# LINCOLN MINERALS LIMITED
# ABN 050 50 117 023

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2012

The Directors present their report together with the consolidated financial report of Lincoln Minerals Limited and its subsidiary company for the financial year ended 30 June 2012 together with the Auditor's report thereon.

### DIRECTORS

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

| *Name and qualifications* | *Experience and other directorships* |
|---|---|
| Richard V. Ryan AO FCA<br>Chairman (Non-Executive)<br>Appointed 10 November 2006 | Richard Ryan AO has had a long and distinguished career in the mining industry.<br>Mr Ryan is a Fellow of the Institute of Chartered Accountants in Australia, a Companion of the Institution of Engineers, Australia, and a Companion of the Chartered Management Institute, UK.<br>Mr Ryan was made a member of the Order of Australia in 1989 for Services to the Community and was made an Officer of the Order of Australia in 1998 for Services to Indigenous People.<br>Other directorships of listed entities within the last three years:<br>Director of Kip McGrath Education Centres Limited from 1 September 2011 to date. |
| Dr Allan John Parker BSc(Hons), PhD, Dipl Comp Sc<br>Managing Director<br>Appointed 16 October 2006 | Dr Parker is a geologist and geophysicist.<br>Dr Parker has a broad and extensive knowledge of iron ore, graphite, uranium, gold, and base metal mineral deposits and mineralizing systems in South Australia's Gawler Craton. He also has a strong geophysical background and is a leading geographical information systems (GIS) expert. He has 19 years experience in mineral exploration and prior to that, 15 years experience in geological mapping with the SA Geological Survey.<br>Other directorships of listed entities within the last three years:<br>Genesis Resources Limited from 12 August 2010 to 29 July 2012. |
| Peter E. Cox FCA<br>Director<br>Appointed 16 October 2006<br>Retired 30 November 2011 | Mr Cox is a Chartered Accountant who currently operates a management consultancy business after many years in public practice. He has been involved in the administration of a number of public floats and listed companies, predominantly in the Resources sector.<br>Other directorships of listed entities within the last three years: Nil |
| Robert A. Althoff B.Tech (Mech. Eng.)<br>Director (Non-Executive)<br>Appointed 5 July 2005 | Mr Althoff is a professional Mechanical Engineer with postgraduate studies in Business Management and more than 30 years experience in mining, transport and power station operations.<br>Other directorships of listed entities within the last three years: Nil. |

| | |
|---|---|
| Eng H. Lim BSc (Hons)<br>Director (Non-Executive)<br>Appointed 5 October 2010 | Mr Lim ordinarily resides in Singapore and has a strong background financial and corporate affairs management in both Australia and South East Asia. He holds a Diploma in Business Studies (Accountancy) and a Bachelor of Science in Economics (Honours).<br>Other directorships of listed entities within the last three years: Nil. |
| Sze Wan Chan<br>Director (Non-Executive)<br>Appointed 28 February 2012 | Ms Chan is Advisor to Poan Group Holdings Pty Limited. She is a Fellow of the Hong Kong Institute of Directors and has spent years in mainland China developing business interests. She has extensive connections and significant experience in green energy, natural resources, corporate planning and investor relations.<br>Other directorships of listed entities within the last three years: Nil. |

**COMPANY SECRETARY**

Mr Peter E Cox retired as a non-executive Director and as Company Secretary effective 30 November 2011.

Mr Jaroslaw (Jarek) Kopias was appointed Company Secretary effective 30 November 2011 and is also the Company's Chief Financial Officer.

Jarek is a qualified Certified Practising Accountant who has worked extensively in the resource sector in various corporate and mine site roles. He holds a Bachelor of Commerce Degree and is a Chartered Secretary. Jarek is also Company Secretary and Chief Financial Officer of ASX listed companies, Core Exploration Limited (ASX:CXO) and Crest Minerals Limited (ASX:CTT).

**DIRECTORS' MEETINGS**

The number of directors' meetings held and numbers of meetings attended by each of the directors of the Company during the financial year were:

| | *Number of meetings held while in office* | *Number of meetings attended* |
|---|---|---|
| RV Ryan | 12 | 11 |
| AJ Parker | 12 | 12 |
| PE Cox | 6 | 6 |
| RA Althoff | 12 | 12 |
| EH Lim | 12 | 11 |
| SW Chan | 3 | 3 |

The Board does not operate any separate committees due to its small size.

**DIRECTORS' INTERESTS IN SHARES AND OPTIONS**

Particulars of directors' interests in the shares of Lincoln Minerals Limited as at the date of this report are as follows:

| | *Fully paid shares held* | *Options held* |
|---|---|---|
| Richard V Ryan | 400,000 | 0 |
| A John Parker | 560,000 | 0 |
| Robert A Althoff | 870,000 | 0 |
| Eng H Lim | 8,502,000 | 0 |
| Sze Wan Chan | 0 | 0 |

1,086,750 unlisted performance rights were issued on 6 December 2011 and lapsed on 30 June 2012 as the hurdle share price was not met.

During the year 4,350,000 options granted to directors in prior years were not exercised and lapsed as at 31 December 2011.

No other options were granted to Directors during the year or between the end of the year and the date of this report.

**PRINCIPAL ACTIVITIES AND REVIEW OF OPERATIONS**

During the year the Company continued to explore its exploration licences in South Australia, where the majority of its effort was directed to:

- The Gum Flat iron ore project 20 km west of Port Lincoln;
- Graphite projects in the Koppio region 35 km north of Port Lincoln and at Cockabidnie-Campoona on central Eyre Peninsula;
- The new Minbrie copper-lead-zinc-silver discovery on east-central Eyre Peninsula; and
- Silver-base metal exploration in the Eurilla-Uno project area on north-eastern Eyre Peninsula.

At Gum Flat EL4643 (formerly EL3422), magnetite resource definition drilling was undertaken along with compilation of a Mining Lease application for the Stage 1 mining proposal to mine the hematite-goethite cap above the magnetite resource. The Mining Lease application was completed in October 2011 but cannot be lodged with DMITRE until a groundwater extraction licence has been obtained. At the request of the Department for Water, the Company resubmitted its groundwater licence applications in February 2012.

In July 2012, the Company was advised that its application for a groundwater extraction licence for Gum Flat Stage 1 had been refused because the rate of extraction exceeded the Water Allocation Plan for that area. This was despite the Company's proposal to re-inject most of the water back into the aquifer system.

Lincoln Minerals has appealed against the decision and is preparing an application for the maximum allowable allocation.

In addition to the requirement to get groundwater licences prior to lodging a Mining Lease application, DMITRE also required the Company to get an EPBC Referral from the Commonwealth Government. This was done and despite an appeal by local residents, the decision was that the proposed mine at Gum Flat is "Not a Controlled Action".

Over the last 2 years, the international price of graphite has increased dramatically from a few hundred dollars a tonne to over $2,500 per tonne for high grade coarse flake graphite. Lincoln Minerals has numerous graphite prospects and a very strong ground tenure in what is the richest world class graphite province in Australia. Consequently, the Company has commenced detailed review and mapping of these prospects including flying low-level electromagnetic (EM) surveys over its priority targets in the Koppio-Kookaburra Gully and Campoona-Cockabidnie areas. Bulk metallurgical test samples were sent to Germany and Austria for preliminary analysis and flotation tests and a scoping study was commissioned. The latter is being undertaken by Parsons Brinckerhoff and is looking at a potential graphite mine and beneficiation plant based on the Kookaburra Gully prospect.

In January 2012, Lincoln Minerals made a significant base metal discovery on one of the tenements, EL 3610, it shares with Centrex Metals Limited. Drilling by Centrex intersected an 29.5m wide interval of copper-lead-zinc-silver averaging 0.76% copper, 7.37% lead, 1.88% zinc, 9.0 g/t silver and trace gold.

Apart from initial assaying and a petrological study, no further work has yet been undertaken on this promising project.

At Eurilla and Uno on ELs 3690, 3704, 4093 and 4310, the Company continued exploration for manganese, silver, base metals, uranium and iron ore. Field mapping, outcrop sampling and a detailed soil survey were undertaken across much of the project area and several areas of anomalous silver and other metals were identified for follow-up infill sampling and possible drilling. A SA Government PACE grant has been offered to Lincoln Minerals for a proposed drill program.

In Indonesia the Company pursued its manganese joint ventures. Surface mapping and rock chip sampling were undertaken on manganese targets in western Timor in mid-2011 but due to sovereign risk issues the project was abandoned and Lincoln Minerals has withdrawn from Indonesia for the present time.

Further details of the Company's operations are set out in the Managing Director's Review of Operations section of the 2012 Annual Report.

**RESULTS AND DIVIDENDS**

The Group made a loss after tax of $1,301,246 (2011: $1,203,039). In 2012 the Group capitalised $1,038,344 (2011: $1,852,356) of exploration and evaluation expenditure and expensed $583,088 (2011: $339,227) of such expenditure that was unable to be carried forward. Interest income was $61,315 (2011: $113,654).

During the year the Company issued 20,000,000 new shares from a placement with Poan Group Holdings Pty Ltd in February 2012. Net proceeds of $1,681,153 were achieved from this issue.

Cash at the end of June 2012 was $1,080,110 (2011: $1,920,255)

No dividends were paid and the directors have not recommended the payment of a dividend (2011: Nil).

**CORPORATE PERFORMANCE**

The performance of the Company / Group since becoming a listed entity is:

| Year | Net (loss) for the year | (Loss) per share – cents (adjusted for rights issues) | Shareholders' Equity | Number of issued shares - end of year | Share price – end of the year - cents |
|---|---|---|---|---|---|
| 2007 | (346,018) | (0.91) | 6,677,390 | 71,672,221 | 18.5 |
| 2008 | (630,704) | (0.78) | 7,106,996 | 75,172,221 | 24.0 |
| 2009 | (1,708,699) | (2.22) | 6,556,101 | 90,046,511 | 9.5 |
| 2010 | (1,968,541) | (1.86) | 13,682,089 | 116,959,938 | 26.0 |
| 2011 | (1,203,039) | (0.98) | 14,786,162 | 133,363,972 | 12.5 |
| 2012 | (1,301,246) | (0.93) | 15,174,758 | 153,363,972 | 11.5 |

No dividends have been paid, nor have there been any capital reductions or share cancellations over the above periods.

## ENVIRONMENTAL REGULATION

The Group is subject to environmental regulation in respect of the mining tenements granted to it and the mining legislation of the states in which the mining tenements are held. The Directors are satisfied that no breaches of the environmental conditions of these licences have occurred as they are continually monitoring the Group's operations. No notices of any such breaches have been received from any authority.

## ENVIRONMENT AND SOCIAL POLICY

*Environment*

The Group is aware of its corporate responsibility to impact as little as possible on the environment and, as necessary, to undertake exploration programs and/or rehabilitate sites in line with detailed procedures and guidelines published by the South Australian Government.

The Group has a policy to monitor performance and improve operational procedures to best environmental practice and minimise the impacts of exploration activities wherever possible.

*Social*

At Lincoln Minerals we are committed to a working environment that provides equality to all and that respects the rights, cultural beliefs and relevant concerns of all landholders and communities that have a legitimate interest in land upon which we propose to undertake exploration.

This will involve ongoing communication with relevant local residents, farmers, pastoral property owners, Aboriginal groups and local authorities.

The Group has an employment strategy that aims to help improve access to employment for local Aboriginal people and where appropriate, will investigate and assist in the development and implementation of traineeships and/or training programs that will best meet the Group's and industry's future needs.

## OPTIONS

There are no options outstanding as at the date of this report (2011: 4,760,000) as all outstanding options lapsed at 31 December 2011.

## SIGNIFICANT EVENTS AFTER BALANCE DATE

On 28 September 2012 the Directors completed an Underwriting Agreement with Tigermoth Investments Limited to support a 1 for 8 rights issue to shareholders at a minimum price of 7 cents per share to raise up to $1,341,935 before costs of issue. The rights issue is underwritten to the value of $1,250,000. The Agreement is effective if the Company completes an Offer Document by 31 December 2012 (or such other date as may be agreed between the Company and the Underwriter). The Underwriters may withdraw from the Agreement if either of the S&P/ASX Midcap Resources Index (ASX:XMR) or the S&P/ASX Small Resources Index (ASX:XSR) falls for three consecutive days to levels 15% below those of 28 September 2012 respectively. The Directors are also continuing to pursue various project finance avenues for the Group's graphite projects, and if successful it is unlikely that the Underwriting Agreement will be required.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

In 2013, the Group will be principally engaged in obtaining all approvals necessary for the development of an iron ore mine at the Company's flagship Gum Flat project. The Group will further continue to develop its graphite assets, specifically its Koppi-Kookaburra Gully Graphite Project. Further, The Group will also continue exploration for minerals on its other tenement areas on eastern Eyre Peninsula in South Australia. The only expected sources of Australian income for the coming financial year will be the receipt of interest on cash funds held on deposit.

**CORPORATE GOVERNANCE**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors support and have adhered to the principles of good corporate governance. The Group's corporate governance statement is contained in the section entitled "Corporate Governance Statement".

**REMUNERATION REPORT - AUDITED**

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. This report outlines the remuneration arrangements in place for Key Management Personnel of Lincoln Minerals Limited. The corporate performance summary is disclosed below.

| Year | Net (loss) for the year | (Loss) per share – cents (adjusted for rights issues) | Shareholders' Equity | Number of issued shares - end of year | Share price – end of the year - cents |
|---|---|---|---|---|---|
| 2008 | (630,704) | (0.78) | 7,106,996 | 75,172,221 | 24.0 |
| 2009 | (1,708,699) | (2.22) | 6,556,101 | 90,046,511 | 9.5 |
| 2010 | (1,968,541) | (1.86) | 13,682,089 | 116,959,938 | 26.0 |
| 2011 | (1,203,039) | (0.98) | 14,786,162 | 133,363,972 | 12.5 |
| 2012 | (1,301,246) | (0.93) | 15,174,758 | 153,363,972 | 11.5 |

Key Management Personnel comprise:

**Directors**

| | |
|---|---|
| RV Ryan | Chairman (non-executive) |
| AJ Parker | Managing Director |
| RA Althoff | Director (non-executive) |
| EH Lim | Director (non-executive) |
| PE Cox (retired 30 November 2011) | Director |
| SW Chan (from 28 February 2012) | Director (non-executive) |

**Executives**

| | |
|---|---|
| JK Kopias | Chief Financial Officer and Company Secretary from 30 November 2011 |
| DA Povey | Chief Geologist |

*Remuneration philosophy*

The performance of the Group depends on the quality of its directors and executives, who are Key Management Personnel (KMP) of the Company. Compensation levels for key management personnel are competitively set to attract and retain appropriately qualified and experienced Directors and KMP.

To this end, the Group embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value; and

- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

*Remuneration committee*
Due to the relatively small size and complexity of the Group the Board has decided not to form a separate Remuneration Committee, and instead the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, and KMP.

The Board of Directors assesses the appropriateness of the nature and amount of remuneration of directors and KMP on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and KMP. Share options may form part of a remuneration package and number and terms of such options will be determined in accordance with the above objectives.

*Remuneration structure*
In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

<u>Non-executive director remuneration</u>

*Objective*
The Board seeks to set aggregate remuneration at a level which provides the Group with the ability to attract and retain directors of the highest calibre and with the experience and qualification appropriate to the development of the Company, whilst incurring a cost which is acceptable to shareholders.

*Structure*
The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-executive Directors shall be determined from time to time by shareholders in general meeting. An amount not exceeding the determined aggregate is then divided between the Directors as agreed. The latest determination occurred at an Extraordinary General Meeting held in January 2007 when shareholders approved an aggregate remuneration of $250,000 per year. The current fee level is $40,000 per non-executive director per annum and the Chairman $55,000 per annum, all inclusive of statutory superannuation.

The Board considers fees paid to Non-executive Directors of comparable companies when undertaking the annual review process.

All of the Non-executive Directors received directors' fees whilst Mr Cox also received salaried payments for secretarial services rendered at commercial rates.

Non-executive Directors' fees are not linked to the performance of the Group. However, Directors are issued options to provide the necessary incentive to work and grow long-term shareholder value. Issues of options to Directors require approval by shareholders in general meeting.

<u>Executive Director and Key Management Personnel remuneration</u>

*Objective*
The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Group and so as to:

- Reward executives for Group and individual performance;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the group; and

- Ensure total remuneration is competitive by market standards.

*Structure*
It is Board policy that employment contracts are entered into with the Managing Director and other KMP.

Remuneration consists of the following key elements:
- Fixed Remuneration
- Variable Remuneration

The Company currently has no formal performance related remuneration policy which governs the payment of annual cash bonuses upon meeting predetermined performance targets. However, the Board may consider performance related remuneration in the form of cash or share options or performance rights when they consider these to be warranted.

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established by the Board of Directors. The variable remuneration for Dr Parker, Managing Director, being a share option package comprising 2,000,000 options exercisable at any time on or before 31 December 2011 at 20 cents per option, was approved by shareholders in 2007 (200,000 of these options have since been exercised and the remaining options lapsed on 31 December 2011). Options for KMP were granted during 2008 with half the options vesting within 12 month of issue and the other half within 24 months (all KMP options have lapsed at 31 December 2011).

During the year Dr Parker, Managing Director, was issued 1,086,750 performance rights on 30 November 2011 as approved by shareholders at the Annual General Meeting in 2011. The performance hurdle for the performance rights was the Lincoln Minerals Ltd share price at 30 June 2012. The performance hurdles were set as follows:

| **Share price at 30 June** | **Entitlement** |
|---|---|
| 15 cents | 271,688 |
| 20 cents | 543,375 |
| 25 cents | 815,063 |
| 30 cents | 1,086,750 |

As the hurdle price was not met as the Lincoln share price at 30 June 2012 was 11.5 cents, all performance rights lapsed at 30 June 2012.

**Fixed Remuneration**

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

Fixed remuneration is reviewed in accordance with contract terms by the Board of Directors and the process consists of a review of companywide and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices.

*Employment contracts*
Employees are employed under terms which include annual reviews as to their personal performances and assessment as to general employment market conditions. The Managing Director has been engaged by contract until 31 December 2012 although the contract may be terminated by the Company giving twelve months' notice. As at the date of the report the Managing Director's annual salary is $217,350 plus superannuation, subject to annual review by the Board. KMP have all been

engaged for two year periods although these contracts may be terminated by either the Group or the respective staff member by the giving of four weeks' notice.

The Managing Director is entitled to 12 months termination payment upon termination of his employment by the Company prior to the end of his contract.

No termination payments were made during the period to KMP other than statutory entitlements upon leaving the Company.

*Compensation of Directors and Key Management Personnel (KMP)*

| | Short term | | Post employment | | Share-based payment | Total | Value of rights as a % of total remuneration |
|---|---|---|---|---|---|---|---|
| | Salary and fees | Contract payments | Super-annuation | Long service leave | Performance Rights | | |
| | $ | $ | $ | $ | $ | $ | % |
| Year ended 30 June 2012 | | | | | | | |
| Directors | | | | | | | |
| RV Ryan | - | 55,000 | - | - | - | 55,000 | - |
| AJ Parker | 186,911 | - | 50,000 | 21,993[4] | 8,689 | 267,593 | 3.4% |
| PE Cox[1] | 1,807 | - | 19,147 | - | - | 20,954 | - |
| RA Althoff | 18,349 | - | 21,651 | - | - | 40,000 | - |
| EH Lim | 40,000 | - | - | - | - | 40,000 | - |
| SW Chan[2] | - | 13,556 | - | - | - | 13,556 | - |
| Executives | | | | | | | |
| JK Kopias[3] | - | 69,320 | - | - | - | 69,320 | - |
| DA Povey | 110,000 | - | 9,900 | - | - | 119,900 | - |
| Total Directors and KMP - 2012 | 357,067 | 137,876 | 100,698 | 21,993 | 8,689 | 626,323 | |
| Year ended 30 June 2011 | | | | | | | |
| Directors | | | | | | | |
| RV Ryan | - | 55,000 | - | - | - | 55,000 | - |
| AJ Parker | 191,802 | - | 50,000 | - | - | 241,802 | - |
| PE Cox | 47,095 | - | 49,100 | - | - | 96,195 | - |
| RA Althoff | 18,349 | - | 21,651 | - | - | 40,000 | - |
| EH Lim[5] | 29,565 | - | - | - | - | 29,565 | |
| Executives | | | | | | | |
| JK Kopias[6] | - | 37,415 | - | - | - | 37,415 | - |
| DA Povey | 111,346 | - | 10,021 | - | - | 121,367 | - |
| PC Lyons[7] | 125,980 | - | 11,338 | - | - | 137,318 | - |
| Total Directors and KMP - 2011 | 524,137 | 92,415 | 142,110 | - | - | 758,662 | - |

[1] Mr Cox retired from the board on 30 November 2011.
[2] Ms Chan was appointed to the board on 28 February 2012.
[3] Mr Kopias was appointed Company Secretary on 30 November 2011.
[4] Based on Company's accounting policy, Dr Parker commenced accruing long service leave following more than 5 years of service. The amount of $21,993 represents the present value of Dr Parker's long service leave entitlement.
[5] Mr Lim was appointed to the board on 5 October 2010.
[6] Mr Kopias joined the company on 1 December 2010.
[7] Mr Lyons resigned on 6 May 2011.

No bonuses were earned by or paid to any KMP in either 2012 or 2011.

No shares were issued in either 2012 or 2011 as compensation.

It is the Company's policy that Director's do not hedge any share based remuneration. The Company requires all executives and directors to sign annual declarations of compliance with this policy.

*Option holdings of Key Management Personnel*

| 30 June 2012 | Balance at the beginning of the year or date commenced to be KMP | Granted as remuneration | Exercised during the year | Lapsed during the year | Balance at the end of the year or date ceased to be KMP |
|---|---|---|---|---|---|
| Directors | | | | | |
| RV Ryan | 800,000 | - | - | 800,000 | - |
| AJ Parker | 1,800,000 | - | - | 1,800,000 | - |
| PE Cox | 1,000,000 | - | - | 1,000,000 | - |
| RA Althoff | 750,000 | - | - | 750,000 | - |
| | | | | | |
| Executives | | | | | |
| DA Povey | 100,000 | - | - | 100,000 | - |

*Performance Right holdings of Key Management Personnel*

| 30 June 2012 | Balance at the beginning of the year or date commenced to be KMP | Granted as remuneration | Exercised during the year | Lapsed during the year | Balance at the end of the year or date ceased to be KMP |
|---|---|---|---|---|---|
| Directors | | | | | |
| AJ Parker | - | 1,086,750 | - | 1,086,750 | - |

## AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the independence declaration from our auditor KPMG, a copy of which is attached to and forms part of this report.

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board considers that those non-audit services provided by the auditor are compatible with and do not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

Details paid to KPMG during the year for audit and non-audit services are set out hereunder:

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Audit services | | |
| Audit and review of financial reports (KPMG Australia) | 42,000 | 41,000 |
| Other services | | |
| Taxation advice, research & development advice and related matters | 30,420 | 16,638 |

No other auditors were engaged by the Group.

## INDEMNIFICATION AND INSURANCE OF OFFICERS

During the financial year the Company entered into agreements to indemnify all current directors of the Company as at the date of this report against all liabilities (subject to certain limited exclusions) to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as a director or executive officer unless the liability relates to conduct involving a lack of good faith. The Company has also agreed to indemnify the directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

During the financial year the Company paid insurance premiums in respect of directors' liability insurance. Disclosure of the nature of the liability and the extent of the premium is prohibited by the confidentiality clause of the contract of insurance.

The directors' and officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than Lincoln Minerals Limited) incurred in their position as director unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

Dated at Adelaide, South Australia, this 28th day of September 2012 and signed in accordance with a resolution of the Directors.

RV Ryan, Director

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

To: the directors of Lincoln Minerals Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Derek Meates
*Partner*

Adelaide

28 September 2012

# LINCOLN MINERALS LIMITED

# CORPORATE GOVERNANCE STATEMENT

The Board of Directors of Lincoln Minerals Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Lincoln Minerals Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The format of the Corporate Governance Statement follows the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the Council's recommendations, the Corporate Governance Statement must contain certain specific information and must disclose the extent to which the Company has followed the guidelines. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Lincoln Minerals Limited's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

Principle 1 – Lay solid foundations for management and oversight
Principle 2 – Structure the board to add value
Principle 3 – Promote ethical and responsible decision making
Principle 4 – Safeguard integrity in financial reporting
Principle 5 – Make timely and balanced disclosure
Principle 6 – Respect the rights of shareholders
Principle 7 – Recognise and manage risk
Principle 8 – Remunerate fairly and responsibly

**1. Lay solid foundations for management and oversight**

**Governance roles to achieve the vision**

The skills, experience and expertise relevant to the position of each Director and Secretary in office at the date of the annual report are included in the Directors' Report.

The determination of materiality requires consideration of both quantitative and qualitative elements.

The Board has determined those matters which are the province of the Board, clearly separating them from the responsibilities of the Managing Director.

The Board's role includes the following:

- Setting and reviewing the vision, goals and strategy
- Approving the annual strategic plan and major operating plans
- Approving budgets
- Reviewing and providing feedback on the performance of the Managing Director
- Reviewing the performance of the Board and individual directors
- Reviewing the half-year and full year financial statements and reports and quarterly cash-flow statements
- Determining policies and ensuring adequate procedures are in place to manage the identified risks
- Having regard to the size of the company the full Board will carry out the functions sometimes delegated to a nominations committee and remuneration committee

**Role of the Managing Director**

The role of the Managing Director includes:

- Vision/Strategy. Formulating with the Board the vision and strategy, developing action plans to achieve the vision and reporting regularly to the Board on progress.
- Management team and employees. Providing leadership, appointing and negotiating terms of employment of senior executives (with Board approval where necessary), developing a succession plan, ensuring procedures are in place for education and training to ensure compliance with laws and policies.
- Successful implementation of the Company's exploration program.
- Board. Responsible for bringing all matters requiring review/approval to the Board, advising on the changes in risk profile, providing certification regarding the financial statements for the half-year and full year, reporting to the Board on a monthly basis the performance of the Company and for ensuring education of Directors on relevant matters.

The Board will annually review the performance of the Managing Director having regard to performance measures set out at the commencement of each year. These will include financial measures, achievement of strategic objectives and other key performance indicators, and compliance issues.

**Role of the Chairman**

The role of the Chairman includes:

- Vision/Strategy - Ensuring leadership in setting and reviewing vision;
- Board meetings - Setting agenda with the Managing Director/Company Secretary, ensures directors receive all relevant information, chairs meetings and deals with conflicts;
- AGM - Chairing the AGM and ensures shareholders as a whole have an opportunity to speak on relevant matters, ensures audit partner attends;
- External matters - Being spokesperson with the Managing Director, on company matters;
- Managing Director - Being the primary point of contact between the Board and the Managing Director.
- Being kept fully informed on major matters by the Managing Director, chairing the performance appraisal of the Managing Director, and providing mentoring;
- Initiating Board and committee performance appraisal and ensuring agreed Board composition is maintained and director induction plans are in place.

**2. Structure the Board to add value**

**Composition and balance of skills of directors**

The composition of the Board is critical for the success of the Company and the number of directors and their skills will vary from time to time depending on the circumstances of the Company:

- The Board believes that the number of directors will range from four to six but have currently determined that the number will be five, including the Managing Director;
- The Board will comprise a variety of persons with diverse skills and experience relevant to the Company and its circumstances at the time;
- The CEO will be a director and will also have the title of Managing Director.

**Independence of directors**

The Board believes that the best interests of the Company will be served if a majority of the Directors are independent, as defined in the ASX Corporate Governance Guidelines. The Chairman is an independent director. Directors of Lincoln Minerals Limited are considered to be independent when they are independent of management and free from any business or other relationship that could (or could reasonably be perceived to) materially interfere with the exercise of their unfettered and independent judgment. The Company has a majority of independent Directors and the Chairman has a casting vote. Mr. Kopias, as Company Secretary (from 30 November 2011) and CFO, acts only on a part-time basis and has a limited management role.

The Board will review annually whether or not each director is independent.

Incoming Directors are required to consent to their appointment, including undertaking to observe the Company's Corporate Governance policies as are in force from time to time, and including notifying the holding of all Company securities and notifying the Company Secretary at the earliest practical time of any changes that may arise in those holdings.

The status of each director is as follows:

| | | Term in office |
|---|---|---|
| Richard V Ryan - Chairman | Independent | Since November 2006 |
| Dr A John Parker – Managing Director | Non-independent | Since October 2006 |
| Robert A Althoff | Independent | Since July 2005 |
| Eng Hoe Lim | Independent | Since October 2010 |
| Sze Wan Chan | Independent | Since February 2012 |

The definition of independence is that as set out in the ASX Corporate Governance Guidelines.

The Board believes in the renewal of Board members to ensure the ongoing vitality of the Company.

**Appointment of directors**

If the Board determines that there is a need to appoint another Director for any reason they will:

- determine the skills, experience, qualifications appropriate, having regard to those of the existing Directors.
- agree the process to seek such a person.
- set a timetable to appoint, having regards to the timing of the AGM and requirements of the Constitution.
- prepare a short list and meet the candidates.

**Performance evaluation**

The Board, through the Chairman, will carry out an evaluation, at least every three years, to:

- review the role of the Board
- assess the performance of the Board with a view to assisting the Board to better perform its duties
- review the type and timing of information provided to Directors
- review the performance and contribution of each of the non-executive Directors.

The Board may, from time to time, use an independent adviser to assist in the reviews.

The performance of the Board has not been evaluated during the current financial year.

**Access to independent advice**

Directors may obtain independent experts' advice to enable them to fulfill their obligations, at the expense of the Company and after obtaining approval of the Chairman.

**3. Promote ethical and responsible decision-making**

**Code of conduct of directors**

The Directors are expected to use their skills commensurate with their knowledge and experience to increase the value of the Company.

To meet this obligation they must act honestly and should:

- execute due care and diligence;
- not misuse information or their position for their own gain;
- avoid or fully disclose conflicts;
- ensure that the market is fully informed of all matters that require disclosure; and
- actively promote the reputation of the Company.

Conflicts of interest that arise must be immediately disclosed and addressed by eliminating the conflict, abstaining from participation or, in exceptional cases, resigning.

Directors must comply with the law on disclosure of benefits and related party transactions. Directors must have access to all relevant information on the Company and this is to be sought through the Managing Director or agreed arrangements.

All Directors must maintain strict confidentiality in relation to Company matters.

Directors must be aware of insider trading laws and strictly abide by the law and Company policies.

Directors are to ensure that the financial statements are drawn up to comply with Australian Corporations Law and Accounting Standards.

Directors must also be aware of environmental impacts of the company's business and ensure the health, safety and well-being of their employees.

Deeds of access, indemnity and insurance will be entered into with the directors to the extent permitted by law.

**Gender diversity**

The Board makes all board appointments based on merit. The Board is aware of the benefits all types of diversity bring to its performance, but the current size of the Lincoln Minerals' Board makes gender diversity difficult.

The board has at this stage not established a formal diversity policy and due to current size of operations has not established measurable objectives for achieving gender diversity.

| **Gender diversity report** | **Total position** | **Held by women** |
|---|---|---|
| Board | 5 | 1 |
| Senior Management | 1 | 0 |
| Other employees | 6 | 2 |
| **Total** | **12** | **3** |

**Trading in securities**

The Company's constitution permits the Directors to acquire securities in the Company. However, the Company policy prohibits Directors and senior management from trading the Company's securities whilst in possession of price sensitive information.

Directors, employees and associates may trade where they have obtained approval of the Chairman.

The Company's trading policy is discussed with each new employee as part of their induction. In accordance with the provisions of the Corporations Act and the ASX Listing Rules, the Company will advise the ASX of any transaction conducted by the Directors in the Company's securities.

This policy relates to Directors' and executives' spouses and other parties over whom they have significant influence.

**Interaction with the media**

To ensure clear and consistent messages to the Stock Exchange and media, unless specifically approved otherwise, the Chairman and Managing Director are the only authorised spokespersons of the Company.

**Interests of stakeholders**

The Company observes the principles recommended by the ASX Corporate Guidance Council.

The Company addresses environmental, logistical and operating issues associated with its exploration activities.

The Company observes all of the rehabilitation requirements which may attach to its exploration activities.

The Company acknowledges community and legal standards with respect to anti-discrimination at all levels, particularly with respect to employees and contractors.

The Company acknowledges community and legal standards with respect to occupational safety and health.

## 4. Safeguarding integrity in financial reporting

**Audit Committee**

The Board has not established an audit committee because of the small size of both the Board and the Company. Instead the whole Board monitors performance of the Company closely and in conjunction with the external auditors is satisfied that the reporting systems in place provide accurate and timely reports of the Company's activities and position. In addition, detailed financial reports are reviewed at monthly Board meetings

**Contracts and transactions between the Company and its officers**

Any proposed contract between an officer (including associates of the officer) and Lincoln Minerals Limited must be approved by the Board prior to its execution.

## 5. Make timely and balanced disclosure

### Continuous disclosure

The Board's established policy is to make timely reports to all stakeholders by way of public announcements and direct reports. Lincoln Minerals Limited maintains a website which is regularly updated to provide the wider community with all of the available information that is released.

## 6. Respect the rights of shareholders

### Communication policy

The Board seeks to ensure that shareholders are informed of all major developments affecting the Company's state of affairs through:

- the Annual Report
- the Interim Report
- disclosures made to ASX
- notices and explanatory memorandum of the Annual General Meeting
- the Company's website, [www.lincolnminerals.com.au](http://www.lincolnminerals.com.au)

It is the Company's policy that the engagement partner of its auditors, KPMG, be present at the AGM and be available to answer relevant questions.

## 7. Recognise and Manage Risk

### Risk management and internal compliance and control

The Board determines the Company's 'risk profile' and is responsible for overseeing and approving risk management strategy and policy. The Board also reviews all major strategies for their impacts on the risks facing the Company and takes appropriate action. The Board also reviews all aspects of the Company's operations for changes to its risk profile on an annual basis.

The Company complies with the ASX recommendation that the Company should establish a sound system of risk oversight and management and internal control.

This includes:

- establishing and monitoring the Company's strategies, goals and objectives;
- identifying and measuring risks that might impact upon the achievement of those strategies, goals and objectives;
- formulating risk management strategies to manage the identified risks; and
- monitoring and improving the effectiveness of risks and internal compliance controls.

The Board's current policy requires all cash which is surplus to immediate requirements to be deposited with recognised Australian Banks and does not permit trading in derivatives with Company funds.

The Chairman and Chief Financial Officer have stated to the Board in writing that the financial risk management, operational and associated compliance controls and other risk management compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations of the Company.

## 8. Remunerate fairly and responsibly

The Company has not established a separate remuneration committee because of the small size of both the Board and the Company.

**Non-Executive Directors**

Fees plus statutory superannuation paid to non-executive Directors will generally be around the market average.

Directors will not otherwise be entitled to retirement benefits.

Directors will not participate in share or option plans except with the approval of the shareholders.

The current fee level is $40,000 per non-executive director per annum and the Chairman $55,000 per annum, all inclusive of statutory superannuation. The total amount that may be payable by the Group by way of Directors' fees is subject to approval by shareholders and is currently set at a maximum of $250,000 per annum.

All options held by the Managing Director and non-executive Directors lapsed during the year.

**Senior Executives**

Remuneration packages will generally be set to be competitive to both retain executives and attract executives to the company.

Further information will be set out in the Remuneration Report included in the Directors' Report each year.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

| | Note | 2012 | 2011 |
|---|---|---|---|
| | | $ | $ |
| Financial income – interest | | 61,315 | 113,654 |
| Employee benefits expense | | (327,220) | (290,423) |
| Exploration and evaluation written off | 9 | (583,088) | (339,227) |
| Depreciation and amortisation | | (17,382) | (22,085) |
| Provision for bad debt | | (4,923) | - |
| Corporate expenses | 3 | (749,783) | (854,861) |
| LOSS BEFORE INCOME TAX | | (1,621,081) | (1,392,942) |
| Income tax benefit | 4 | 319,835 | 189,903 |
| NET LOSS FOR THE YEAR | | (1,301,246) | (1,203,039) |
| Other comprehensive income | | - | - |
| TOTAL COMPREHENSIVE INCOME | | (1,301,246) | (1,203,039) |
| Basic earnings (loss) per share (cents) | 17 | (0.93) | (0.98) |
| Diluted earnings (loss) per share (cents) | 17 | (0.93) | (0.98) |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2012

| | Note | Issued capital | Accumulated losses | Share based payments reserve | Total |
|---|---|---|---|---|---|
| Balance at 1 July 2010 | | 18,422,597 | (4,825,204) | 84,696 | 13,682,089 |
| **Total comprehensive loss for the year** | | | | | |
| Loss | | - | (1,203,039) | - | (1,203,039) |
| Total comprehensive loss for the year | | - | (1,203,039) | - | (1,203,039) |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | |
| Issue of ordinary shares | 12 | 2,460,606 | - | - | 2,460,606 |
| Share issue expenses | 12 | (153,494) | - | - | (153,494) |
| Total contributions by owners of the Company | | 2,307,112 | - | - | 2,307,112 |
| Balance at 30 June 2011 | | **20,729,709** | **(6,028,243)** | **84,696** | **14,786,162** |
| | | | | | |
| Balance at 1 July 2011 | | 20,729,709 | (6,028,243) | 84,696 | 14,786,162 |
| **Total comprehensive loss for the year** | | | | | |
| Loss | | - | (1,301,246) | - | (1,301,246) |
| Total comprehensive loss for the year | | - | (1,301,246) | - | (1,301,246) |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | |
| Issue of ordinary shares | 12 | 1,800,000 | - | - | 1,800,000 |
| Share issue expenses | 12 | (118,847) | - | - | (118,847) |
| Performance Rights issued | | - | - | 8,689 | 8,689 |
| Total contributions by owners of the Company | | 1,681,153 | - | 8,689 | 1,689,842 |
| Balance at 30 June 2012 | | **22,410,862** | **(7,329,489)** | **93,385** | **15,174,758** |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2012

| | Note | 2012<br>$ | 2011<br>$ |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 5 | 1,080,110 | 1,920,255 |
| Trade and other receivables | 7 | 624,046 | 425,269 |
| TOTAL CURRENT ASSETS | | 1,704,156 | 2,345,524 |
| NON CURRENT ASSETS | | | |
| Property plant and equipment | 8 | 684,402 | 719,979 |
| Exploration and evaluation | 9 | 13,006,054 | 11,967,710 |
| Intangibles | 10 | 31,328 | 23,900 |
| TOTAL NON CURRENT ASSETS | | 13,721,784 | 12,711,589 |
| TOTAL ASSETS | | 15,425,940 | 15,057,113 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 136,117 | 223,943 |
| Employee entitlements – leave provisions | | 74,574 | 47,008 |
| TOTAL CURRENT LIABILITIES | | 210,691 | 270,951 |
| NON CURRENT LIABILITIES | | | |
| Employee entitlements – leave provisions | | 40,491 | - |
| TOTAL NON CURRENT LIABILITIES | | 40,491 | - |
| TOTAL LIABILITIES | | 251,182 | 270,951 |
| NET ASSETS | | 15,174,758 | 14,786,162 |
| **EQUITY** | | | |
| Contributed equity | 12 | 22,410,862 | 20,729,709 |
| Reserves | 13 | 93,385 | 84,696 |
| Accumulated losses | | (7,329,489) | (6,028,243) |
| TOTAL EQUITY | | 15,174,758 | 14,786,162 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2012

| | Notes | 2012<br>$ | 2011<br>$ |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments to suppliers and employees | | (1,017,705) | (978,887) |
| Interest received | | 40,301 | 116,620 |
| Research & Development tax concession received | | 189,904 | - |
| Net cash (outflow) from operating activities | 6 | (787,500) | (862,267) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Exploration expenditure | | (1,773,980) | (2,342,733) |
| SA Government PACE grant received | | 75,000 | - |
| Payments for property, plant and equipment | | (10,204) | (59,930) |
| Payments for intangibles | | (10,800) | (37,655) |
| Purchase of land at Gum Flat | | (14,659) | (501,166) |
| Land purchase option | | - | (40,000) |
| Proceeds on sale of assets | | 845 | - |
| Net cash (outflow) from investing activities | | (1,733,798) | (2,981,484) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from share issues | 12 | 1,800,000 | 2,460,606 |
| Share issue expenses | 12 | (118,847) | (153,494) |
| Net cash inflow/(outflow) from financing activities | | 1,681,153 | 2,307,112 |
| Net increase/(decrease) in cash and cash equivalents | | (840,145) | (1,536,639) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | 1,920,255 | 3,456,894 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | 5 | 1,080,110 | 1,920,255 |

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 June 2012

## 1. CORPORATE INFORMATION

The consolidated financial report of Lincoln Minerals Limited ("the Company") for the year ended 30 June 2012 comprise the Company and its subsidiary (together referred to as the "Group") was authorised for issue in accordance with a resolution of the directors on 28 September 2012.

Lincoln Minerals Limited, incorporated in Australia, is a company limited by shares which are publicly traded on ASX Limited, having been listed on 9 March 2007.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

The consolidated financial report is a general purpose report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

*Going concern*
The consolidated financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. As at 30 June 2012 the Group had accumulated losses of $7,329,489 and operating and investing cash outflows of $2,521,298. However, net assets are $15,174,758 and the directors believe the Group has sufficient cash and term deposits of $1,080,110 to pay its debts as and when they fall due. It is the intention of the Directors to continue to explore the Group's areas of interest for which rights of tenure are current. Minimum expenditure commitments for these tenements total $790,000 for the coming financial year. In order to do so the Directors consider that the Group will fund its projects through a combination of use of existing cash, partnership arrangements and access to equity markets. The Directors will take the appropriate action, including curtailing expenditure, to ensure funds are available as and when they are required.

On 28 September 2012 the Directors completed an Underwriting Agreement with Tigermoth Investments Limited to support a 1 for 8 rights issue to shareholders at a minimum price of 7 cents per share to raise up to $1,341,935 before costs of issue. The rights issue is underwritten to the value of $1,250,000. The Agreement is effective if the Company completes an Offer Document by 31 December 2012 (or such other date as may be agreed between the Company and the Underwriter). The Underwriters may withdraw from the Agreement if either of the S&P/ASX Midcap Resources Index (ASX:XMR) or the S&P/ASX Small Resources Index (ASX:XSR) falls for three consecutive days to levels 15% below those of 28 September 2012 respectively. The Directors are also continuing to pursue various project finance avenues for the Group's graphite projects, and if successful it is unlikely that the Underwriting Agreement will be required.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

The consolidated financial report has been prepared on an historical cost basis and is presented in Australian dollars, the Company's functional currency.

**(b) Standards basis of preparation**

*New standards and interpretations not yet adopted*
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below:

- **AASB 9 *Financial Instruments*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2015)**

  AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities and is likely to affect the Group's accounting for its financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. The Group has decided not to early adopt AASB 9 and has not yet determined the potential effect of the standard.

- **AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)**

  In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

**(c) Basis of consolidation**

The financial statements of the Company's subsidiary are included in the consolidated financial statements from the date control commenced. The Company retains control as at the date of this report. Lincoln Asia-Pacific Limited has not traded or operated between its registration (during 2009/10) and the date of this report.

Accordingly there are no eliminations on consolidation other than the subsidiary's share capital and its incorporation expense.

**(d) Significant accounting judgments, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on judgments, estimates and assumptions of future events. The key judgments, 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 are:

*Share-based payments*
The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the dates upon which they are granted. The fair value of options granted is determined using the Black-Scholes valuation method, taking into account the terms and conditions on which the options were granted. Refer note 2(u) for detail.

*Recoverability of exploration and evaluation costs*
The carrying amount of exploration and evaluation expenditure is dependent on the future successful outcome from exploration activity and or alternatively the sale of the respective areas of interest.

The accounting policies set out below have been applied consistently to all periods presented.

**(e) Joint ventures**

The interests of the Group in unincorporated joint ventures and jointly controlled assets are brought to account by recognising in its financial statements its share of jointly controlled assets, jointly incurred liabilities/expenses, and its share of income earned from the sale of any goods or services by the joint venture.

**(f) Income**

Interest is recognised as the interest accrues (using the effective interest method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Overhead recoveries from joint venture partners are brought to account as revenue on the basis of exploration expenditures incurred in accordance with the joint venture agreements.

**(g) Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Refer to impairment policy at note 2(j).

Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset as being 5 to 15 years.

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

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

**(h) Exploration and evaluation**

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditures are those expenditures incurred by the Group in connection with the exploration for and evaluation of minerals resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each 'area of interest'. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede exploration and evaluation of mineral resources, including all expenditure incurred prior to securing legal rights to explore an area, is expensed as incurred.

Reimbursements by joint venture partners of expenditure in respect of areas of interest are deducted from the Company's total outlays on the areas prior to carrying forward such expenditure as an asset.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of the exploration licence in the specific area of interest has expired during the reporting period or will expire in the near future, and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area are not budgeted or planned;
- Exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the decision was made to discontinue such activities in the specified area; or
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision to abandon is made.

**(i) Intangibles**

Computer software intangible assets acquired by the Group are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a reducing balance basis over the estimated 3 year useful lives of intangible assets from the date that they are available for use.

**(j) Impairment – non-financial 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 greater of fair value less costs to sell and value in use. It 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, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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.

**(k) Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at bank, cash on hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cashflows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (l) Receivables

Receivables which are generally receivable within 30-90 day terms, are recognised and carried at original amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. The fair value of trade and other receivables is estimated as the present value of future cash flows discounted at the market rate of interest at the reporting date.

### (m) Provisions

Provisions are recognised when the Group 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 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.

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

### (n) Employee benefits

*(i) Wages, salaries, annual and sick leave*
Liabilities for wages and salaries, including non-monetary benefits, annual and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

*(ii) Long service leave*
Liability for long service leave is recognised and measured as the present value of the estimated future cash outflows to be made in respect of employees' services up to the reporting date. The obligation is calculated using expected future increases in wage and salary rates, experience of employee departures and periods of service. Expected future payments are discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating the terms of the Group's obligations.

Previously the Group did not have a provision for long service leave on the basis that no employee had more than 5 years employment service.

*(iii) Share-based payments*
Refer note 2(u).

### (o) Leases

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 over the lease term. The Group does not have any finance leases.

**(p) Trade and other payables**

These amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(q) Contributed equity**

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of share proceeds received, net of any related tax benefit.

Ordinary shares - Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any related tax benefit.

**(r) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities (in a transaction that is not a business combination) that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they are not expected to reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Any additional income taxes that may arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

**(s) Earnings per share (EPS)**

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted. EPS for the previous year are restated for any rights issues during the current financial year.

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

Revenues, expenses and non-financial assets and liabilities are recognised net of the amount of GST except:

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

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

### (u) Share-based payments

The Company provides benefits to Directors and Senior Executives of the Group in the form of share-based payments, whereby directors and employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with directors and employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes method. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market conditions attached to the transactions are not taken into account in determining fair value.

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

### (v) Financial Instruments

*Non-derivative financial instruments*

Non-derivative financial instruments comprise receivables, cash and cash equivalents, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised if the Group's rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, ie, the date that the Group commits itself to purchase or sell the asset. Financial liabilities are de-recognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

**(w) Foreign currency**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

**(x) Segment reporting**

Determination and presentation of operating segments:

The Group determines and presents operating segments based on the information that internally is provided to the Managing Director, who is the Group's chief operating decision maker.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the Managing Director include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

## 3. CORPORATE EXPENSES

| | | 2012 | 2011 |
|---|---|---|---|
| | | $ | $ |
| ASX fees | | 24,393 | 26,864 |
| Audit fees | 14 | 42,000 | 41,000 |
| Directors' fees | | 169,510 | 164,565 |
| Head office administration | | 255,905 | 291,631 |
| Insurances | | 27,713 | 21,464 |
| Legal fees | | 10,931 | 46,224 |
| Operating lease payments | | 46,845 | 53,963 |
| Payroll tax | | 17,305 | 20,005 |
| Public relations | | 72,359 | 91,519 |
| Share registry | | 22,804 | 23,653 |
| Staff recruitment, re-location, conferences, training | | 37,327 | 34,256 |
| Travel | | 22,691 | 39,717 |
| | | 749,783 | 854,861 |

## 4. INCOME TAX BENEFIT

Numerical reconciliation between tax benefit and pre-tax net loss

| | | |
|---|---|---|
| Loss before tax | (1,301,246) | (1,392,942) |
| Prima facie income tax benefit at 30% | (390,374) | (417,883) |
| Research and development refund | (319,835) | (189,903) |
| Effect of permanent and temporary differences and tax losses not recognised | 390,374 | 417,883 |
| Income tax benefit attributable to operating loss | (319,835) | (189,903) |

A deferred tax asset with respect to accumulated tax losses has been recognised to the extent of the Company's deferred tax liability regarding temporary differences (approximately $3,902k (2011: $3,590k), relating mainly to capitalised exploration assets). The unrecognised deferred tax asset mainly with respect to accumulated tax losses is $1,258k tax effected at 30% (2011: $1,100k), and has not been recognised as an asset as it is not considered probable at this time that future taxable income will be available against which to utilise the tax losses.

## 5. CASH AND CASH EQUIVALENTS

| | | |
|---|---|---|
| Cash at bank and in hand | 67,999 | 23,507 |
| Short term deposits | 1,012,111 | 1,896,748 |
| | 1,080,110 | 1,920,255 |

Short term deposits are made for varying periods of between 30 and 180 days, depending on the immediate cash requirements of the Company, and earn interest at the respective short term deposit rates. The effective interest rate on short term deposits in 2012 was 4.2% (2011 4.4%). An amount of $12,111 of short term deposits remains in place to secure a bank guarantee in respect of a bond for Exploration Licence 4643 (previously 3422) in favour of Primary Industries and Resources SA.

The Company has no available undrawn loan facilities.

## 6. RECONCILIATION OF LOSS AFTER TAX TO NET CASH FLOWS FROM OPERATIONS

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Operating (loss) after income tax | (1,301,246) | (1,203,039) |
| Depreciation and amortisation | 17,382 | 22,085 |
| Foreign exchange loss on USD loan | - | 935 |
| Provision for bad debt | 4,923 | - |
| Exploration expenditure written off | 635,588 | 339,227 |
| Performance Rights issued | 8,689 | - |
| Changes in Assets and Liabilities | | |
| Decrease (Increase) in other current operating assets | (208,276) | (166,525) |
| (Decrease) Increase in operating creditors and accruals | (12,617) | 124,867 |
| Decrease (Increase) in leave provisions | 68,057 | 20,183 |
| Net cash used in operating activities | (787,500) | (862,267) |

## 7. RECEIVABLES

| | 2012 | 2011 |
|---|---|---|
| Amounts owing by Joint Venture partners | 4,923 | 46,559 |
| Provision for bad debt | (4,923) | (46,559) |
| Accrued interest receivable | 26,284 | 5,270 |
| Bonds and deposits | 15,000 | 15,000 |
| Prepaid expenses | 139,472 | 18,448 |
| GST refundable | 25,528 | 67,110 |
| PACE Grant – SA Government | 57,750 | 82,500 |
| Research and development grant | 319,835 | 189,903 |
| Other | 40,177 | 47,038 |
| | 624,046 | 425,269 |

No receivables are interest-bearing. All are receivable within 90 days, except bonds and deposits.

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Land | Office plant and equipment | Exploration plant and equipment | Motor vehicles | Total |
|---|---|---|---|---|---|
| 2012 | $ | $ | $ | $ | $ |
| At cost | 515,825 | 52,377 | 353,115 | 134,809 | 1,056,126 |
| Accumulated depreciation | - | (46,426) | (250,801) | (74,497) | (371,724) |
| Closing net book amount | 515,825 | 5,951 | 102,314 | 60,312 | 684,402 |
| | | | | | |
| Opening net book amount | 501,166 | 7,568 | 137,015 | 74,230 | 719,979 |
| Additions | 14,659 | 3,560 | 18,447 | - | 36,666 |
| Disposals | - | (207) | (132) | - | (339) |
| Depreciation charge | - | (4,970) | - | - | (4,970) |
| Depreciation charged to exploration | - | - | (53,016) | (13,918) | (66,934) |
| Closing net book amount | 515,825 | 5,951 | 102,314 | 60,312 | 684,402 |
| | | | | | |
| 2011 | | | | | |
| At cost | 501,166 | 51,493 | 335,046 | 134,809 | 1,022,514 |
| Accumulated depreciation | - | (43,925) | (198,031) | (60,579) | (302,535) |
| Closing net book amount | 501,166 | 7,568 | 137,015 | 74,230 | 719,979 |
| | | | | | |
| Opening net book amount | - | 10,982 | 136,265 | 80,795 | 228,042 |
| Additions | 501,166 | 2,000 | 59,860 | 9,271 | 572,297 |
| Depreciation charge | - | (5,414) | - | - | (5,414) |
| Depreciation charged to exploration | - | - | (59,110) | (15,836) | (74,946) |
| Closing net book amount | 501,166 | 7,568 | 137,015 | 74,230 | 719,979 |

## 9. EXPLORATION AND EVALUATION

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Opening net book amount | 11,967,710 | 10,115,354 |
| Write-off amounts previously capitalised | (355,540) | (75,920) |
| Exploration expenditure during the year | 1,606,999 | 2,191,637 |
| Depreciation charged to exploration | 66,933 | 74,946 |
| SA Government PACE grant | (52,500) | (75,000) |
| Write-off amounts expended during the year | (227,548) | (263,307) |
| Closing net book amount | 13,006,054 | 11,967,710 |

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

At the Group's Gum Flat Project (carrying amount of $11,328k), magnetite resource definition drilling was undertaken along with compilation of a Mining Lease application for the Stage 1 mining proposal to mine the hematite-goethite cap above the magnetite resource. The Mining Lease application was completed in October 2011 but cannot be lodged with DMITRE until a groundwater extraction licence has been obtained. At the request of the Department for Water, the Company resubmitted its groundwater licence applications in February 2012.

In July 2012, the Company was advised that its application for a groundwater extraction licence for Gum Flat Stage 1 had been refused because the rate of extraction exceeded the Water Allocation Plan for that area. This was despite the Company's proposal to re-inject most of the water back into the aquifer system. Lincoln Minerals has appealed against the decision, is preparing an application for the maximum allowable allocation and considering all available avenues to obtain the licence.

Should the Group be unsuccessful in obtaining a groundwater licence then the carrying value of the Gum Flat tenement may not be recoverable.

## 10. INTANGIBLE ASSETS

| Computer software | 2012 | 2011 |
|---|---|---|
| Cost | $ | $ |
| Balance at beginning of the year | 53,525 | 15,870 |
| Additions | 19,840 | 37,655 |
| Balance at the end of the year | 73,365 | 53,525 |
| | | |
| Amortisation and impairment | | |
| Balance at beginning of the year | 29,625 | 12,954 |
| Amortisation for the year | 12,412 | 16,671 |
| Balance at the end of the year | 42,037 | 29,625 |
| Closing net book amount | 31,328 | 23,900 |

## 11. TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Trade payables | 90,350 | 211,546 |
| Accrued expenses | 45,767 | 12,397 |
| | 136,117 | 223,943 |

Trade payables are non-interest bearing and normally settled on 30 day terms. Trade payables and accrued expenses are stated at cost. No adjustment is required for fair value.

### 12. CONTRIBUTED EQUITY

| | 2012 | 2011 |
|---|---|---|
| (a) Share capital | $ | $ |
| Fully paid ordinary shares | 22,410,862 | 20,729,709 |

| Movements in share capital: | Number | $ |
|---|---|---|
| Fully paid ordinary shares | | |
| Balance at 1 July 2010 | 116,959,938 | 18,422,597 |
| Rights issue March 2011 | 16,404,034 | 2,460,606 |
| Less, share issue expenses | - | (153,494) |
| Balance at 30 June 2011 | 133,363,972 | 20,729,709 |
| | | |
| Share placement February 2012 | 20,000,000 | 1,800,000 |
| Less, share issue expenses | - | (118,847) |
| Balance at 30 June 2012 | 153,363,972 | 22,410,862 |

Holders of fully paid ordinary shares have the right, 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 shares held. Fully paid ordinary shares entitle their holders to vote, either in person or by proxy, at a meeting of the Company. On a poll each fully paid ordinary share is entitled to one vote.

On 28 February 2012, 20 million shares were issued to Poan Group Holdings Pty Ltd at 9 cents per share. The share placement has been voluntarily escrowed for a period of 12 months from this date.

(b) Options

No options were outstanding at 30 June 2012 and no options have been granted or exercised between the end of the year and the date of this report.

### 13. RESERVES

| | 2012 | 2011 |
|---|---|---|
| Share-based payments reserve | $ | $ |
| Balance at beginning of the year | 84,696 | 84,696 |
| Issue of performance rights during the year | 8,689 | - |
| Balance at the end of the year | 93,385 | 84,696 |

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

## 14. AUDITOR'S REMUNERATION

The Auditor of Lincoln Minerals Limited is KPMG Australia.

| | 2012<br>$ | 2011<br>$ |
|---|---|---|
| Audit or review of financial reports | 42,000 | 41,000 |
| Other services - taxation advice and related matters | 30,420 | 16,638 |
| Total remuneration | 72,420 | 57,638 |

## 15. COMMITMENTS AND CONTINGENCIES

Exploration licences

The Company's exploration licence tenements are renewable on an annual basis at various renewal dates throughout the year and the amount of each expenditure covenant is set by the Minister for Mineral Resources Development at the time of each renewal grant.

| | | |
|---|---|---|
| Expenditure required to maintain tenure of all of the exploration licences | | |
| Within one year | 790,000 | 685,000 |
| After one year but not more than five years | - | - |
| Longer than five years | - | - |
| | 790,000 | 685,000 |

Currently there are a number of tenements for which the Company has incurred exploration and evaluation expenditures but the Company does not hold the license rights for these tenements. The licenses are held by Centrex Metals Limited and its subsidiary South Australian Iron Ore Group Pty Ltd (SAIOG). There is a Heads of Agreement dated 8 July 2005, a Supplementary Agreement dated 21 March 2006 and a Coordination Agreement dated 19 April 2010 between the Company, Centrex Metals Limited and SAIOG whereby Lincoln is granted rights to all minerals and substances on the tenements other than iron ore. The Agreements also grant Centrex Metals the right to all iron ore found on one tenement held by the Company (EL 4539 – formerly EL 3498).

To the extent that expenditure commitments are not met, tenement areas may be reduced and other arrangements made in negotiation with the relevant state government department on renewal of tenements to defer expenditure commitments.

Rights to some of the graphite exploration targets are currently held in tenements operated by Centrex Metals Limited (ASX:CXM). Should Lincoln wish to transfer graphite rights to another entity held by Lincoln, Centrex cannot unreasonably withhold permission to transfer these rights.

Remuneration commitments

| | | |
|---|---|---|
| Commitments for the payment of salaries and other remuneration under long-term employment contracts at the reporting date but not recognised as liabilities, payable | | |
| Within one year | 118,455 | 236,912 |
| After one year but not more than five years | - | 118,455 |
| Longer than five years | - | - |
| | 118,455 | 355,367 |

Contingencies

As at 30 June 2012 and the date of this report there were no contingencies.

## 16. EVENTS SUBSEQUENT TO BALANCE DATE

On 28 September 2012 the Directors completed an Underwriting Agreement with Tigermoth Investments Limited to support a 1 for 8 rights issue to shareholders at a minimum price of 7 cents per share to raise up to $1,341,935 before costs of issue. The rights issue is underwritten to the value of $1,250,000. The Agreement is effective if the Company completes an Offer Document by 31 December 2012 (or such other date as may be agreed between the Company and the Underwriter). The Underwriters may withdraw from the Agreement if either of the S&P/ASX Midcap Resources Index (ASX:XMR) or the S&P/ASX Small Resources Index (ASX:XSR) falls for three consecutive days to levels 15% below those of 28 September 2012 respectively. The Directors are also continuing to pursue various project finance avenues for the Group's graphite projects, and if successful it is unlikely that the Underwriting Agreement will be required.

## 17. EARNINGS PER SHARE

| | 2012 | 2011 |
|---|---|---|
| Earnings / (loss) used to calculate basic and diluted earnings per share - $ | (1,301,246) | (1,203,039) |
| Basic earnings (loss) per share (cents) | (0.93) | (0.98) |
| Diluted earnings (loss) per share (cents) | (0.93) | (0.98) |
| Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share | 140,048,904 | 123,214,213 |
| Weighted potential ordinary shares | 142,951,471 | 127,969,281 |

The calculation of diluted earnings per share does not include weighted potential ordinary shares on issue as to do so would have the effect of reducing the amount of the loss per share.

## 18. FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise bank cash, short term deposits, trade receivables and trade payables. The main purpose of these financial instruments is to finance the Group's exploration operations. It is, and has been throughout the period under review, the Group's policy that trading in financial instruments shall not be undertaken. The main risk arising from the Group's financial instruments is cash flow interest rate risk. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2(v) to the financial statements.

Cash flow interest rate risk
The Group's exposure to the risk of changes in market interest rates relate to its earnings on cash funds held.

Commodity price risk
The Group has not commenced production as yet so in the reporting period there has been no commodity price risk.

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

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Cash and cash equivalents | 1,080,110 | 1,920,255 |
| Trade and other receivables | 624,046 | 425,269 |
| | 1,704,156 | 2,345,524 |

The Group recorded no impairment loss during the year (2011: $nil).

Liquidity risk
The Group has liquidity risk arising from trade and other payables. Trade payables are normally settled within 30 days and the contracted cash flows of trade and other payables equals their carrying amounts.

Fair values
The fair values and carrying amounts for all of the financial assets and liabilities of the group as at the 2012 and 2011 balance dates are the same.

Interest rate risk
At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

| | | |
|---|---|---|
| Carrying amounts | | |
| Fixed rate instruments | | |
| Cash and cash equivalents | 1,012,110 | 1,896,748 |
| | 1,012,110 | 1,896,748 |
| Variable rate instruments | | |
| Cash and cash equivalents | 67,999 | 23,507 |
| | 67,999 | 23,507 |

Cash flow sensitivity analysis for variable rate instruments.

A change of 100 basis points in interest rates at the reporting date would have affected the loss for the year by $14,544 (2011: $26,023). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. At present, all of the Group's capital is equity funded, and there are no intentions to incur debt financing in the near future. No dividends have been paid since the Company's inception and there are no intentions to pay dividends until at least such time as the Group has commenced revenue-generating activities.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to any externally imposed capital requirements.

## 19. SHARE-BASED PAYMENTS

On 30 November 2011, shareholders approved the issue of 1,086,750 unlisted performance rights to the Managing Director as remuneration. The value of the rights was $8,689 ($2011: Nil). The rights lapsed at 30 June 2012 as the performance hurdle was not met.

Summary of share-based payments options.

| | 20 cent options 31/12/2011 | 25 cent options 31/12/2011 | 30 cent options 31/12/2011 |
|---|---|---|---|
| Number outstanding at beginning of the year | 4,350,000 | 100,000 | 110,000 |
| Lapsed during the year | (4,350,000) | (100,000) | (110,000) |
| Number outstanding at the end of the year | - | - | - |

No options were granted (either vested by year end or not vested by year end) during the year and none were exercised during the year.

Weighted average exercise price of share-based payments options:

| | |
|---|---|
| Outstanding at the beginning of the year | 20.34 cents each |
| Lapsed during the year | 20.34 cents each |
| Exercised during the year | - |
| Granted during the year | - |
| Outstanding at the end of the year | - |

## 20. KEY MANAGEMENT PERSONNEL DISCLOSURES AND RELATED PARTY TRANSACTIONS

Key Management Personnel of the Company comprise:

**Directors**

| | |
|---|---|
| RV Ryan | Chairman |
| AJ Parker | Managing Director |
| PE Cox[1] | Director |
| RA Althoff | Director |
| EH Lim | Director |
| SW Chan[2] | Director |

**Executives**

| | |
|---|---|
| JK Kopias | Chief Financial Officer and Company Secretary[3] |
| DA Povey | Senior Geologist |

[1] PE Cox retired as Director and Company Secretary on 30 November 2011.
[2] SW Chan commenced as Director on 28 February 2012.
[3] JK Kopias commenced as Company Secretary on 30 November 2011.

Compensation options

No shares were issued on exercise of compensation options during 2012 or 2011.

Compensation of Key Management Personnel by category:

| | 2012 | 2011 |
|---|---|---|
| | $ | $ |
| Short term | 494,943 | 616,552 |
| Post employment | 122,691 | 142,110 |
| Share based | 8,689 | - |
| Total | 626,323 | 758,662 |

Option holdings of Key Management Personnel - 2012

| | Balance at the beginning of the year | Granted as remuneration | Exercised | Lapsed | Balance at the end of the year or date ceased to be KMP |
|---|---|---|---|---|---|
| Directors | | | | | |
| RV Ryan | 800,000 | - | - | 800,000 | - |
| AJ Parker | 1,800,000 | - | - | 1,800,000 | - |
| PE Cox | 1,000,000 | - | - | 1,000,000 | - |
| RA Althoff | 750,000 | - | - | 750,000 | - |
| Executives | | | | | |
| DA Povey | 100,000 | - | - | 100,000 | - |
| JK Kopias | - | - | - | - | - |

Option holdings of Key Management Personnel - 2011

| | Balance at the beginning of the year | Granted as remuneration | Exercised | Lapsed | Balance at the end of the year or date ceased to be KMP |
|---|---|---|---|---|---|
| Directors | | | | | |
| RV Ryan | 800,000 | - | - | - | 800,000 |
| AJ Parker | 1,800,000 | - | - | - | 1,800,000 |
| PE Cox | 1,000,000 | - | - | - | 1,000,000 |
| RA Althoff | 750,000 | - | - | - | 750,000 |
| Executives | | | | | |
| DA Povey | 100,000 | - | - | - | 100,000 |
| JK Kopias | - | - | - | - | - |
| PC Lyons | 100,000 | - | - | 100,000 | - |

Shareholdings of Key Management Personnel - 2012

| | Balance at the beginning of the year | Changes during the year | Balance at the end of the year |
|---|---|---|---|
| Directors | | | |
| RV Ryan | 400,000 | - | 400,000 |
| AJ Parker | 360,000 | - | 360,000 |
| PE Cox | 160,000 | (160,000)[1] | - |
| RA Althoff | 870,000 | - | 870,000 |
| EH Lim | 8,502,000 | - | 8,502,000 |
| SW Chan | - | - | - |

Executives - Nil

Shareholdings of Key Management Personnel - 2011

| | Balance at the beginning of the year | Changes during the year | Balance at the end of the year |
|---|---|---|---|
| Directors | | | |
| RV Ryan | 350,000 | 50,000 | 400,000 |
| AJ Parker | 300,000 | 60,000 | 360,000 |
| PE Cox | 133,334 | 26,666 | 160,000 |
| RA Althoff | 760,000 | 110,000 | 870,000 |
| EH Lim[2] | 7,437,775 | 1,064,225 | 8,502,000 |

Executives - Nil

[1] PE Cox retired as Director and Company Secretary on 30 November 2011
[2] As at 5 October 2010, the date of appointment as Director

No shares were issued in either 2012 or 2011 as compensation.

Performance Rights holdings of Key Management Personnel - 2012

| | Balance at the beginning of the year | Granted as remuneration | Exercised | Lapsed | Balance at the end of the year or date ceased to be KMP |
|---|---|---|---|---|---|
| Directors | | | | | |
| AJ Parker | - | 1,086,750 | - | 1,086,750 | - |

There were no performance rights granted prior to the year ended 30 June 2012.

Loans to Key Management Personnel

Nil

Other transactions with Key Management Personnel

Geosurveys Australia Pty Ltd is an entity associated with Dr AJ Parker. During the year Geosurveys Australia Pty Ltd provided vehicle hire to the Company totalling $14,374 (2011: $10,727) at equal to or less than commercial rates.

There were no bonuses or rights to bonuses earned or paid in either 2011 or 2012.

Individual Directors and Executives disclosures

Information regarding individual Directors and Executives compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the Remuneration Report in the Directors' Report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company since the end of the previous year and there were no material contracts involving Directors' interests in existence at year end or as at the date of this report.

### 21. JOINT VENTURE - INDONESIA

During the course of exploration in Indonesia the Group entered into heads of agreements with other parties for various small projects, but these projects are at stages where no assets can be recognised in the financial statements. Expenditure incurred on these projects has been expensed. The Group's financial commitment in regard to these agreements is not material at this stage. The Group ceased exploration in Indonesia during the year to focus its efforts on Eyre Peninsula based exploration.

### 22. SEGMENT INFORMATION

During the year the Group operated in the mineral exploration industry in Australia and Indonesia.

Contributions by geographical segment based upon the location of exploration licence tenements are:

| | Australia | | Indonesia | | Total | |
|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| | $ | $ | $ | $ | $ | $ |
| Income | | | | | | |
| Financial Income | 61,315 | 113,654 | - | - | 61,315 | 113,654 |
| Expenses | | | | | | |
| Exploration and evaluation written off | (501,950) | (200,259) | (81,138) | (138,968) | (583,088) | (339,227) |
| Depreciation | (4,970) | (5,414) | - | - | (4,970) | (5,414) |
| Amortisation | (31,328) | (16,671) | - | - | (31,328) | (16,671) |
| Other expenses | (1,144,148) | (1,145,284) | - | - | (1,063,010) | (1,145,284) |
| Loss before income tax | (1,621,081) | (1,253,974) | (81,138) | (138,968) | (1,621,081) | (1,392,942) |
| Income tax benefit | 319,835 | 189,903 | - | - | 319,835 | 189,903 |
| Net loss for the year | (1,301,246) | (1,064,071) | (81,138) | (138,968) | (1,301,246) | (1,203,039) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Assets | | | | | | |
| Exploration and evaluation | 13,006,054 | 11,967,710 | - | - | 13,006,054 | 11,967,710 |
| All other assets | 2,419,886 | 3,035,332 | - | 54,071 | 2,419,886 | 3,089,403 |
| Total assets | 15,425,940 | 15,003,042 | - | 54,071 | 15,425,940 | 15,057,113 |
| Total liabilities | (251,182) | (270,951) | - | - | (251,182) | (270,951) |
| Net assets | 15,174,758 | 14,732,091 | - | 54,071 | 15,174,758 | 14,786,162 |

## 23. PARENT ENTITY DISCLOSURE

As at and throughout the financial year ending 30 June 2012 the parent company was Lincoln Minerals Limited.

| | | 2012 | 2011 |
|---|---|---|---|
| | | $ | $ |
| Result of the parent entity | | | |
| Loss for the period | | (1,301,752) | (1,203,039) |
| Other comprehensive income | | 506 | - |
| Total loss for the period | | (1,301,246) | (1,203,039) |
| Financial position of parent entity at year end | | | |
| Current assets | | 1,704,156 | 2,345,524 |
| Non-current assets | | 13,721,784 | 12,711,589 |
| Total assets | | 15,425,940 | 15,057,113 |
| Current liabilities | | 210,691 | 270,951 |
| Non-current liabilities | | 40,491 | - |
| Total liabilities | | 251,182 | 270,951 |
| Total equity of the parent entity comprising of: | | | |
| Contributed equity | 12 | 22,410,862 | 20,729,709 |
| Reserves | 13 | 93,385 | 84,696 |
| Accumulated (Losses) | | (7,329,489) | (6,028,243) |
| Total equity | | 15,174,758 | 14,786,162 |

Parent entity contingencies

At 30 June 2012 there were no contingencies.

Parent entity commitments

Parent entity commitments are the same as those for the Group which are disclosed in note 15.

# DIRECTORS' DECLARATION

1. In the opinion of the Directors of Lincoln Minerals Limited (the Company):

   (a) The consolidated financial statements and notes, and the remuneration report in the Directors' Report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

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

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

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2012.

3. The Directors draw attention to note 2(a) to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards

Signed in accordance with a resolution of the Directors

Richard Ryan

RV RYAN
Director

Dated this 28th day of September 2012
Adelaide, South Australia

## Independent auditor's report to the members of Lincoln Minerals Limited

We have audited the accompanying financial report of Lincoln Minerals Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 23 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements of the Group 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

## Emphasis of matter

Without qualification to the conclusion expressed above, we draw attention to the following matters:

**a) Going Concern**

For the year ended 30 June 2012 the Group incurred a loss of $1.3m and had operating and investing cash outflows of $2.5m.

As a result of the uncertainties set out in note 2(a) to the financial statements, including the consolidated entity's ability to raise capital, there is a material uncertainty which may cast doubt on the consolidated entity's ability to continue as a going concern and therefore its ability to realise assets and discharge liabilities in the normal course of business at the amounts recognised in the financial statements.

**b) Recoverable value of exploration and evaluation assets – Gum Flat**

The exploration and evaluation assets of $13.0m represented in Note 9 in the financial statements includes $11.3m in relation to the Gum Flat tenement.

As set out in note 9, the ground water extraction license application for Gum Flat Stage 1 was refused in July 2012. The Group is presently pursuing other avenues to obtain a ground water license.

Should the Group be unsuccessful in obtaining a ground water license then the carrying value of the Gum Flat tenement may not be recoverable.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with 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 auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of Lincoln Minerals Limited for the year ended 30 June 2012, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

Derek Meates
*Partner*

Adelaide

28 September 2012