004,793)**	**4,514,098**	**6,122,511**	**16,146,948**
At 1 July 2013		**14,515,132**	**(9,004,793)**	**4,514,098**	**6,122,511**	**16,146,948**
(Loss) for the period		–	(5,742,060)	–	24,816	(5,717,244)
Other comprehensive income		–	–	65,569	–	65,569
Total comprehensive (loss) for the period		**–**	**(5,742,060)**	**65,569**	**24,816**	**(5,651,675)**
Transactions with owners in their capacity as owners:						
Issue of share capital (net of share issue costs)		16,875	–	–	255,155	272,030
Transfer expired options to Retained Earnings		–	282,550	(47,880)	(234,670)	–
Expiry of Convertible Note Option	20	–	1,095,168	(1,095,168)	–	–
Non-Controlling interest disposal of Eastern Iron Limited		(5,892)	2,919,501	229,108	(6,178,392)	(3,035,675)
Share-based payments		–	–	–	10,580	10,580
Foreign currency translation	20	–	–	(117,888)	–	(117,888)
At 30 June 2014	20	**14,526,115**	**(10,449,634)**	**3,547,839**	**–**	**7,624,320**

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

Consolidated Notes to the Financial Statements

For the year ended 30 June 2014

1. CORPORATE INFORMATION

The financial report of Variscan Mines Limited (Variscan or the Company) (formerly PlatSearch NL) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 30 September 2014.

On 10 January 2014 the Company changed its name from PlatSearch NL to Variscan Mines Limited.

Variscan Mines Limited (the parent) is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange under ASX Code VAR.

The consolidated financial statements comprise the financial statements of Variscan Mines Limited and its subsidiaries (the Group or Consolidated Entity).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. It has been prepared on a historical cost basis except for investments in listed shares and derivative financial instruments, which are measured at fair value.

Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

Basis of consolidation

The consolidated financial statements comprise the financial statements of Variscan Mines Limited (Variscan or the Company) and its subsidiaries (collectively, the Group) as at 30 June each year.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Non-controlling interests are allocated their share of profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent. Losses are attributable to the non-controlling interest even if that results in a deficit balance.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. At this date, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate.

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value of at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits readily convertible to a known amount of cash and subject to an insignificant risk of change in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts, if any.

Trade and other receivables

Trade receivables, which generally have a 30 day term, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

Exploration, evaluation, development and restoration costs

Exploration and evaluation

Exploration and evaluation expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure, but does not include general overheads or administrative expenditure not having a specific connection with a particular area of interest.

Exploration and evaluation costs in relation to separate areas of interest for which rights of tenure are current are brought to account in the year in which they are incurred and carried forward provided that:

Such costs are expected to be recouped through successful development and exploitation of the area, or alternatively through its sale.

Exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

Once a development decision has been taken, all past and future exploration and evaluation expenditure in respect of the area of interest is aggregated within costs of development.

Exploration and evaluation – impairment

The Group assesses at each reporting date whether there is an indication that an asset has been impaired and for exploration and evaluation costs whether the above carry forward criteria are met.

Accumulated costs in respect of areas of interest are written off or a provision made in the Statement of Comprehensive Income when the above criteria do not apply or when the Directors assess that the carrying value may exceed the recoverable amount. The costs of productive areas are amortised over the life of the area of interest to which such costs relate on the production output basis.

Provisions are made where farm-in partners are sought and there is a possibility that carried-forward expenditures may have to be written off in the future if a farm-in partner is not found. In the event that farm-in agreements are reached or the Company undertakes further exploration in its own right on those properties, the provisions would be reviewed and if appropriate, written back.

Development

Development expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest in which economically recoverable reserves have been identified to the satisfaction of the Directors. Such expenditure comprises net direct costs and, in the same manner as for exploration and evaluation expenditure, an appropriate portion of related overhead expenditure having a specific connection with the development property.

All expenditure incurred prior to the commencement of commercial levels of production from each development property is carried forward to the extent to which recoupment out of revenue to be derived from the sale of production from the relevant development property, or from the sale of that property, is reasonably assured.

No amortisation is provided in respect of development properties until a decision has been made to commence mining. After this decision, the costs are amortised over the life of the area of interest to which such costs relate on a production output basis.

Restoration

Provisions for restoration costs are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, or available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition

All purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or have been transferred.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in profit or loss and the related assets are classified as current assets in the Statement of Financial Position.

Loans and receivables

Loans and receivables including loan notes and loans to KMP are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

Available for sale securities

Available for sale investments are those non-derivative financial assets, principally equity securities, that are designated as available for sale or are not classified as any of the three preceding categories. After initial recognition available for sale securities are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

Investments in associates

The Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities over which the Group has significant influence and that are neither subsidiaries nor joint ventures.

The Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in the associates are carried in the consolidated Statement of Financial Position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Group's net investment in associates.

The Group's share of its associates' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's Statement of Comprehensive Income, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Group does not recognise further losses, unless it has incurred obligations or made payment on behalf of the associate.

The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Interest in jointly controlled operations – joint ventures

The Group has an interest in exploration joint ventures that are jointly controlled. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. The Group recognises its interest in the jointly controlled operations by recognising the assets that it controls and the liabilities that it incurs. The Group also recognises the expenses that it incurs and its share of any income that it earns from the sale of goods or services by the jointly controlled operations.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, namely motor vehicles and plant and equipment – depreciated over 2–10 years (2013: 2–8 years).

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Leases

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

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Trade and other payables and provisions

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (i.e.an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Convertible notes

The component of convertible notes that exhibits characteristics of a borrowing is recognised as a liability in the Statement of Financial Position, net of transaction costs. On issue of convertible note, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The component of the note that exhibits characteristics of a derivative is recognised as a liability in the Statement of Financial Position. The option is carried at fair value and is subsequently remeasured at each reporting date, with any movement recognised in the income statement.

The remainder of the proceeds is allocated to the equity component and is recognised in shareholders' equity, net of tax effects. The carrying amount of the equity component is not remeasured in subsequent years.

Convertible notes are classified as non-current liabilities unless the Group has an unconditional obligation to settle the liability within 12 months after the reporting date.

Employee entitlements

Wages, salaries, annual leave, and long service leave

Liabilities for wages and salaries are recognised and are measured as an amount unpaid at the reporting date at current pay rates in respect of employee's services up to that date.

Superannuation

The Company contributes to defined contribution superannuation funds for its employees. The cost of these contributions is expensed as incurred. A liability in respect of superannuation at the current superannuation guarantee rate has been accrued at the reporting date.

Share-based payment transactions

In addition to salaries, the Group provides benefits to certain employees (including Directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Option Plan in place to provide these benefits.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value of the options is determined by using the binomial option pricing model.

In valuing transactions settled by way of issue of options, no account is taken of any vesting limits or hurdles, or the fact that the options are not transferable.

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

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Statement of Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

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

If the terms of an equity-settled award are modified, at a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised is recognised immediately. However, if a new award is substituted for the cancelled award and designated a replacement award on the date it is granted, the cancelled and the new award are treated as if there was a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share except where such dilution would serve to reduce a loss per share.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Rendering of services

Revenue from consulting services are recognised when provided.

Interest

Revenue is recognised as interest accrues using the effective interest method.

Royalties

Royalties are recognised in accordance with substance of the relevant agreement.

Contract exploration

Contract exploration revenue (consulting fees) earned from third parties is recognised when rights to receive the revenue are assured.

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on the purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

- 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 Flows on a gross basis and the GST component of cash flows arising from investing and financial activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

Currency

Functional currency translation

The functional and presentation currency for the parent company is Australian dollars ($). The functional currency of overseas subsidiaries is the local 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 translation. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting 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 Group Companies' functional currency to presentation currency

The results of the French subsidiary are translated into Australian Dollars (presentation currency) as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the higher of fair value less costs to sell and value in use.

Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period is:

Share-based payment transactions

The Company measures the cost of equity-settled share-based payments at fair value at the grant date using the Binominal formula taking into account the terms and conditions upon which the instruments were granted, and estimates of volatility as detailed in Note 19.

Derivative financial instruments

The Company values its equity in the form of options in listed public companies using the Binomial method of valuation methodology taking into account the terms and conditions on which the instruments are granted as detailed in Note 11. The net gain or loss for the period is brought to account in the Statement of Comprehensive Income.

Capitalisation and write-off of capitalised exploration costs

The determination of when to capitalise and write-off exploration expenditure requires the exercise of judgement based on assessments of results, various assumptions and other factors such as historical experience, current and expected economic conditions.

Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the Group, adjusted to exclude any costs of servicing equity divided by the weighted average number of ordinary shares.

Diluted earnings per share is calculated as net profit attributable to members of the Group, adjusted for:

- Costs of servicing equity.
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses.
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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 Managing Director.

Accounting standards issued but not yet effective

Australian Accounting Standards and interpretations that have been issued or amended but are not yet effective have not been adopted by the Consolidated Entity for the year ended 30 June 2014. The Consolidated Entity plans to adopt the following standards which are considered relevant, at their application dates as detailed below.

AASB 9 Financial Instruments (Application date 1 January 2017)

AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement).

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.

(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.

(b) AASB 9 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. 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.

(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.

It is anticipated that the application of this standard will not have a material effect on the Group's results or financial reports in future periods.

AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)[AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127] (Application date 1 January 2017)

The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:

- The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
- The remaining change is presented in profit or loss

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.

It is anticipated that the application of this standard will not have a material effect on the Group's results or financial reports in future periods.

	2014 $	2013 $

3. REVENUE AND OTHER INCOME

	2014 $	2013 $
Revenue		
Interest received – other persons/corporations	209,056	495,279
Consulting fees	222,533	242,864
Rental income	51,709	41,460
Other Income		
Gain on options – mark to market	–	14,676
Gain on derivatives	2,139	30,171
Gain on sale of tenements	200,000	–
R&D tax concession offset	964,269	1,462,590
Victorian government infrastructure grant	300,000	–
Unrealised gain on foreign currency	43,190	–
Other	2,149	–
	1,995,045	**2,287,040**

4. INCOME TAX

	2014 $	2013 $
Income tax expense		
The major components of income tax expense are:		
Current income tax	–	–
Current income tax benefit		
Deferred income tax	–	–
Relating to origination and reversal of temporary differences	(42,631)	1,227,266
Recognition of previously unrecognised losses	–	–
Income tax (benefit)/expense reported in the Statement of Comprehensive Income	(42,631)	1,227,266
Amounts charged or credited directly to equity		
Deferred income tax related to items charged directly to equity		
Unrealised (gain)/loss on available for sale investments	(28,101)	583,737
Income tax benefit/(expense) reported in equity	(28,101)	583,737
Reconciliation		
Prima facie income tax (benefit)/expense on operating profit/(loss) at 30%	(1,727,963)	(1,986,737)
Non-deductible expenses	179,005	39,841
Under provision in prior year	–	189,740
Tax losses of subsidiaries not recognised	(414,850)	855,671
Recognition / de-recognition of tax losses and other temporary differences	1,921,177	2,128,751
Income tax (benefit)/expense	(42,631)	1,227,266
Recognised deferred tax assets and liabilities		
Opening deferred tax balance	(814,339)	(1,457,868)
Charged to income expense / (benefit)	(42,631)	1,227,266
Charged to equity (credit)	28,101	(583,737)
Closing balance	(828,869)	(814,339)
Amounts recognised in the Statement of Financial Position		
Deferred tax asset	1,011,530	1,118,846
Deferred tax liability	(182,661)	(304,507)
Net deferred tax balance	828,869	814,339

	2014 $	2013 $

4. INCOME TAX continued

Deferred income tax at 30 June relates to the following:

	2014 $	2013 $
(i) Deferred tax liabilities		
Derivatives	287	24,353
Available for sale investments	128,017	99,916
Capitalised exploration	54,357	180,238
Gross deferred tax liabilities	182,661	304,507
(ii) Deferred tax assets		
Carry-forward tax losses	182,661	304,507
Equity accounted investment	667,200	242,221
Provisions	28,308	39,798
Share issuance costs	98,652	98,652
Interest on convertible notes	–	367,490
Available for sale investments	34,709	66,178
Gross deferred tax assets	1,011,530	1,118,846
Net deferred tax assets	828,869	814,339

Franking credits of $2,810,116 (2013: $2,810,116) are available for subsequent years.

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- Franking credits that will arise from the payment of the amount of the provision for income tax,
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Tax consolidation

Variscan Mines Limited and its 100% owned subsidiaries (Bluestone 23) formed a tax consolidated group with effect from 1 November 2007. Variscan Mines Limited is the head entity of the tax consolidated group. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

There are $209,090 (2013: $7,358,489) unrecognised tax losses attributable to Variscan Mines SAS (2013: Eastern Iron and Variscan Mines SAS), subsidiaries which are not tax consolidated with the parent company.

5. AUDITORS' REMUNERATION

	2014 $	2013 $
Amounts received or due and receivable by:		
HLB Mann Judd, for:		
Audit and review of the financial report of Variscan Mines Limited	65,703	64,347
Tax advisory services	5,000	–
	70,703	**64,347**
Amounts received or due and receivable **Barnes Dowell James,** for:		
Audit and review of the financial report of Eastern Iron Limited	25,500	23,000
Other services	3,500	–
Amounts received or due and receivable **SEFAC,** for:		
Audit and review of the financial report of Variscan Mines SAS	8,620	7,894
Total Auditors' Remuneration for the Group	**108,323**	**95,241**

	2014 $	2013 $

6. CASH AND CASH EQUIVALENTS

	2014 $	2013 $
Cash at bank and in hand	789,168	740,004
Short-term deposits	1,619,825	8,593,929
Refer Note 29	**2,408,993**	**9,333,933**

Cash at bank earns interest at floating rates based on daily bank deposit rates. The carrying amount of cash and cash equivalents represents fair value.

Short-term deposits are made for varying periods of between one day and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

7. RECEIVABLES – CURRENT

	2014 $	2013 $
Current		
R&D tax concession offset	271,988	257,339
GST receivables	30,718	53,251
Interest receivable	21,611	37,716
Prepayments	47,516	63,488
Other debtors	43,080	156,193
	414,913	**567,987**
Non-current		
Rental bonds	32,156	31,932
	32,156	**31,932**

Receivables are non-interest bearing and generally 30 day terms and trading terms are being followed by debtors and there are no overdue amounts. An allowance for impairment loss is recognised when there is objective evidence that it is impaired. No allowance for impairment loss is required. The amounts not past due have been assessed to be not impaired.

8. INVESTMENTS

	2014 $	2013 $
Investment – available for sale – WPG (a)	426,721	333,051
Investment – available for sale – AGR (b)	47,000	64,625
Investment – available for sale SCI (c)	959,406	1,002,763
	1,433,127	**1,400,439**

(a) The market value on ASX of Variscan's 10,407,837 shares in WPG Resources Ltd (WPG) at 30 June 2014 was $426,721 ($0.041 per share) and on 24 September 2014 it was $447,537 ($0.043 per share).

(b) The market value on ASX of the Group's 1,175,000 shares in Aguia Resources Limited (AGR) at 30 June 2014 was $47,000 ($0.04 per share) and on 24 September 2014 it was $47,000 ($0.04 per share).

(c) The market value of the Group's 14,536,449 shares in Silver City Minerals Limited (SCI) at 30 June 2014 was $959,406 ($0.066 per share) and on 24 September 2014 it was $625,067 ($0.043 per share).

9. INVESTMENT IN ASSOCIATES

The Group's interest in the below investments in associates have been brought to account using the equity method in accordance with Australian Accounting Standard AASB 128 Investments in Associates as the Directors consider that significant influence exists. The Company's share in any retained profits or reserves of the associated company are not available to Variscan until such time as those profits and reserves are distributed by the associated company.

	Thomson Resources Ltd		Eastern Iron Limited	
Name	2014	2013	2014	2013
Interest in associates	%	%	%	%
Ownership interest	25.65	25.65	36.74	–
	$	$	$	$
Carrying amount	–	468,000	1,850,000	–
Share of associate's losses	**(450,018)**	**(163,944)**	**(939,055)**	**–**
Carrying amount of investment in associate				
Balance at beginning of financial period	468,000	900,000	–	–
– opening value of associate	–	–	3,465,000	–
– share purchase	–	–	15,000	–
– share of associate's net losses for the financial period	(450,018)	(163,944)	(939,055)	–
– impairment of investment	(17,982)	(268,056)	(690,945)	–
Carrying amount of investment in associate at the end of the financial period	**–**	**468,000**	**1,850,000**	**–**
Summarised Balance Sheet				
Total current assets	1,034,371	1,602,542	296,648	–
Total non-current assets	2,465,170	3,673,800	5,956,649	–
Total current liabilities	(81,691)	(108,292)	(525,471)	–
Total non-current liabilities	(19,579)	(15,324)	–	–
Net assets	**3,398,271**	**5,152,726**	**5,727,826**	**–**
Reconciliation to carrying amounts:				
Opening net assets 1 July	5,152,726	5,791,884	8,283,856	–
(Loss) for the period	(1,754,455)	(639,158)	(2,556,030)	–
Closing net assets	**3,398,271**	**5,152,726**	**5,727,826**	**–**
Group's share in %	**25.65**	**25.65**	**36.74**	**–**
Group's share in $	**871,657**	**1,321,674**	**2,104,403**	**–**
Summarised statement of comprehensive income				
Revenue	417,196	1,235,810	1,168,206	–
(Loss) for the period	(1,754,455)	(639,158)	(2,556,030)	–
Other comprehensive income	–	–	–	–
Total comprehensive income	**(1,754,455)**	**(639,158)**	**(2,556,030)**	**–**

Thomson Resources Ltd

Thomson Resources Ltd (ASX Code: TMZ) is an Australian minerals explorer. An impairment adjustment of $17,982 (2013: $268,056) was made to reflect the equity value of the investment at 30 June 2014 of Nil.

Eastern Iron Limited

Eastern Iron Limited (ASX Code: EFE) is an Australian minerals explorer. An impairment adjustment of $690,945 (2013: Nil) was made to reflect the fair value of the investment on ASX at 30 June 2014 of $1,850,000.

		2014 $	2013 $

10. NON-CONTROLLING INTERESTS

		2014 $	2013 $
Contributed equity		7,907,335	7,652,180
Reserves		353,987	578,077
Accumulated losses		(2,082,930)	(2,107,746)
Non-Controlling interest on disposal of Eastern Iron Limited		(6,178,392)	–
		–	**6,122,511**

11. DERIVATIVE FINANCIAL INSTRUMENTS

		2014 $	2013 $
Share options – AGR	(a)	–	–
Share options – SCI	(b)	955	81,176
Share options – TMZ	(c)	–	–
		955	**81,176**

(a) The Variscan group holds 200,000 (2013:200,000) options in Aguia Resources Limited (AGR) with an exercise price of $0.50 and an expiry date of 31 December 2014. A valuation of these options has been obtained using the Black, Scholes, Merton methodology model with a Binomial Variation and the following assumptions: expected volatility of 57.06%, risk-free interest rate of 2.71%, dividend yield nil and an option life of 0.5 years. This results in a fair value of $Nil at 30 June 2014.

(b) Variscan's 3,000,000 options in Silver City Minerals Limited (SCI) expired on 1 July 2013. In November 2011 SCI announced a non-renounceable rights issue to issue one option for every three shares held at an issue price of $0.01 per option. The Variscan Group purchased 4,775,061 listed options in December 2011 for $47,750. The options have an exercise price of $0.25 and an expiry date of 19 December 2014. The market value on ASX of the Group's 4,775,061 (2013: 4,775,061) options in Silver City Minerals Limited (SCI) at 30 June 2014 was $955 ($0.0002 per option).

(c) Variscan holds 5,000,000 (2013: 5,000,000) options in Thomson Resources Ltd (TMZ) with an exercise price of $0.30 and an expiry date of 11 December 2014. A valuation of these options has been obtained using the Black, Scholes, Merton methodology model with a Binomial Variation and the following assumptions: expected volatility of 57.26%, risk-free interest rate of 2.71%, dividend yield nil and an option life of 0.5 years. This results in a fair value of $Nil at 30 June 2014.

The fair value of share prices are as identified in Note 8.

12. TENEMENT SECURITY DEPOSITS

	2014 $	2013 $
Current		
Cash at bank – bank deposits	–	170,000
Cash with government mines departments	30,000	–
	30,000	**170,000**
Non-Current		
Cash at bank – bank deposits	–	10,000
Cash with government mines departments	20,000	105,850
	20,000	**115,850**

These deposits are restricted so that they are available for any rehabilitation that may be required on exploration tenements (refer to Note 26). The bank deposits are interest earning.

13. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicle $	Plant and equipment $	Total $
Year ended 30 June 2013			
Opening net book amount	41,833	252,369	294,202
Additions	–	101,806	101,806
Disposals	(32,699)	(19,656)	(52,355)
Depreciation expense	(8,611)	(77,974)	(86,585)
Foreign exchange differences	3,944	(27,241)	(23,297)
Closing net book amount	4,467	229,304	233,771
At 30 June 2013			
Cost	24,167	442,823	466,990
Accumulated depreciation	(19,700)	(206,714)	(226,414)
Foreign exchange differences	–	(6,805)	(6,805)
Net book amount	4,467	229,304	233,771
Year ended 30 June 2014			
Opening net book amount	4,467	229,304	233,771
Additions	43,372	20,544	63,916
Disposals	–	–	–
Disposal of subsidiary	(2,452)	(17,209)	(19,661)
Depreciation expense	(8,158)	(69,400)	(77,558)
Foreign exchange differences	(822)	3,519	2,697
Closing net book amount	36,407	166,758	203,165
At 30 June 2014			
Cost	42,430	415,841	458,271
Accumulated depreciation	(6,023)	(249,083)	(255,106)
Net book amount	36,407	166,758	203,165

14. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	2014 $	2013 $
Costs brought forward	5,793,879	5,096,763
Costs incurred during the year	3,885,862	4,184,305
Disposal of subsidiary	(7,235,467)	–
Expiry of options acquired on acquisition of tenements	–	(5,000)
Foreign currency translation differences	5,904	–
Expenditure written off during the year	(1,531,881)	(3,482,189)
Costs carried forward	918,297	5,793,879
Exploration expenditure costs carried forward are made up of:		
Expenditure on joint venture areas	131,190	1,780,230
Expenditure on non joint venture areas	787,107	4,013,649
Costs carried forward	918,297	5,793,879

14. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE continued

The above amounts represent costs of areas of interest carried forward as an asset in accordance with the accounting policy set out in Note 2. The ultimate recoupment of deferred exploration and evaluation expenditure in respect of an area of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively sale of the underlying areas of interest for at least their carrying value. Amortisation, in respect of the relevant area of interest, is not charged until a mining operation has commenced.

In accordance with Note 2, the Directors write off exploration expenditure where they assess that the asset is impaired. Exploration expenditure is written off either by a reassessment by the Group that has reduced the interpreted potential of the licence for mineral deposits and, or a joint venture partner has withdrawn from a project.

	2014 $	2013 $
15. CURRENT LIABILITIES – PAYABLES		
Trade creditors*	131,948	372,566
Accrued expenses	65,197	170,905
GST payable	2,852	3,359
Accrued payroll and payroll deductions	164,558	144,374
	364,555	**691,204**

* Trade creditors are non-interest bearing and are generally settled on 30 day terms.

	2014 $	2013 $
16. LIABILITIES – PROVISIONS		
Current		
Annual Leave	97,103	139,494
Non-current		
Long Service Leave	54,497	61,867

Annual leave is accrued for all permanent eligible employees and provided for based on current salaries. Long service leave is accrued for all permanent eligible employees with greater than two years' service and provided for based on current salaries.

17. DERIVATIVE LIABILITY/CONVERTIBLE NOTE

The Company completed a capital raising in December 2010 via a private placement of 16,666,667 convertible notes at 15 cents each which raised $2,500,000 in additional working capital.

The convertible notes had an initial maturity date of 9 December 2013 which was subsequently extended to 1 April 2014 and redeemed in full on that date.

The general terms of the issue are:

(a) Convertible notes with a conversion price of 15 cents per share.

(b) The Company may redeem the notes at any stage and must redeem all convertible notes on the maturity date or upon an event of default.

(c) Each convertible note will accrue interest at 8% per annum to be paid each half year in arrears in cash, the first instalment to be paid on 30 April 2011.

(d) Noteholders will receive one share option for every two convertible notes they subscribe to, providing the notes are converted into ordinary shares and at the time of conversion. The share options will have an exercise price of 25 cents and an expiry of 9 December 2014.

17. DERIVATIVE LIABILITY/CONVERTIBLE NOTE continued

In accordance with requirements of the relevant Australian Accounting Standards and International Financial Reporting Standards based on the accounting policy described in Note 2 the proceeds have been initially accounted for as follows:

	$
Gross proceeds	2,500,000
Less issue costs	(150,000)
Net Allocation	**2,350,000**
Allocated as follows:	
Convertible note liability	744,587
Derivative liability (1)	510,245
Equity (2)	1,095,168
	2,350,000

(1) Represents the valuation of the option entitlement per (d) above.

(2) Represents the value of the conversion function per (a) above.

The balances and movements of the convertible note and derivative liability components at 30 June 2014 are as follows:

	2014 $	2013 $
Convertible Note Liability		
Opening balance	1,969,654	1,246,345
Add interest expense	563,634	924,679
Less interest paid	(183,288)	(201,370)
Redemption of convertible note	(2,350,000)	–
Closing balance	–	**1,969,654**
Derivative Liability		
Opening balance	2,139	907
Revaluation adjustment	(2,139)	1,232
Closing balance	–	**2,139**

18. CONTRIBUTED EQUITY

	2014 $	2013 $
Share capital		
175,737,592 (2013: 175,287,592) ordinary shares fully paid	14,756,951	14,735,576
Partly paid shares		
450,000 ordinary shares paid to $0.01 with $0.24 unpaid	–	4,500
Share issue costs	(230,836)	(224,944)
	14,526,115	**14,515,132**

Movements in ordinary shares on issue		**Number**	**$**
At 1 July 2012		**175,287,592**	**14,740,076**
Shares issued		–	–
At 30 June 2013		**175,287,592**	**14,740,076**
Conversion of partly paid shares	(i)	450,000	16,875
At 30 June 2014		**175,737,592**	**14,756,951**

(i) Sale and transfer of 450,000 forfeited partly paid shares offered at auction held on 18 October 2013. Refer to comments below under terms and conditions.

18. CONTRIBUTED EQUITY continued

Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

In respect to members who hold shares which are paid to $0.01, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. The shares were issued under the Platinum Search Share Incentive Plan, which was replaced by the Variscan Employee Share Option Plan on 25 November 1993.

On 4 September 2013 the company issued call notices to the holders of the 450,000 unquoted partly paid shares on issue to call up the full amount of 24 cents per share which were unpaid at the date of the notices. The calls were not paid by the due date of 18 September 2013 and were therefore forfeited. These shares were subsequently sold as fully paid shares by public auction.

Options

Options do not carry voting rights or rights to dividends until options are exercised.

19. SHARE-BASED PAYMENTS

Types of share-based payment plans

Share-based payments

An Employee Share Option Plan (ESOP) has been established where selected officers, employees and consultants of the Company can be issued with options over ordinary shares in Variscan Mines Limited. The options, issued for nil consideration, will be issued in accordance with a performance review by the Directors. The options cannot be transferred and will not be quoted on the ASX. Options expire if not exercised 90 days after a participant resigns from the Company.

There have been no cancellations or modifications to any of the plans during 2014 and 2013.

	2014 No.	2013 No.
Summary of options granted by the parent entity		
Outstanding at the beginning of the year	**26,190,000**	**23,890,000**
Granted during the year	–	2,300,000
Expired during the year	(900,000)	–
Outstanding at the end of the year	**25,290,000**	**26,190,000**

The outstanding balance as at 30 June 2014 is represented by:

- 9,590,000 which expire on 27 November 2014 exercisable at $0.18 per share
- 1,500,000 which expire on 27 November 2014 exercisable at $0.18 per share (not vested)
- 10,900,000 which expire on 25 November 2015 exercisable at $0.30 per share
- 1,000,000 which expire on 6 October 2014 exercisable at $0.25 per share
- 2,300,000 which expire on 31 October 2015 exercisable at $0.14 per share

	2014	2013
Weighted Average disclosures for options granted by the parent entity		
Weighted average exercise price of options at 1 July	$0.23	$0.24
Weighted average exercise price of options granted during period	–	$0.14
Weighted average exercise price of options outstanding at 30 June	$0.23	$0.23
Weighted average exercise price of options exercisable at 30 June	$0.23	$0.23
Weighted average contractual life	0.92	1.87
Range of exercise price	$0.14 – $0.30	$0.14 – $0.30

19. SHARE-BASED PAYMENTS continued

Option pricing model and terms of options

The following table lists the inputs to the options model and the terms of options granted in **Variscan Mines Limited:**

Issue date	Number of options issued	Exercise price	Expiry date	Expected volatility	Risk-free rate	Expected life years	Estimated fair value	Model used	
Nov 09	8,250,000	$0.18	27 Nov 14	122.91%	4.99%	5.0	$0.0636	Binomial	(a)
Dec 09	840,000	$0.18	27 Nov 14	122.91%	4.99%	4.9	$0.0536	Binomial	(b)
Aug 10	2,000,000	$0.18	27 Nov 14	80.00%	4.64%	4.3	$0.0700	Binomial	(c)
Nov 10	6,250,000	$0.30	25 Nov 15	80.00%	5.32%	5.0	$0.0500	Binomial	(d)
Dec 10	1,900,000	$0.30	25 Nov 15	80.00%	5.37%	4.9	$0.0600	Binomial	(e)
May 11	950,000	$0.30	25 Nov 15	121.29%	5.19%	4.5	$0.0663	Binomial	(f)
Nov 11	1,000,000	$0.25	6 Oct 14	118.33%	3.49%	3.0	$0.0452	Binomial	(g)
Dec 11	1,800,000	$0.30	25 Nov 15	30.86%	4.75%	4.0	$0.0035	Binomial	(h)
Oct 12	2,300,000	$0.14	31 Oct 15	60.37%	2.58%	3.0	$0.0135	Binomial	(i)
	25,290,000								

(a) Issued by Variscan Mines Limited to Directors and approved by shareholders at the General Meeting held on 26 November 2009. Expensed in the income statement. The options vested on the grant date of 26 November 2009.

(b) Issued by Variscan Mines Limited to employees and consultants under the Company's ESOP. Expensed in the income statement. The options vested on the grant date of 18 December 2009.

(c) 2,000,000 options were issued to the Company's Business Development Manager and expensed in the income statement. 500,000 options vested immediately with the remaining 1,500,000 vesting upon performance hurdles.

(d) 6,250,000 options were issued to Directors of the Company and approved by shareholders at the Company's AGM held on 25 November 2010. The options vested immediately and were expensed in the income statement.

(e) 1,900,000 options were issued to employees and consultants under the Company's ESOP. The options vested immediately and were expensed in the income statement.

(f) 950,000 options were issued to employees and consultants under the Company's ESOP. The options vested immediately and were expensed in the income statement.

(g) 1,000,000 options were issued to Alan Breen, Non-executive Director of the Company, and approved by shareholders at the Company's AGM held on 29 November 2011. The options vested immediately and were expensed in the income statement.

(h) 1,800,000 options were issued to employees/consultants under the Company's ESOP. The options vested immediately and were expensed in the income statement.

(i) 2,300,000 options were issued to employees/consultants under the Company's ESOP. The options vested immediately and were expensed in the income statement.

		2014 $	2013 $
20. RESERVES			
Share-based compensation reserve		1,222,877	1,270,757
General reserve		–	(229,108)
Investment revaluation reserve		2,038,465	1,972,896
Foreign currency translation reserve		286,497	404,385
Convertible note option reserve		–	1,095,168
		3,547,839	4,514,098
Share-based compensation reserve	(i)		
Balance at the beginning of financial year		1,270,757	1,609,490
Share-based payment expense		–	50,815
Transfer expired options to Retained Earnings		(47,880)	(389,548)
Balance at end of financial year		1,222,877	1,270,757
General reserve	(ii)		
Balance at the beginning of financial year		(229,108)	(229,108)
Disposal of subsidiary		229,108	–
Balance at end of financial year		–	(229,108)
Investment revaluation reserve	(iii)		
Balance at the beginning of financial year		1,972,896	406,853
Change in fair value of investments available for sale		65,569	(468,112)
Impairment of investments		–	845,817
Investment revaluation reserve adjustment		–	442,727
Deferred tax adjustment		–	745,611
Balance at end of financial year		2,038,465	1,972,896
Foreign currency translation reserve	(iv)		
Balance at the beginning of financial year		404,385	(45,385)
Effect of exchange rate fluctuation		(117,888)	449,770
Balance at end of financial year		286,497	404,385
Convertible note option reserve	(v)		
Balance at the beginning of financial year		1,095,168	1,095,168
Transfer expired options relating to convertible note to retained earnings		(1,095,168)	–
Balance at end of financial year		–	1,095,168

(i) **Share-based compensation reserve**
The share-based compensation reserve is used to recognise the fair value of options issued but not exercised as described in Note 2 and referred to in Note 19.

(ii) **General reserve**
The general reserve represents the change in the value of non-controlling interests resulting from the exercise of Eastern Iron Limited options during the prior periods. This was reversed on deconsolidation of the subsidiary.

(iii) **Investment revaluation reserve**
The investment revaluation reserve arises in connection with the accounting for investments as per Note 8.

(iv) **Foreign currency translation reserve**
The foreign currency translation reserve arises from the translation of foreign currency subsidiaries.

(v) **Convertible note option reserve**
The convertible note option reserve is used to record the fixed equity component of the convertible notes. Refer to Note 17. This amount was transferred to retained earnings on redemption of the convertible note.

	2014 $	2013 $

21. EARNINGS/(LOSS) PER SHARE

(Loss) used in calculating basic and diluted (loss) per share	(5,742,060)	(7,216,541)
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	175,597,044	175,305,592
	Cents per share	Cents per share
Basic (loss) per share	(3.27)	(4.12)
Diluted (loss) per share	(3.27)	(4.12)

The number of potential ordinary shares that are dilutive and included in determining diluted EPS are nil (2013: nil) relating to share options issued. There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for all of the periods presented.

Conversion, call, subscription or issue after 30 June 2014: Since the end of the financial year there have been no other conversions to, call of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of these financial statements.

	2014 $	2013 $

22. KEY MANAGEMENT PERSONNEL

Key management personnel (KMP) remuneration, shares and options

Compensation for key management personnel		
Short-term employee benefits	1,234,512	1,565,016
Post-employment benefits	57,994	82,179
Share-based payments	10,580	46,680
Total compensation	**1,303,086**	**1,693,875**

22. KEY MANAGEMENT PERSONNEL continued

Shareholdings of key management personnel

Fully paid ordinary shares held in Variscan Mines Limited

	Balance at 1 July No.	Granted as remuneration No.	Received on exercise of options No.	Net other change* No.	Balance at 30 June No.
2014					
P Elliott	2,352,345	–	–	–	2,352,345
G Jones	2,200,000	–	–	305,000	2,505,000
C S Kwan	52,396,526	–	–	–	52,396,526
F K Foo	1,403,000	–	–	–	1,403,000
I Polovineo	–	–	–	70,000	70,000
J Testard	–	–	–	200,000	200,000
M Bonnemaison	219,629	–	–	–	219,629
Total	58,571,500	–	–	575,000	59,146,500
2013					
P Elliott	2,352,345	–	–	–	2,352,345
G Jones	2,200,000	–	–	–	2,200,000
C S Kwan	50,625,425	–	–	1,771,101	52,396,526
F K Foo	–	–	–	1,403,000	1,403,000
M Bonnemaison	219,629	–	–	–	219,629
Total	55,397,399	–	–	3,174,101	58,571,500

* Other change consists of shares purchased and sold by KMP on market.

22. KEY MANAGEMENT PERSONNEL continued

Option holdings of key management personnel

Share options held in Variscan Mines Limited

	Balance at 1 July No.	Granted as remuneration No.	Options exercised No.	Net change other # No.	Balance at 30 June No.	Balance vested at 30 June No.	Vested and exercisable No.
2014							
P Elliott	1,600,000	–	–	–	1,600,000	1,600,000	1,600,000
G Jones	6,300,000	–	–	(750,000)	5,550,000	5,550,000	5,550,000
C S Kwan	2,000,000	–	–	–	2,000,000	2,000,000	2,000,000
F K Foo	1,600,000	–	–	–	1,600,000	1,600,000	1,600,000
K Champaklal(a)	1,000,000	–	–	–	1,000,000	1,000,000	1,000,000
A Breen	1,000,000	–	–	–	1,000,000	1,000,000	1,000,000
I Polovineo	1,250,000	–	–	–	1,250,000	1,250,000	1,250,000
W Corbett	1,000,000	–	–	–	1,000,000	1,000,000	1,000,000
M Lilley	900,000	–	–	–	900,000	900,000	900,000
J Testard	1,500,000	–	–	–	1,500,000	1,500,000	1,500,000
M Bonnemaison	1,500,000	–	–	–	1,500,000	1,500,000	1,500,000
Total	19,650,000	–	–	(750,000)	18,900,000	18,900,000	18,900,000
2013							
P Elliott	1,600,000	–	–	–	1,600,000	1,600,000	1,600,000
G Jones	6,300,000	–	–	–	6,300,000	6,300,000	6,300,000
C S Kwan	4,000,000	–	–	(2,000,000)	2,000,000	2,000,000	2,000,000
F K Foo	1,600,000	–	–	–	1,600,000	1,600,000	1,600,000
K Champaklal(a)	–	–	–	1,000,000	1,000,000	1,000,000	1,000,000
A Breen	1,000,000	–	–	–	1,000,000	1,000,000	1,000,000
I Polovineo	600,000	650,000	–	–	1,250,000	1,250,000	1,250,000
W Corbett	750,000	250,000	–	–	1,000,000	1,000,000	1,000,000
M Lilley	900,000	–	–	–	900,000	900,000	900,000
N Maund (b)	2,000,000	–	–	–	2,000,000	500,000	500,000
J Testard	900,000	600,000	–	–	1,500,000	1,500,000	1,500,000
M Bonnemaison	900,000	600,000	–	–	1,500,000	1,500,000	1,500,000
Total	20,550,000	2,100,000	–	(1,000,000)	21,650,000	20,150,000	20,150,000

(a) K Champaklal resigned as an alternate Director on 6 March 2014.

(b) Not considered to be key management personnel for the year ending 30 June 2014.

\# (2014: Expiry of options), (2013: Adjustment for options held on behalf of other parties)

No shares were issued as a result of the exercise of compensation options to KMP.

Options held by Directors may be exercised at any time. Shares and options held by Directors include those held by the Directors and their Director-related entities, including the spouses of such Directors and relatives of such Directors. All shares and options, excluding those held under the Employee Share Option Plan, were issued or granted on terms no more favourable than to other shareholders or option holders.

23. RELATED PARTY DISCLOSURES

Subsidiaries

The consolidated financial statements include the financial statements of Variscan Mines Limited (the Parent Entity) and the following subsidiaries:

		% Equity interest		$ Investment	
Name	Country of incorporation	2014	2013	2014	2013
Bluestone 23 Pty Ltd	Australia	100	100	5,000	5,000
Eastern Iron Limited *	Australia	–	45.3	–	3,100,385
PlatSearch Australia Limited	Australia	100	100	5	5
Variscan Mines SAS	France	100	100	1,007,679	1,007,679

* Eastern Iron Limited was deconsolidated on 11 March 2014.

Subsidiary deconsolidated during the year

In March 2014, Eastern Iron Limited (Eastern Iron) issued shares through a placement and appointed a new board member which reduced Variscan's shareholding in Eastern Iron from 45% to 39% and Variscan's interest in the Board of Eastern Iron from (3 of 6 directors) to (3 of 7 directors). Management assessed that from 11 March 2014, Variscan no longer meets the definition of control and subsequently deconsolidated Eastern Iron. The Group retains significant influence over Eastern Iron and accounts for the retained interest as an associate. At the time the Group lost control of the subsidiary, the assets, liabilities and non-controlling interest of the subsidiary were deconsolidated and a loss on disposal was recognised in the Consolidated Statement of Comprehensive Income.

Transactions with directors and key management personnel

The Company has an agreement with Luminor Capital Pte Ltd which is entitled to a cash fee of 6% of equity funds raised by Luminor Capital and other parties. Mr Kwan and Dr Foo, Directors of Variscan, have an interest in and are directors of Luminor Capital and Mr Champaklal, alternate Director (resigned 6 March 2014) for Mr Kwan, is a director of Luminor Capital. No fees have been paid to date.

Variscan Mines SAS signed an agreement in January 2013 with E-Mines of which Michel Bonnemaison is a Director. The agreement is for E-Mines to provide geological services, sample preparation and analytical services to Variscan Mines SAS. A total of $538,700 was paid to E-Mines during the year ended 30 June 2014 (2013: $354,794).

Services provided by Directors and Key Management Personnel related entities were under normal commercial terms and conditions. There are no long term service agreements and hence no liabilities will arise from termination of such agreements. No other benefits have been received or are receivable by Directors, other than those already disclosed in the notes to the accounts.

Transactions with associated companies

During the year the Company provided technical and administrative support services to its associated company Thomson Resources Ltd (TMZ) and Eastern Iron Limited (EFE). Services provided to TMZ amounted to $110,086 (2013: $125,507) and EFE $105,228 (2013: $113,933) consisting of payments received for consulting, use of office space and office services.

24. JOINT VENTURES

The Company is a party to a number of exploration joint venture agreements to explore for copper, gold, zinc, lead, uranium and heavy minerals. Under the terms of the agreements the Company may be required to contribute towards the exploration and other costs if it wishes to maintain or increase its percentage holdings. The joint ventures are not separate legal entities. There are contractual arrangements between the participants for sharing costs and future revenues in the event of exploration success. There are no assets and liabilities attributable to Variscan at reporting date resulting from these joint ventures, other than exploration expenditure costs carried forward as detailed in Note 14. Costs are accounted for in accordance with the terms of joint venture agreements and in accordance with Note 2. Percentage equity interests in joint ventures at 30 June 2014 were as follows:

Variscan Mines Limited **New South Wales – gold, base metals and iron**	% interest 2014	% interest 2013
Hillston – diluting to 16%	39.2%	39.2%
Mundi Plains	20%	20%
Mundi Plains – cover rights	–	0%
Eastern Iron Projects – Eastern Block Tenements	–	51%

24. JOINT VENTURES continued

Variscan Mines Limited **South Australia – base metals and gold**	% interest 2014	% interest 2013
Quinyambie – diluting to 15%	52.6%	52.6%
Callabonna – diluting to 30%	100%	100%
Kalabity – diluting to 32% - tenement relinquished	–	80%
Junction Dam –base and precious metals rights	16%	16%
Junction Dam – uranium rights	0%	4.98%
Officer Basin – EL applications only	–	50%
Eastern Iron* **Tenements in NSW – iron**		
Eastern Block Tenements	–	49%
Western Block Tenements	–	100%
Eastern Iron* **Queensland – iron**		
Hawkwood – EFE can earn 80%	–	0%

* Eastern Iron Limited was deconsolidated on 11 March 2014.

25. SEGMENT INFORMATION

The operating segments identified by management are as follows:

1. Exploration projects funded directly by Variscan ("Exploration") operating in France and Australia and;

2. Investments in other companies ("Investing").

Regarding the Exploration segment, the Chief Operating Decision Maker (the Board of Directors) receives information on the exploration expenditure incurred. This information is disclosed in Note 14 of this financial report. No segment revenues are disclosed as each exploration tenement is not at a stage where revenues have been earned. Furthermore, no segment costs are disclosed as all segment expenditure is capitalised, with the exception of expenditure written off which is disclosed in Note 14.

Regarding the Investing segment, the Chief Operating Decision Maker reviews the value of investments and derivatives held in other exploration companies. The changes in the value of investments and derivatives are disclosed in Notes 8, 9 and 11 of this financial report. Segment revenues are disclosed in the statement of comprehensive income as '(Loss) on options'. Financial information about each of these tenements is reported to the Managing Director on an ongoing basis.

Corporate office activities are not allocated to operating segments as they are not considered part of the core operations of any segment and comprise of the following:

- Interest revenue
- Corporate costs
- Depreciation and amortisation of non-project specific property, plant and equipment.

The Group's accounting policy for reporting segments is consistent with that disclosed in Note 2.

25. SEGMENT INFORMATION continued

The Group's geographical segments are determined based on the location of the Group's assets.

	Geographical segments							
	Australia		France		Eliminations		Consolidated	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Revenue								
Revenue from outside the group	1,719	2,036	276	251	–	–	1,995	2,287
Results								
Segment results before income tax	(7,031)	(4,858)	1,271	(1,764)	–	–	(5,760)	(6,622)
Income tax expense							43	(1,227)
Profit after income tax expense							(5,717)	(7,849)
Assets								
Segment assets	9,824	24,355	1,612	634	(3,296)	(5,978)	8,140	19,011
Liabilities								
Segment liabilities	565	3,040	1,364	1,615	(1,413)	(1,791)	516	2,864
Other segment information								
Plant and equipment	8	45	195	189	–	–	203	234
Other non-current assets	6,137	12,928	787	–	(1,840)	(4,223)	5,084	8,705
Depreciation	19	28	59	59	–	–	78	87

26. CONTINGENT LIABILITIES

The Group's bankers have provided guarantees totalling $50,000 (2013: $180,000) in respect of exploration tenements and the guarantees are secured against short term deposits of these amounts. The Company does not expect to incur any material liability in respect of the guarantees. There are nil (2013: $105,850) guarantees in respect of exploration tenements that are secured against deposits held by Mines Departments.

27. COMMITMENTS

Lease commitments

The Company has obligations under the terms of an operating lease agreement for its office premises as follows:

	2014 $	2013 $
Payable not later than one year	26,543	79,629
Payable later than one year and not later than five years	–	26,543
	26,543	**106,172**

The Company's lease of its office premises is for a two year period (with an option to renew for two years) expiring on 31 October 2014.

Exploration licence expenditure requirements

In order to maintain the Group's tenements in good standing with the various mines departments, the Group will be required to incur exploration expenditure under the terms of each licence. These expenditure requirements will diminish as the Group joint ventures projects to third parties. It is the Group's exploration strategy to farm-out to larger companies to fund drilling programmes. In addition, the Group has commitments to expend funds towards earning or retaining an interest under joint venture agreements.

	2014 $	2013 $
Payable not later than one year	–	33,853
Payable later than one year but not later than five years	–	50,000
	–	**83,853**

It is likely that variations to the terms of current and future joint ventures, the granting of new licences and changes in licence areas at renewal or expiry, will change the expenditure commitment to the Group from time to time.

28. EVENTS AFTER THE REPORTING DATE

There were, at the date of this report, no matters or circumstances which have arisen since 30 June 2014 that have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

29. CASH FLOW STATEMENT

	2014 $	2013 $
Reconciliation of net cash outflow from operating activities to operating profit after income tax		
Operating profit after income tax	(5,717,244)	(7,849,724)
Depreciation	77,558	86,585
Exploration expenditure written-off	1,531,881	3,482,190
Non cash adjustments on convertible note	734,375	924,679
Share of associate's net losses	1,389,073	163,944
Share-based payment expense	10,580	(363,052)
Loss on disposal of subsidiary	471,845	–
Non cash movements in investments	41,240	2,302,868
Impairment of investments	784,909	268,056
Provisions for annual leave and long service leave	29,590	62,539
Tax expense/(benefit)	(14,530)	643,529
Foreign exchange variances	14,064	–
Exploration adjustments and differences in closing creditors/accruals	(139,388)	(256,654)
Gain on sale of tenement	(200,000)	–
Transfer of debt to capital	–	(420,999)
Other	(70,221)	342,477
Change in assets and liabilities:		
(Increase)/decrease in receivables	(234,328)	(238,668)
(Decrease)/increase in trade and other creditors	289,182	108,064
Net cash outflow from operating activities	**(1,001,414)**	**(744,166)**

For the purpose of the Statement of Cash Flows, cash includes cash on hand, at bank, deposits and bank bills used as part of the cash management function. The Group does not have any unused credit facilities.

	2014 $	2013 $
The balance at 30 June comprised:		
Cash and cash equivalents	789,168	740,004
Money market securities – bank deposits (Note 6)	1,619,825	8,593,929
Cash on hand	**2,408,993**	**9,333,933**

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's Board considers the Company's overall risk management framework and policies, including quarterly review by the Board of the Company's financial position and financial forecasts and maintaining adequate insurances.

AASB 7 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Capital management

The Group considers its capital to comprise its ordinary share capital and its retained earnings, net of accumulated losses.

In managing its capital, the Group's primary objective as an explorer is to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. The Group has no debt hence has a nil gearing ratio.

In making decisions to adjust its capital structure to achieve these aims, either through altering its new share issues, or consideration of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Financial instrument risk exposure and management

As is common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. These main risks, arising from the group's financial instruments are interest rate risk, liquidity risk, share market risk and credit risk. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives quarterly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

Interest rate risk

At reporting date, the Group is exposed to floating weighted average interest rates at 30 June 2014 for financial assets as follows:

	2014	2013
Weighted average rate of **cash** balances	0.00%	0.24%
Cash balances	$789,168	$740,004
Weighted average rate of **term deposits**	3.74%	4.03%
Term deposits	$1,619,825	$8,593,929

All other financial assets and liabilities are non-interest bearing.

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability is set out in the following tables:.

Risk exposure and responses	Pre tax loss		Equity	
Judgements of reasonably possible movements:	Lower / (higher)		Lower / (higher)	
Consolidated	2014 $	2013 $	2014 $	2013 $
+1% (100 basis points)	16,198	93,339	16,198	93,339
-1% (100 basis points)	(16,198)	(93,339)	(16,198)	(93,339)

Share market risk

The Company relies greatly on equity markets to raise capital for its exploration activities and is thus exposed to equity market volatility. When market conditions require, for prudent capital management, in consultation with its professional advisers the Group looks to alternative sources of funding, including the sale of assets and royalties.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Credit risk

Credit risk arises principally from the Group's cash, cash equivalents, receivables and tenement security deposits.

The Group's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Foreign currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the Australian dollar. The Group does not enter into derivative financial instruments to hedge such transactions denominated in a foreign currency. At 30 June 2014 the Group had no material exposure to foreign currencies and therefore no sensitivity analysis has been performed.

Other receivables

Other receivables comprise GST. Credit worthiness of debtors is undertaken when appropriate.

Equity price risk

Price risk arises from investments in equity securities. All significant equity investments held by Variscan are publicly traded on the ASX. The price risk for listed securities is material in terms of the possible impact on profit and loss or total equity and as such a sensitivity analysis is completed below. The capacity of the Company to raise capital from time to time may be influenced by either or both market conditions and the price of Variscan's quoted shares at that time.

At balance date, the Group is exposed to a stock exchange risk on its investments (Note 8). The Group's exposure to share price movement is set out in the following tables:

Risk exposure and responses	Pre tax loss		Equity	
Judgements of reasonably possible movements in share prices:	Lower / (higher)		Lower / (higher)	
Consolidated	2014 $	2013 $	2014 $	2013 $
+20%	–	–	286,625	280,088
-20%	–	–	(286,625)	(280,088)

At balance date, the Group is exposed to a stock exchange risk on its derivative financial instruments (Note 11). The Group's exposure to movements in the value of share options is set out in the following tables:

Risk exposure and responses	Pre tax loss		Equity	
Judgements of reasonably possible movements in share prices:	Lower / (higher)		Lower / (higher)	
Consolidated	2014 $	2013 $	2014 $	2013 $
+20%	191	16,235	191	16,235
-20%	(191)	(16,235)	(191)	(16,235)

Accounting policies

Accounting policies in relation to financial assets and liabilities and share capital are contained in Note 2.

Fair value of financial assets and liabilities

The fair value of all monetary financial assets and financial liabilities of the Variscan Group approximate their carrying value.

There are no off-balance sheet financial asset and liabilities at year-end.

All financial assets and liabilities are denominated in Australian dollars, except for a bank account held by Variscan SAS, the French subsidiary.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES continued

Fair value risk

The group uses three different methods in estimating the fair value of a financial investment. The methods comprise:

- Level 1 – the fair value is calculated using quoted prices in active markets; and
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3 – the fair value is estimated using inputs other than quoted prices.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

2014	Quoted market price (Level 1) $	Valuation technique – market observable inputs (Level 2) $	Valuation technique – non market observable inputs (Level 3) $	Total $
Financial assets				
Investments available for sale	1,433,127	–	–	1,433,127
Total financial assets	**1,433,127**	**–**	**–**	**1,433,127**
Derivative assets				
Derivatives – fair value through the income statements	–	955	–	955
Derivative assets	**–**	**955**	**–**	**955**

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

The fair value of derivatives that do not have an active market are based on valuation techniques. Level 2 derivatives include market observable inputs whilst level 3 derivatives do not include market observable inputs.

Transfer between categories

There were no transfers between levels during the year.

31. PARENT ENTITY INFORMATION

Information relating to the parent entity Variscan Mines Limited:	2014 AUD$'000	2013 AUD$'000
Current assets	3,574	8,456
Total assets	7,840	14,617
Current liabilities	161	172
Total liabilities	216	2,236
Issued capital	14,526	14,509
Accumulated losses	(10,164)	(6,467)
Investment revaluation reserve	2,039	1,973
Convertible note option reserve	–	1,095
Share based payment reserve	1,223	1,271
Total shareholders' equity	7,624	12,381
Profit of the parent entity	(5,820)	(5,517)
Total comprehensive income/(loss) of the parent entity	66	(468)
	(5,754)	**(5,985)**
Contingent liabilities of the parent entity – refer to Note 26	**50**	**180**

Contractual commitments by the parent entity

The parent entity has lease commitments as stated in Note 27. The parent entity holds the lease commitment for its subsidiaries.

Directors' Declaration

In accordance with a resolution of the directors of Variscan Mines Limited, I state that:

In the opinion of the directors:

(a) The financial statements and notes of the consolidated entity 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 its performance for the year ended on that date.

  (ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.

(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.

(d) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2014.

On behalf of the Board

Greg Jones
Managing Director

Sydney, 30 September 2014

HLB Mann Judd
Accountants | Business and Financial Advisers

VARISCAN MINES LIMITED

INDEPENDENT AUDITOR'S REPORT

To the members of Variscan Mines Limited

Report on the Financial Report

We have audited the accompanying financial report of Variscan Mines Limited ('the company'), which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of 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, for the consolidated entity. The consolidated entity comprises 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 2, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated 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 and its controlled entities' 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

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Independent Auditor's Report

HLB Mann Judd

Accountants | Business and Financial Advisers

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*, given to the directors of the company on 30 September 2014, would be in the same terms if provided to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Variscan Mines 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 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 statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M. Muller

M D Muller
Partner

Sydney, NSW
30 September 2014

SHAREHOLDER INFORMATION

Information relating to shareholders at 23 September 2014.

ORDINARY FULLY PAID SHARES

There were a total of 175,737,592 fully paid ordinary shares on issue.

OPTIONS

There were a total of 25,290,000 options on issue.

SUBSTANTIAL SHAREHOLDERS

	Shareholding
Kwan Chee Seng	52,396,526

At the prevailing market price of $0.04 per share, there were 711 shareholders with less than a marketable parcel of $500.

TOP 20 SHAREHOLDERS OF ORDINARY SHARES AS AT 23 SEPTEMBER 2014

	Number	%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	51,283,865	29.18
UOB KAY HIAN PRIVATE LIMITED <CLIENTS A/C>	18,426,560	10.49
DMG & PARTNERS SECURITIES PTE LTD <CLIENTS A/C>	10,061,593	5.73
MR CHRIS CARR & MRS BETSY CARR	7,500,000	4.27
DBS VICKERS SECURITIES (SINGAPORE) PTE LTD <CLIENT ACCOUNT>	7,073,762	4.03
MR XIANGJUN ZHANG	6,642,000	3.78
WARMAN INVESTMENTS PTY LTD	4,864,019	2.77
MR ROBERT LEWIS RICHARDSON & MS SUSANNE BRINT <THE RATHROAM STAFF FUND A/C>	3,350,760	1.91
MONEX BOOM SECURITIES (HK) LTD <CLIENTS ACCOUNT>	2,457,936	1.40
IPSEITY PTY LIMITED	2,376,707	1.35
PANSTYN INVESTMENTS PTY LTD	2,352,345	1.34
NEFCO NOMINEES PTY LTD	2,223,512	1.27
MR GREGORY FRANCIS PATRICK JONES <JONES SUPER FUND A/C>	1,962,472	1.12
CITICORP NOMINEES PTY LIMITED	1,951,731	1.11
MR ALLAN EDWARD WATTS <WATTS FAMILY A/C>	1,863,226	1.06
CRESCENT NOMINEES LIMITED	1,470,316	0.84
DR FATT KAH FOO	1,403,000	0.80
HOWARD-SMITH INVESTMENTS PTY LTD	1,116,021	0.64
WIMTONE PTY LIMITED	1,100,000	0.63
TECHNICA PTY LTD	1,000,000	0.57
Total of top 20 holdings	**131,479,825**	**74.82**
Other holdings	44,257,767	25.18
Total fully paid shares issued	**175,737,592**	**100.00**

DISTRIBUTION OF SHAREHOLDERS

Range	No of shareholders	Ordinary shares
1 – 1,000	332	136,666
1,001 – 5,000	201	560,982
5,001 – 10,000	157	1,299,322
10,001 – 100,000	367	14,079,467
100,001 – and over	118	159,661,155
	1,175	**175,737,592**

VOTING RIGHTS

There are no restrictions on voting rights. On a show of hands every member present or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Optionholders have no voting rights until the options are exercised.

DISTRIBUTION OF OPTIONHOLDERS

Range	No of optionholders	Unlisted options
1 – 1,000	–	–
1,001 – 5,000	–	–
5,001 – 10,000	–	–
10,001 – 100,000	2	190,000
100,001 – and over	20	25,100,000
	22	**25,290,000**

Corporate Directory

BOARD OF DIRECTORS

Patrick Elliott
Non-Executive Chairman

Greg Jones
Managing Director

Kwan Chee Seng
Non-Executive Director

Dr Foo Fatt Kah
Non-Executive Director

Alan Breen
Non-Executive Director

COMPANY SECRETARY

Ivo Polovineo

REGISTERED OFFICE

Level 1, 80 Chandos Street
St Leonards, NSW 2065

PO Box 956, Crows Nest
NSW 1585

Telephone: (+ 61 2) 9906 5220
Email: info@variscan.com.au
Website: www.variscan.com.au

SHARE REGISTRY

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW 2001

Telephone: (+61 2) 9290 9600
Website: www. boardroomlimited.com.au

AUDITORS

HLB Mann Judd
Level 19, 207 Kent Street
Sydney, NSW 2000

SOLICITORS

Gadens Lawyers
Level 16, 77 Castlereagh Street
Sydney, NSW 2000

BANKERS

Bankwest
Commonwealth Bank
Macquarie Bank
HSBC

SECURITIES EXCHANGE LISTING

Australian Securities Exchange
ASX code: **VAR**

ACN

ACN: 003 254 395

Variscan Mines

ABN: 16 003 254 395
ASX Code: VAR