



a subsidiary of xstrata

# **SPHERE MINERALS LIMITED**

ABN 66 009 134 847

## **AND CONTROLLED ENTITIES**

### **ANNUAL REPORT FOR THE 12 MONTH**

### **PERIOD ENDED 31 DECEMBER 2012**

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**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES  
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**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES  
CORPORATE DIRECTORY**

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**DIRECTORS**

Peter Freyberg	Non-Executive Chairman
Mark Eames	Executive Director
Damian Hogue	Executive Director
Earl Melamed	Non-Executive Director
Anthony Clark AM	Non-Executive Independent Director
Jon Parker	Non-executive Independent Director

**COMPANY SECRETARIES**

Nicholas Talintyre  
Anthony Durbin

**REGISTERED AND  
PRINCIPAL OFFICE**

Level 38, Gateway  
1 Macquarie Place  
Sydney NSW 2000

Telephone: + 61 2 9253 6700  
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**SOLICITORS**

Ashurst  
Level 36, Grosvenor Place  
225 George Street  
SYDNEY NSW 2000

**AUDITORS**

Ernst & Young  
680 George Street  
Sydney NSW 2000

**SHARE REGISTRY**

Computershare Investor Services Pty Ltd  
Level 2, 45 St Georges Terrace  
PERTH WA 6000

Telephone: + 61 8 9323 2000  
Facsimile: + 61 8 9323 2033

**STOCK EXCHANGE LISTING**

The Company's securities are quoted on the official list of the Australian Securities Exchange (ASX).

The home branch is Perth.

**ASX CODE:**

SPH

## **SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES CHAIRMAN'S REPORT AND REVIEW OF OPERATIONS**

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The 12 month period ended 31 December 2012 was a challenging but successful year for the Company. The sector experienced turbulent conditions as the iron ore prices significantly fluctuated however it was pleasing to see prices recover in the later part of 2012.

During the period Sphere Mauritania SA was granted an exploitation permit for the Askaf project setting the path to progress the Askaf North project towards the execution stage. A significant drilling program for the El Aouj project was undertaken as the project commenced a pre-feasibility study.

### **Askaf Project (Sphere 90%; Mauritania State 10%)**

The Feasibility Study for a sinter fines blend (SFB) magnetite concentrate operation is being finalised. Negotiations are in progress with SNIM on the Rail and Port Agreement to transport the product from the mine site and load it onto ships at the Port of Nouadhibou.

A Mineral Resource Update Statement was announced to the market 31 January 2013 for the Askaf North magnetite deposit, Mauritania following completion of resource modelling and estimation.

The current drilling program at the Askaf Centre, East and Western deposits has been completed and samples are in the process of being analysed.

Project sustainable development activity continues to progress well. Baseline studies have been completed for noise, surface water, visual impact, flora and fauna, soils and geology, and land use. Environment and social impact assessment of the project is currently being completed.

Pursuant to the Mauritanian Mining Code 2008, as modified by article 38(§2) of law No 2009/26 passed on 7 April 2009, an exploitation permit can only be granted to a Mauritanian legal entity in which the Mauritanian State holds a 10% free carry stake. Following Sphere Mauritania SA having been granted an exploitation permit for the Askaf project it has transferred 10% of the share capital of the company to the Islamic Republic of Mauritania for no consideration.

### **Guelb el Aouj (Sphere 50%; SNIM 50%)**

The Guelb el Aouj resource remains Sphere's most significant project in which it owns 50% through the El Aouj Mining Company (EMC) together with Société Nationale Industrielle et Minière (SNIM).

The engineering contract for the Pre-Feasibility Study (PFS) for the project was awarded during the last quarter of 2012. The PFS is based on producing approximately 15 million tonnes per annum of sinter feed concentrate from principally the el Aouj East deposit. This is the first stage of an overall project for the production of approximately 30 million tonnes per annum from the el Aouj exploitation permit area.

EMC has established a team to manage the work, including secondees from both Xstrata and Société Nationale Industrielle et Minière (SNIM).

Sphere Minerals Limited (Sphere) is managing the drilling on behalf of the two partners under a contract with the El Aouj Mining Company (EMC).

### **El Aouj East**

Drilling progressed well and to date a total of 58,997 metres (35,481m of RC and 23,516 of DC) of the planned 87,000m has been drilled. The drilling program commenced in June 2012 and aims to:

- Further define the existing resource; and
- Extend the existing resource by drilling down-dip.

A bulk sample of approximately 19t for pilot plant test work was collected and delivered to SGA (Studiengesellschaft für Eisenerzaufbereitung) in Germany.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES  
CHAIRMAN'S REPORT AND REVIEW OF OPERATIONS**

**Panoramic view of the Guelb el Aouj East deposit – View towards the north**

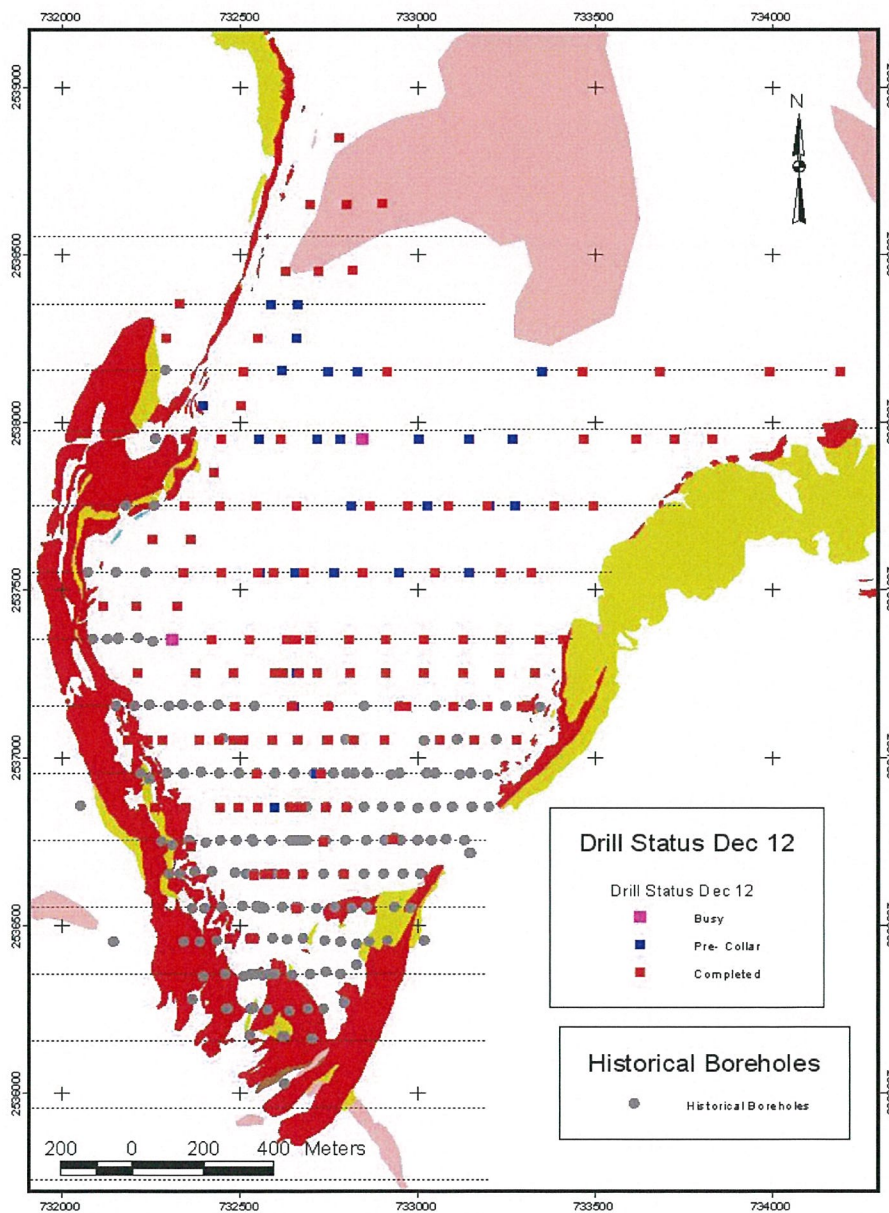


Figure 1: Recent and historic drilling at el Aouj East, which is the initial focus of PFS studies

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES  
CHAIRMAN'S REPORT AND REVIEW OF OPERATIONS**

**Bou Derga deposit – View towards the east**

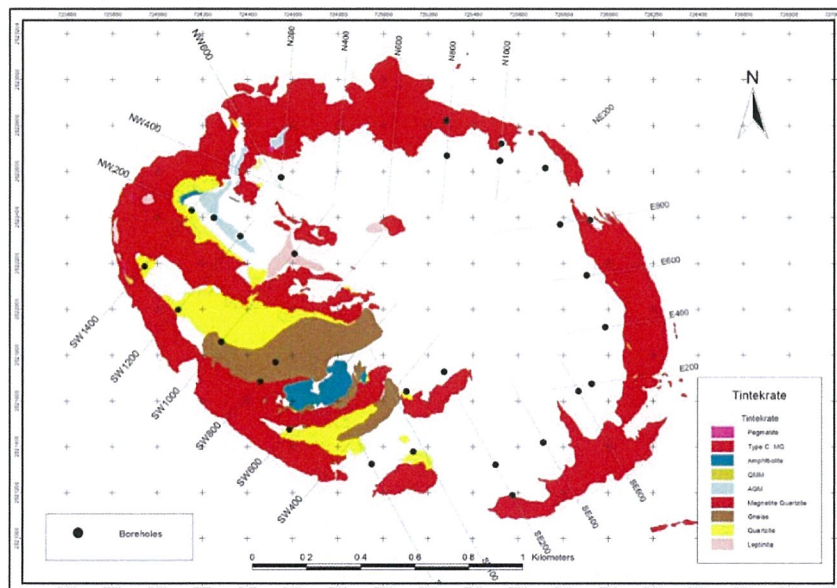


A maiden Mineral Resource Statement was announced to the market on 23 April 2012 for the Bou Dergamagnetite-quartzite deposit in Mauritania.

The Mineral Resource is based on the results of an exploration drilling program of 17,427m (66 holes) that was completed in December 2011 and comprises:

- An Inferred Mineral Resource of 510Mt of fresh magnetite-quartzite mineralisation at a head grade of 36% Fe and a Davis Tube (DTC) concentrate grade (DTC Fe) of 69.7% Fe at 43% mass recovery (DTC wt%). A cut-off grade of 20% DTC wt% was used for the fresh mineralisation. Davis Tube testwork was performed on drill samples pulverised to 95% passing 80µm.
- An Inferred Mineral Resource of 130Mt of oxidised magnetite-quartzite mineralisation at a head grade of 35% Fe. A cut-off grade of 20% head Fe was used for the oxidised mineralisation.

**Figure 2 Tintekrate deposit showing geology and location of boreholes.**



## **SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES CHAIRMAN'S REPORT AND REVIEW OF OPERATIONS**

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To date, 21,752m of a planned 21,932m have been drilled (15,073m of RC and 6,678m of DC) in the current phase of exploration at the Tintekrate deposit. The outstanding drilling will be completed once the drilling program at the el Aouj East deposit has been completed.

**Tintekrate deposit – View towards the east**



### **Lebtheinia Project (Sphere 100%)**

Concept work continued in 2012 on various options for the development of the large Lebtheinia resource located 145km from the Port of Nouadhibou.

The Company has reached a number of key milestones during the period as it progresses its projects into the next stage of development. Sphere has a significant resource base in its portfolio of projects in Mauritania and continues to look for the most optimal way of obtaining value for our shareholders and stakeholders.

The Company is looking forward to a challenging and successful 2013, in particular with addressing its Askaf project.



Peter Freyberg  
Non-Executive Chairman

# **SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**

## **CORPORATE GOVERNANCE**

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### **Corporate Governance**

The directors of Sphere Minerals Limited (“the Company”) consider that high standards of corporate governance are critical to business integrity and performance.

The board ensures that the Company meets the objectives of all its shareholders, while paying proper regard to the interests of employees and external stakeholders. The corporate governance structures and practices in place at the Company are substantially in compliance with the 2<sup>nd</sup> edition of the Corporate Governance Principles and Recommendations (the Principles) developed by the Australian Securities Exchange (ASX) Corporate Governance Council (the Council).

The board has considered the Council’s Principles and the Company does not comply with the following recommendations:

- Recommendations 1.2 and 1.3 – the Company does not have a process and did not conduct an evaluation of senior executives;
- Recommendation 2.1 and 2.2 – a majority of the board are not independent directors, nor does the Company have an independent chairman;
- Recommendation 2.4 – the board has not established a separate nomination committee;
- Recommendation 2.5 – the Company does not have a formal process for evaluating the performance of the board, its committees and individual directors;
- Recommendation 8.1 and 8.2 – the board has not established a separate Remuneration committee.

Xstrata plc, through a wholly owned subsidiary owns 88.16% of the Company and provides to the Company management and support services including senior management to enable the Company to conduct its business.

Areas where corporate governance practices do not follow the Council's Principles arise as a result of this.

As explained further below, the board considers that, in each case, this is appropriate.

As a subsidiary of Xstrata plc the Company has adopted Xstrata plc’s corporate governance and sustainability policies. Further details of these policies are available at [www.Xstrata.com](http://www.Xstrata.com)

### **Principle 1 – Lay solid foundations for management and oversight**

The Company has formalised and disclosed the roles and responsibilities of the Board and those delegated to senior management in its Board Charter<sup>(1)</sup>.

The responsibilities of the Board include determining and monitoring the objectives and strategic direction of the Company, monitoring the performance of the Company and its senior executives, approving business plans and budgets, and developing and ensuring adherence to company policies. The Board is also responsible for compliance with the codes of conduct, overseeing risk management and internal controls, and the assessment, appointment and removal of the Chief Executive Officer, Chief Financial Officer, Company Secretary and other senior executives.

The senior management are responsible for the efficient and effective operation of the Company in accordance with the objectives, strategies and policies determined by the Board.

The Board charter is available, however, because of the small number of shareholders and the associated costs, the directors decided to close down the Company’s website.

### **Principle 2 – Structure the board to add value**

The Board of the Company currently consists of two executives and four non-executive directors. Details of the Company directors, their qualifications and experience and their period of office are included in the Directors’ Report.

In considering the independence of directors, the Board considers issues of materiality and relies on those thresholds for qualitative and quantitative materiality as contained in the Board Charter. Under these criteria, Mr Parker and Mr Clark are the only non-executive independent directors of the Company.

While the Company’s Board composition does not follow the ASX recommendations, the Board considers that given the Company’s ownership structure, current size and stage of exploration and development, its current Board structure is appropriate and provides the necessary diversity of skills and experience.



## **SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**

### **CORPORATE GOVERNANCE**

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The Chair of the Board is Mr Freyberg. Mr Freyberg is not considered independent as he is the Chief Executive Officer of Xstrata Coal Pty Limited, which is a related body corporate of the Company.

Mr Freyberg's experience within the industry and his commitment to success was considered to be in the best interest of the Company. The Company has appropriate guidelines and checks in place to ensure that the Board makes decisions in the best interests of shareholders.

Subject to the Chairman's approval, which is not to be unreasonably withheld, directors have the right, at the Company's expense, to obtain independent professional advice on issues arising in the course of their duties.

The Company has a policy defining the procedure for the selection and appointment of new directors. Candidates for the Board are considered and selected by reference to a number of factors which include, but are not limited to, their relevant experience and achievements, compatibility with other Board members, credibility within the Company's scope of activities, and intellectual and physical ability to undertake Board duties and responsibilities. Directors are initially appointed by the full Board, subject to election by shareholders at the next general meeting.

#### **Principle 3 – Promote ethical and responsible decision making**

The Board is responsible for developing the culture of the organisation, including the performance focus and the legal, ethical and moral conduct, to preserve and enhance Sphere's reputation in the mining industry, business generally and the broader community.

Sphere has adopted Xstrata plc's Code of Conduct which requires that all employees are aware of, and comply with, legislation and policies applicable to their position. The Code also requires employees to avoid or ensure proper management of conflicts of interest, to not use confidential information for personal gain, and to generally operate in a fair, honest and open manner. In accordance with the Council's recommendation, Sphere has established a securities' trading policy, identifying the circumstances in which share trading in the Company's securities by directors, senior managers and other employees is permitted, and specifying procedures to reduce the risk of insider trading.

The Company's policy is to make reasonable endeavours to ensure that it gives proper consideration to the impact on the environment of its activities, and that the Company observes its obligations in respect of environmental practices, and the health, safety and general wellbeing of its employees.

The Company has adopted Xstrata's diversity policy which believes a diverse workforce enables more effective operation in a variety of contexts. Whether it is business planning, technical design or safety management, the decision-making process is often enhanced by a wide range of different perspectives, coming from people with a variety of backgrounds. There is a strong commitment to hiring local managers and employing local expertise in Mauritania, which benefits both the business and the community.

The Company currently has 3% female employees in the whole organisation. There are no women currently in senior positions.

Xstrata's Code of Conduct and Diversity policy is available at the website [www.Xstrata.com](http://www.Xstrata.com).

#### **Principle 4 – Safeguard integrity in financial reporting**

The Company has established an Audit Committee and adopted an Audit Committee Charter<sup>(1)</sup>.

The members of the Audit Committee are Mr Clark (chair, independent), Mr Parker (independent) and Mr Melamed (non executive, non independent). Details of each of the Audit Committee member's qualifications as well as details of the Audit Committee meetings and attendances are contained in the Directors' Report. All three members of the Audit Committee consider themselves to be financially literate and have industry knowledge.

During the 12 month period, the Audit Committee convened three times to consider all matters under the Audit Committee Charter.

The Audit Committee charter is available, however, because of the small number of shareholders and the associated costs, the directors decided to close down the Company's website.

The Board has adopted a policy and procedure for selection of external auditor and rotation of audit engagement partners. The key criteria are:

# SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES

## CORPORATE GOVERNANCE

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### *Mandatory criteria*

Candidates for the position of external auditor of the Company must be able to demonstrate complete independence from the Company and an ability to maintain independence through the engagement period. Further the successful candidate must have arrangements in place for the rotation of the audit engagement partner on a regular basis.

### *Other criteria*

Other than the mandatory criteria mentioned above, the Board may select an external auditor based on criteria relevant to the business of the Company such as experience in the industry in which the Company operates, references, cost and any other matters deemed relevant by the Board.

The Board reviews the performance of the external auditor on an annual basis.

### **Principle 5 – Make timely and balanced disclosure**

In order to ensure that the Company meets its obligations with regard to the continuous disclosure requirements, Sphere has adopted a Continuous Disclosure Policy. The policy sets out the Company's obligations and its policies and procedures to ensure timely and accurate disclosure of price sensitive information to the market.

The Company also has policies in place to ensure integrity in financial reporting. The Chief Executive Officer and Chief Financial Officer provide the Board with a written statement that Sphere's half year and annual financial statements present a true and fair view in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

### **Principle 6 – Respect the rights of shareholders**

Sphere endeavours to provide shareholders with important information on the Company in a timely and efficient manner.

Shareholders are informed of the activities of the Company through its Quarterly Report, Annual Report, and other market disclosures made in the spirit of ASX listing rule 3.1. Shareholders are also actively encouraged to attend Sphere's Annual General Meeting. The Company's auditor is required to attend its Annual General Meeting.

All Information is available, however, because of the small number of shareholders and the associated costs, the directors decided to close down the Company's website.

### **Principle 7 – Recognise and manage risk**

The Board has established a Risk Management Policy designed to ensure that material business risks are identified, assessed, addressed and monitored to assist the Company to achieve its business objectives.

Material business risks are reviewed at least annually as part of the annual strategic planning, forecasting and budgeting process, and are subject to review on an ongoing basis. Aside from the overriding risks relating to world economic growth, material business risks have been identified as commodity price, equity and financial market shocks, treasury management, political instability/sovereign risk in Mauritania, and general operational risks in exploration and development of mining projects.

The Company has implemented a formal system for managing material business risks. This system includes a risk register that identifies rates, prioritises and delegates the Company's material business risks supported by ongoing review by the nominated manager for each identified material business risk. In addition, detailed internal control questionnaires were completed by the finance department on a six monthly basis.

The categories of risk specifically reported on in the Annual Report are credit risk, liquidity risk, market risk, currency risk and interest rate risk.

The Board has required management to design, implement and maintain risk management and internal control systems to manage the Company's material business risks. The Board also requires management to report to it confirming that those risks are being managed effectively.

The directors of the company have been given the declarations from the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001* and have received assurances that these declarations are

## **SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES CORPORATE GOVERNANCE**

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founded on sound systems of risk management and internal control and that these systems are operating effectively in relation to all material financial risks.

### **Principle 8 – Remunerate fairly and responsibly**

Remuneration details are disclosed, as required, separately in the Directors' Report. There are no schemes for retirement benefits other than superannuation in existence.

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<sup>(1)</sup> A copy of the Board and Audit Committee charter can be obtained by contacting the Sphere Company Secretaries.

# **SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**

## **DIRECTORS' REPORT**

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The directors present their report together with the consolidated accounts of the entity, being the Company and its controlled entities, for the 12 month period ended 31 December 2012 and the independent audit report thereon.

### **DIRECTORS**

The following persons were directors of Sphere Minerals Limited during the 12 month period up to the date of this report:

Peter Freyberg	Non-Executive Chairman
Mark Eames	Executive Director
Damian Hogue	Executive Director
Earl Melamed	Non-Executive Director
Anthony Clark AM	Non-Executive Independent Director
Jon Parker	Non-executive Independent Director (appointed 12 April 2012)
Robert (Bob) Cornelius	Non-executive Independent Director (resigned 30 April 2012)

### **PRINCIPAL ACTIVITIES**

Sphere Minerals Limited is an iron ore company, with a focus in West Africa. The Company has secured three large scale iron ore projects in Mauritania.

#### **Guelb el Aouj (50%)**

The Company's flagship project is the the Guelb el Aouj Iron Ore (magnetite) Project in Mauritania, West Africa. Sphere is developing the Guelb el Aouj Iron Ore Project in partnership with Société Nationale Industrielle et Minière (SNIM), Mauritania's state-owned iron ore producer.

#### **Lebtheinia (100%)**

Sphere has an exploration licence for EL264 which covers the Lebtheinia magnetite-quartzite deposits. The deposit is strategically located 145 km from the iron ore port of Nouadhibou.

#### **Askaf (90%)**

The Askaf Project covers the exploration licence EL172, located 35km south of the Guelb el Aouj Project Area and adjacent to SNIM's iron ore railway. The 194km<sup>2</sup> Askaf exploration licence includes six magnetite-quartzite deposits.

The exploitation licence for the Askaf North Project was approved at the Mauritania Council of Ministers on July 12, 2012.

### **REVIEW OF OPERATIONS**

#### **Operating Results**

The consolidated net profit from continuing operations after income tax for the 12 month period ended 31 December 2012 was \$2,620,000 (18 months to 31 December 2011: \$10,074,000 loss). The 2012 profit reflects interest income earned, whilst the 2011 loss reflects the salary and administration costs associated with the old Sphere Perth Corporate office as well as other costs associated with the Xstrata takeover and rights issue. Nearly all other costs currently incurred are associated with the development of Sphere's projects and as such are capitalised.

A review of the Company's operations is contained in the Chairman's report which has been included in the front section of this report.

#### **Dividends**

No dividends were declared or paid at the time of this report.

#### **Environmental Regulation**

The Company is not currently subject to significant environmental regulation in respect of its activities.

#### **Significant changes in affairs**

No significant changes in affairs.

# **SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**

## **DIRECTORS' REPORT**

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### **DIRECTORS' AND OFFICERS' QUALIFICATIONS AND EXPERIENCE**

#### **Peter Freyberg – Non-Executive Chairman (age 54)**

Qualifications: BSc (Mining Engineering)

Experience: Mr Freyberg is an executive committee member of Xstrata plc and is the Chief Executive Office of Xstrata Coal Pty Limited. Mr Freyberg has over 30 years experience in the international mining industry. His mining career began in 1978 with Anglo American Corporation in South Africa where he completed his degree in mining engineering. Mr Freyberg embarked on his international career in 1991, working with Kaltim Prima Coal in Indonesia, followed by Hamersley Iron Ore in Perth, Copelmi Mineracao in Brazil and Carbones del Cerrejon in Colombia. He joined Xstrata Coal in South Africa in 2002.

Mr Freyberg is also a Board member of the Minerals Council of Australia, Director of the Australian Coal Association and a Director of the World Coal Institute.

#### **Mark Eames – Director / Chief Executive Officer (age 51)**

Qualifications: MA (Cantab, Metallurgy), MBA

Experience: Mr Eames is currently Chief Operating Officer of Xstrata Iron Ore and has over 25 years experience in the international mining industry. Mr Eames commenced his career with Rio Tinto, following a degree in Metallurgy in the United Kingdom. Mr Eames has worked in the United Kingdom, Australia and Indonesia. He has previously held senior roles at Hamersley Iron, WMC Resources and Coal and Allied. Mr Eames joined Xstrata Coal Pty Limited in 2004 where he held the position of Chief Marketing Officer prior to accepting the role at Xstrata Iron Ore.

#### **Damian Hogue – Director / Chief Financial Officer (age 49)**

Qualifications: BCom, CA

Experience: Mr Hogue is a Chartered Accountant and has over 20 years experience in the mining industry, working in Australia, Indonesia and Argentina. Mr Hogue is currently the General Manager of Finance for Xstrata Iron Ore, and was previously General Manager of Marketing Finance for Xstrata Coal Pty Limited. Mr Hogue started his career with Rio Tinto.

#### **Earl Melamed – Non-Executive Director (age 53)**

Qualifications: BCom, BAcc, CA

Experience: Mr Melamed is a Chartered Accountant and has over 30 years of experience with general management and financial roles in the information technology, manufacturing, construction and mining industries. He is the Chief Financial Officer and Director of Xstrata Coal Pty Limited and its subsidiaries.

#### **Anthony Clark AM – Non-Executive Independent Director (age 73)**

Qualifications: AM, FCA, FAICD

Experience: Mr Clark is a Chartered Accountant and was formerly Managing Partner of KPMG NSW from 1992 – 1998. Mr Clark has 40 plus years accounting, audit, consulting and finance related experienced. In 1995, Mr Clark was awarded membership of the Order of Australia for services to Business, Commerce and Community. Mr Clark is currently a director of the following listed companies: Amalgamated Holdings (appointed 1998), Carlton Investments (appointed 2000) and Ramsay Health Care (appointed 1998).

#### **Jon Parker – Non-Executive Independent Director (age 64)**

Qualifications: Physical Chemistry (Hons), Grad Dip Bus Admin.

Experience: Mr Parker is an Industrial Chemist with more than 40 years' experience in the resource and energy sector including 26 years with Rio Tinto in iron ore, energy, kaolin and aluminium sectors. He was formerly CEO of Felix Resources in the coal sector and with its predecessor, Aulron Energy, in coal, iron ore and direct iron smelting; as well as CEO of Norton Gold Fields Limited involving in acquiring, developing and operating gold mines.

# SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

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### Nicholas Talintyre – Company Secretary (age 40)

Qualifications: BCom LLB, CA

Experience: Mr Talintyre is a Chartered Accountant with 18 years of experience in finance roles, including 9 years of experience in the mining industry. Mr Talintyre is currently Executive General Manager of Finance at Xstrata Coal Pty Limited. Mr Talintyre has been admitted as a legal practitioner in the Supreme Court of NSW and has completed a General Management Program at Harvard Business School in 2008.

### Anthony Durbin – Company Secretary (age 68)

Qualifications: Accounting Certificate

Experience: Mr Durbin has over 45 years experience in senior positions within the construction and mining industry, working for Ulan Coal, Lemington Coal and Exxon Coal before joining Xstrata in 2001.

Mr Durbin was previously served as company secretaries on various ASX listed companies.

### DIRECTORS' INTERESTS

As at the date of this report, no director had a direct or indirect interest in the Company via ordinary shares or unlisted options.

### DIRECTORS' MEETINGS

The number of meetings of the Company's Board of Directors and Audit Committee held during the year and the number of meetings attended by each director was:

	Number of Meetings Attended	Entitled to Attend
Peter Freyberg	4	4
Earl Melamed (a)	7	7
Mark Eames	4	4
Damian Hogue	4	4
Anthony Clark (a)	7	7
Jon Parker (a)	5	5
Robert (Bob) Cornelius	2	2

(a) Messrs Clark, Parker and Melamed are all members of the Audit Committees. Mr Clark is Chairman for the Audit Committee. During the financial period there were 3 meetings of the Audit Committee where Messrs Clark and Melamed attended 3 meetings and Mr Parker attended the 2 meetings subsequent to his appointment.

### REMUNERATION REPORT (Audited)

This remuneration report outlines the arrangements in place for directors and key management personnel (KMP) of the Company, in connection with the management of the affairs of the entity and its subsidiaries, during the 12 months ended 31 December 2012.

Directors and key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives. Key management personnel comprise the directors of the Company and executives of the Company and the consolidated entity.

# SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

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Details of directors and KMPs are set out below:

### Directors

Peter Freyberg	Non-Executive Chairman (appointed 16 November 2010)
Mark Eames	Executive Director (appointed 16 November 2010)
Damian Hogue	Executive Director (appointed 16 November 2010)
Earl Melamed	Non-Executive Director (appointed 16 November 2010)
Anthony Clark AM	Non-Executive Independent Director (appointed 16 November 2010)
Jon Parker	Non-executive Independent Director (appointed 12 April 2012)
Robert (Bob) Cornelius	Non-executive Independent Director (resigned 30 April 2012)

### Executives

Nicholas Talintyre	Company Secretary
Anthony Durbin	Company Secretary

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

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

It is the Company's objective to provide maximum stakeholder benefit from the retention of higher quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions.

The Company's remuneration policy is to establish competitive remuneration (including performance incentives) consistent with long term development and success, to ensure remuneration is fair and reasonable (taking into account all relevant factors, and within appropriate controls or limits), that performance and remuneration are linked, that all remuneration packages are reviewed annually or on an ongoing basis in accordance with management's remuneration packages, and that retirement benefits or termination payments (other than notice periods) will not be provided or agreed other than in exceptional circumstances. Note – apart from superannuation guarantee contributions required by the governments, neither directors nor other senior executives receive any other form of retirement benefits.

Currently the remuneration of the Company's Key Management Personnel including any component of the remuneration that consists of securities in the Company is not formally linked to the performance of the Company. The rationale for this approach is that the Company is in exploration phase, and it is not currently appropriate to link remuneration factors such as profitability or share price. It is anticipated that this will change once the Company generates revenue.

### Independent Directors' Remuneration

The Board policy is to remunerate Independent non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the Independent Directors and reviews their remuneration annually, based on market factors, duties, accountability, comparable companies as well as additional time commitment of directors who serve on one or more sub committees. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Independent Non-executive Directors is currently \$200,000 and was approved by shareholders at a General Meeting held on August 31, 2005. Fees for Non-executive Directors are not linked to the performance of the economic entity.

The following fees for each Independent non-executive director have applied:

**From 1 March 2010**

Fees (per annum)	\$50,000
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Superannuation contributions required under the Australian superannuation guarantee legislation are made in addition to this fee entitlement.

### Executive and Non-Executive (Non Independent) Directors' Remuneration

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

## SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES

### DIRECTORS' REPORT

- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

Executive remuneration comprises:

- base pay and benefits; and
- long term incentives through equity based compensation

#### B Details of remuneration

Details of the remuneration of the directors and the key management personnel who are paid and employed by Sphere Minerals Limited and its subsidiaries are set out in the following table:

	Short-term benefits Salary & Fees	Non- Monetary benefits (c)	Other Benefits Super- annuation	Options	Total	Options %
	\$	\$	\$	\$	\$	%
<b>12 months ended 31 December 2012</b>						
<i>Directors</i>						
Anthony Clark – Non-executive Director	50,000	-	4,500	-	<b>54,500</b>	0%
Robert (Bob) Cornelius – Non-executive (a)	16,667	-	-	-	<b>16,667</b>	0%
Jon Parker – Non-executive Director (b)	35,831	-	3,225	-	<b>39,056</b>	0%
<b>Total directors</b>	<b>102,498</b>	-	<b>7,725</b>	-	<b>110,223</b>	<b>0%</b>
<i>Other Key Management Personnel (KMP)</i>						
<b>Total other key management personnel</b>	-	-	-	-	-	<b>0%</b>
<b>Total Remuneration</b>	<b>102,498</b>	-	<b>7,725</b>	-	<b>110,223</b>	<b>0%</b>

	Short-term benefits Salary & Fees	Non- Monetary benefits (c)	Other Benefits Super- annuation	Options	Total	Options %
	\$	\$	\$	\$	\$	%
<b>18 months ended 31 December 2011</b>						
<i>Directors</i>						
Anthony Clark – Non-executive Director	51,459	-	4,631	-	<b>56,090</b>	0%
Alexander Burns – Managing Director	302,882	13,391	23,875	-	<b>340,148</b>	0%
John Bylsma – Executive Director	460,850	33,646	40,143	-	<b>534,639</b>	0%
Marcello Cardaci – Non-executive Director	15,921	-	4,912	-	<b>20,833</b>	0%
Robert (Bob) Cornelius – Non-executive Director	80,821	-	-	-	<b>80,821</b>	0%
Peter Donkin – Non-executive Director	33,573	-	3,022	-	<b>36,595</b>	0%
<b>Total directors</b>	<b>945,506</b>	<b>47,037</b>	<b>76,583</b>	-	<b>1,069,126</b>	<b>0%</b>
<i>Other Key Management Personnel (KMP)</i>						
Lexton Graefe – Chief Financial Officer / Company Secretary	504,368	7,943	36,798	-	<b>549,109</b>	0%
Schalk van der Merwe – Exploration Manager	117,484	17,505	-	-	<b>134,989</b>	0%
David Webster – Chief Operating Officer	377,336	-	-	-	<b>377,336</b>	0%
Jim Biss – Admin Manager Australia	20,443	-	26,879	-	<b>47,322</b>	0%
Trevor Harris – Group Financial Controller	132,177	-	12,962	-	<b>145,139</b>	0%
<b>Total other key management personnel</b>	<b>1,151,808</b>	<b>25,448</b>	<b>76,639</b>	-	<b>1,253,895</b>	<b>0%</b>
<b>Total Remuneration</b>	<b>2,097,314</b>	<b>72,485</b>	<b>153,222</b>	-	<b>2,323,021</b>	<b>0%</b>



# SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES

## DIRECTORS' REPORT

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### Notes

- (a) Mr Cornelius resigned 30 April 2012
- (b) Mr Parker was appointed 12 April 2012
- (c) Non-monetary benefits include motor vehicles, spouse travel and expatriate taxation obligations

Related entities, Xstrata Coal Pty Limited, Xstrata Iron Ore Services AG and Xstrata France SAS (Xstrata) provides executive management services to the company for which a management fee is charged as disclosed in note 26. This management fee includes payment for the services provided by the Xstrata employed directors. As these directors and KMPs are not employed by the Company, the specific remuneration for these individuals are not disclosed above.

### C Service agreements

The current Board members have not entered into any service agreements with the Company.

### D Share-based compensation

No options were granted to directors or KMPs during the 12 month period ended 31 December 2012.

### **Policy for trading in Company Securities**

The board has adopted a Policy which prohibits dealing the Company's securities by directors, officers and employees when those persons possess inside information. The Policy also stipulates blackout periods during which directors, officers and employees are prohibited from trading. The Policy prohibits short-term or speculative trading of the Company's securities. Directors, officers and employees are required to obtain appropriate clearance prior to trading.

Directors must disclose details of changes in securities of the Company they hold (directly or indirectly) to the company secretary as soon as reasonably possible after the date of the contract to buy and sell the securities. The company secretary must report all notifications of dealings in the Company's securities to the next board meeting of the Company.

The directors are responsible for disclosure to the market of all transactions or contracts involving the Company's shares in compliance with s. 205G of the *Corporations Act 2001*.

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

### **LOANS TO DIRECTORS AND EXECUTIVES**

During the period, no loans have been provided to directors and / or executives of the Group.

### **SHARES UNDER OPTION**

No options were granted during the period.

The following options were exercised during the period ended 31 December 2012. All options were held and exercised by Sidero Pty Limited (a subsidiary of Xstrata).

Date options granted	Date options exercised	Issue price of shares	Number of shares issued
6 November 2009	26 October 2012	\$1.80	2,900,000
6 May 2010	26 October 2012	\$1.80	300,000
31 May 2010	26 October 2012	\$2.40	1,500,000
5 August 2010	26 October 2012	\$2.40	1,750,000

There are no unissued ordinary shares of Sphere Minerals Limited under option at the date of this report

# **SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**

## **DIRECTORS' REPORT**

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### **INDEMNIFICATION AND INSURANCE OF OFFICERS**

During the financial year the Group maintained appropriate insurance arrangements in respect of Directors' and Officers' Liability Insurance. The insurance policy precludes us from disclosing the amount of the coverage. These insurance premiums relate to insurance of directors of the Company and its controlled entities named in this report and former directors and executive officers of the Company and its controlled entities. The policy does not specify the premium for individual directors and executive officers.

The Directors' and Officers' Liability Insurance provides cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company or a related body corporate) incurred in their position as director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

No liability has arisen under this indemnity as at the date of this report.

### **PROCEEDINGS ON BEHALF OF COMPANY**

No person has applied for leave of Court to bring proceedings on behalf of the Group, nor was the Group party to any such proceedings during the year.

### **AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's Independence Declaration for the 12 month period ended 31 December 2012 has been received and can be found following this Directors' Report.

### **ROUNDING OF AMOUNTS**

The Company is an entity to which the ASIC Class Order 98/100 applies and accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

This report is signed in accordance with a resolution of the Board of Directors.

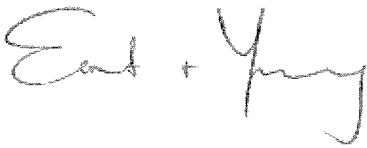


Peter Freyberg (Chairman)

12 March 2013

## Auditor's Independence Declaration to the Directors of Sphere Minerals Limited

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



Ernst & Young



Scott Jarrett  
Partner  
Sydney  
12 March 2013

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**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**FINANCIAL REPORT**  
**For the 12 month period ended 31 December 2012**

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This financial report covers Sphere Minerals Limited as a consolidated entity consisting of Sphere Minerals Limited as an individual entity and its controlled entities.

Sphere Minerals Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 38, Gateway  
1 Macquarie Place  
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities is included in the Review of Operations and Activities in the Directors' Report.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the 12 month period ended 31 December 2012**

	Notes	12 months to 31 December 2012	18 months to 31 December 2011
		S'000	S'000
Other revenue	4	3,207	4,556
<b>Total revenue</b>		<b>3,207</b>	<b>4,556</b>
<b>Expenses from continuing operations</b>			
Administration		(271)	(983)
Directors fees		(110)	(336)
Employee benefits expenses		(112)	(3,813)
Travel and related expenses		(81)	(717)
Legal fees		(37)	(637)
External contractors expense		(12)	(5,443)
Motor vehicle expenses		-	(110)
Insurance		-	(107)
Office expenses		(12)	(349)
Finance costs		(2)	(32)
Net foreign exchange gain/ (loss)		52	(1,978)
Other expenses		(2)	(125)
<b>Total Expenses</b>	5	<b>(587)</b>	<b>(14,630)</b>
<b>Profit / (Loss) before income tax expense</b>		<b>2,620</b>	<b>(10,074)</b>
Income tax expense	6	-	-
<b>Profit / (Loss) for the period</b>		<b>2,620</b>	<b>(10,074)</b>
<b>Other Comprehensive Income</b>			
Exchange differences on translation of foreign operations	19	(4,978)	(6,084)
<b>Other Comprehensive (loss)/ income net of tax</b>		<b>(4,978)</b>	<b>(6,084)</b>
<b>Total Comprehensive income/(loss) for the period</b>		<b>(2,358)</b>	<b>(16,158)</b>
<b>Earnings per share for profit/ (losses) from continuing operations</b> attributable to the ordinary equity holders of Sphere Minerals Limited			
Basic earnings per share (cents per share)	8	1.23	(5.51)
Diluted earnings per share (cents per share)	8	1.20	(5.51)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2012**

	Notes	31-Dec-12 S'000	31-Dec-11 S'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	47,482	101,917
Other receivables	10	2,859	2,944
Prepayments	10	228	763
<b>TOTAL CURRENT ASSETS</b>		<b>50,569</b>	<b>105,624</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	14	4,619	2,926
Exploration and evaluation assets	15	190,628	125,100
Other non-current assets	10	7,273	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>202,520</b>	<b>128,026</b>
<b>TOTAL ASSETS</b>		<b>253,089</b>	<b>233,650</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	8,622	6,979
Borrowings	17	6,593	-
Provisions		33	33
<b>TOTAL CURRENT LIABILITIES</b>		<b>15,248</b>	<b>7,012</b>
<b>NON-CURRENT LIABILITIES</b>		<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>15,248</b>	<b>7,012</b>
<b>NET ASSETS</b>		<b>237,841</b>	<b>226,638</b>
<b>EQUITY</b>			
Contributed equity	18	287,606	266,346
Reserves	19	(13,544)	(951)
Accumulated losses	19	(36,136)	(38,757)
Parent interest		237,926	226,638
Non-controlling interest	19	(85)	-
<b>TOTAL EQUITY</b>		<b>237,841</b>	<b>226,638</b>

The above statement of financial position should be read in conjunction with the accompanying notes.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the 12 month period ended 31 December 2012**

Attributable to the owners of the company

	Issued capital	Accumulated losses	Share based payments reserve	Foreign currency translation reserve	Other reserves	Total	Non controlling interest	Total equity
	S'000	S'000	S'000	S'000	S'000	S'000	S'000	S'000
At 1 January 2012	266,346	(38,756)	7,700	(8,651)	-	226,639	-	226,639
Profit for the period	-	2,620	-	-	-	2,620	-	2,620
Adjustment for translation of foreign controlled entities	-	-	-	(4,978)	-	(4,978)	-	(4,978)
<b>Total comprehensive income for the year</b>	-	2,620	-	(4,978)	-	(2,358)	-	(2,358)
<b>Transactions with owners in their capacity as owners</b>								
Employee share options	-	-	-	-	-	-	-	-
Share capital issue	-	-	-	-	85	85	(85)	-
Exercise of share options	21,260	-	(7,700)	-	-	13,560	-	13,560
	21,260	-	(7,700)	-	85	13,645	(85)	13,560
At 31 December 2012	287,606	(36,136)	-	(13,629)	85	237,926	(85)	237,841
At 1 July 2010	145,139	(28,682)	6,054	(2,567)	-	119,944	-	119,944
Loss for the period	-	(10,074)	-	-	-	(10,074)	-	(10,074)
Adjustment for translation of foreign controlled entities	-	-	-	(6,084)	-	(6,084)	-	(6,084)
<b>Total comprehensive income for the year</b>	-	(10,074)	-	(6,084)	-	(16,158)	-	(16,158)
<b>their capacity as owners</b>								
Employee share options	-	-	1,646	-	-	1,646	-	1,646
Issue of share capital (net of cash)	121,207	-	-	-	-	121,207	-	121,207
	-	-	1,646	-	-	122,853	-	122,853
At 31 December 2011	266,346	(38,756)	7,700	(8,651)	-	226,639	-	226,639

The above statement of changes in equity should be read in conjunction with the accompanying notes.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the 12 month period ended 31 December 2012**

	Notes	12 months to December 2012 S'000	18 months to 31 December 2011 S'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from other income		-	218
Payments to suppliers and employees		(421)	(8,887)
Interest received		3,594	3,882
Interest paid		-	(2)
<b>Net cash used in operating activities</b>	23	<b>3,173</b>	<b>(4,789)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for property, plant and equipment		(1,572)	(2,354)
Payments for capitalised exploration expenditure		(69,632)	(50,765)
<b>Net cash used in investing activities</b>		<b>(71,204)</b>	<b>(53,119)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Exercise of share options		13,560	-
Repayments of interest bearing liabilities		-	(11)
Payments for share issue costs		-	(207)
Proceeds from the issue of equity		-	121,414
<b>Net cash provided by (used in) financing activities</b>		<b>13,560</b>	<b>121,196</b>
<b>Net increase (decrease) in cash and cash equivalents held</b>		<b>(54,471)</b>	<b>63,288</b>
Cash at the beginning of the financial year		101,917	38,652
Effects of exchange rate changes on cash and cash equivalents		36	(23)
<b>Cash and cash equivalents at 31 December</b>	2	<b>47,482</b>	<b>101,917</b>

The above statement of cashflows should be read in conjunction with the accompanying notes.



**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**DIRECTORS DECLARATION**  
**For the 12 month period ended 31 December 2012**

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The financial report of the Company for the 12 month period ended 31 December 2012 was authorized for issue in accordance with a resolution of the Directors on 12 March 2013.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Statement of Compliance**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial statements cover the economic entity of Sphere Minerals Limited and controlled entities (the 'Group'). Sphere Minerals Limited is a listed public company, incorporated and domiciled in Australia.

The comparative financial period was 18 months from 1 July 2010 to 31 December 2011. Therefore the consolidated financial statements are not entirely comparable. The Company changed its financial year end from 30 June to 31 December to synchronise with the Xstrata plc financial year end of the ultimate parent entity. The consolidated financial statements of the Group are as at and for the financial period from 1 January 2012 to 31 December 2012.

The following is a summary of the material accounting policies adopted by the Consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

*Basis of measurement*

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

**Accounting Policies**

No new standards or interpretations have been issued which are considered to have a material impact on the financial statements or performance of the Company during the financial period.

Accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

**a. New standards and interpretations not yet adopted**

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial years ended 31 December 2012. They have not been adopted in preparing the consolidated financial statements for the year ended 31 December 2012 and are expected to impact the entity in the period of initial application. In all cases the entity intends to apply these standards from application date as indicated below.

- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective for financial reporting periods commencing on or after 1 July 2013). The amendments remove the requirements to include individual key management personnel disclosures in the notes to the financial statements. However these disclosures are still required in the Remuneration report under s300 of the *Corporations Act 2001*. The Group has assessed no impact to the financial performance or position of the Company. The Group is expected to apply the amendment from 1 January 2014.
- AASB 10 *Consolidated Financial Statements* (effective for financial reporting periods commencing on or after 1 January 2013). The new standard introduces a new approach to determining which investees should be consolidated. An investor controls an investee when the investor is exposed or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group has assessed no impact to the Company. The Group is expected to apply the new standard from 1 January 2013.
- AASB 127 *Separate Financial Statements* (effective for financial reporting periods commencing on or after 1 January 2013). This standard carries forward the existing accounting and disclosure requirements for separate financial statements which some minor clarifications. The Group is expected to apply the amendment from 1 January 2013.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the 12 month period ended 31 December 2012**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- AASB 11 Joint Arrangements (effective for financial reporting periods commencing on or after 1 January 2013). The standard states if the parties have rights to and obligations for underlying assets and liabilities, the joint arrangement is considered a joint operation and partial consolidation is applied. Otherwise the joint arrangement is considered a joint venture and use the equity method to account for their interest. Based on preliminary analysis performed, AASB 11 is not expected to impact the treatment of the Group's existing joint arrangements.
- AASB 128 *Investments in Associates and Joint Ventures* (effective for financial reporting periods commencing on or after 1 January 2013). There has been limited amendment to AASB 128 including the application of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* to interests in associates and joint ventures and how to account for changes in interests in joint ventures and associates. The Group has assessed that there would be no material impact on the financial performance or position. The Group is expected to apply the amendments from 1 January 2013.
- AASB 12 *Disclosures of Interests in Other Entities* (effective for financial reporting periods commencing on or after 1 January 2013). The new standard contains the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. A number of new disclosures will be required as a result of adopting this standard but this will have no impact on the financial performance or position of the Group. The Group will apply the new standard from 1 January 2013.
- AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective for financial reporting periods commencing on or after 1 January 2013). This standard gives effect to many consequential changes to a number of standards arising from the new consolidation and joint arrangements standards. Based on preliminary analysis performed, this standard is not expected to have a material impact on the financial performance or position of the Group. The Group is expected to apply the amendments from 1 January 2013.
- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Standards arising from AASB 13* (effective for financial reporting periods commencing on or after 1 January 2013). The new standard explains how to measure fair value when required to by other Australian Accounting Standards. The Group has assessed that there will be no material impact on the financial performance or position. The Group is expected to apply the new standard from 1 January 2013.
- Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* (effective for financial reporting periods commencing on or after 1 January 2013). The interpretation requires the capitalisation and amortisation of certain production stripping costs based upon the expected useful life of the ore body that becomes directly assessable as a result. The Group has assessed that there will be no material impact on the financial performance or position. The Group is expected to apply the interpretation from 1 January 2013.
- AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective for financial reporting periods commencing on or after 1 July 2012). The amendments includes presenting separately those items that would be reclassified to profit or loss in the future and those that would never be reclassified to profit or loss and the impact of tax on those items. Amendments to the presentation of Items of Other Comprehensive Income will be required as a result of adopting this standard, but this will have no impact on the financial performance or position of the Group. The Group will apply the amendments from 1 January 2013.

**b. Principles of Consolidation**

**Subsidiaries**

A controlled entity is any entity Sphere Minerals Limited has the power to control the financial and operating policies to obtain benefits from its activities.

A list of controlled entities is contained in Note 11 to the financial statements. All controlled entities have a December financial year-end since Sphere Minerals closing reporting date was changed to December in 2011.

All inter-company balances and transactions between entities in the Consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the Consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**For the 12 month period ended 31 December 2012**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Jointly Controlled Entities**

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

The consolidated financial statements include the assets that the Group controls and the liabilities that it incurs in the course of pursuing the joint entity and the expenses that the Group incurs and its share of the income that it earns from the joint entity. In this case, 50% of the net assets and 50% of the net result from El Aouj Mining Company is included in the consolidated figures.

**c. Income Tax**

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised directly in equity or in profit for the period.

The current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are not recognised until it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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 realized simultaneously.

The Group and its wholly owned Australian resident entities are part of a tax-consolidated group. As a consequence, all members of the tax consolidated group are taxed as a single entity. The head entity within the tax consolidated group is Sphere Minerals Limited.

**d. Property, Plant and Equipment**

Each class of property, plant and equipment is carried at historical cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Property**

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Where there is an indication that the property should be revalued, the asset is written down to the recoverable amount.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

**Plant and Equipment**

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

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

The cost of fixed assets constructed within the Consolidated entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future consolidated benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

**Depreciation**

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Consolidated entity commencing from the time the asset is held ready for use.

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

<b>Class of Fixed Asset</b>	<b>Depreciation Rate</b>
Land	0%
Office and computer equipment	10% – 20%
Plant and equipment	10% - 20%
Motor vehicles	20%
Leased plant and equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**e. Exploration and Evaluation Expenditure**

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

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest, and 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.

**f. Leases**

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the Consolidated entity, are classified as finance leases.

**g. Segment Reporting**

The Consolidated entity has identified its operating segments based upon the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (the Chief Operating Decision makers) in assessing performance and determining the allocation of resources. The Principal Activity and sole operating segment identified is that of Mineral Exploration in Mauritania, West Africa.

Financial information, being expenditure incurred, is reported to the Chief Executive Officer and Management on a monthly basis.

**h. Financial Instruments**

**Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method. Loans and receivables are included within trade and other receivables (Note 10).

**Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Impairment**

At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the profit or loss.

**i. Impairment of Assets**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**j. Foreign Currency Transaction and Balances**

**Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the profit or loss.

**Group Companies**

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- all resulting exchange differences are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale where applicable.

**k. Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

**l. Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**m. Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of six months or less.

**n. Trade and other Payables**

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

**o. Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

**p. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

q. **Earnings per Share**

(i) *Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Group, excluding any costs of servicing of equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) *Diluted earnings per share*

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

r. **Share Based Payments**

*Share Options*

The Group has taken the issue of options to account by using the valuation determined by the Black-Scholes option pricing model as the basis for charging the expense to the statement of comprehensive income and the corresponding entry to the share based payments reserve.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excluded the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimate of the number of options that are expected to become exercisable. The employees benefit expense recognised each period takes into account the most recent estimate. Upon exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

*Shares*

Where shares are issued as consideration for goods or services received the valuation is determined by difference between any price payable for the shares and their closing value market price on the day the recipient becomes entitled. The expense is charged to the profit or loss or capitalised to equity and the transaction reflected in an increase in Contributed Equity.

s. **Rounding of Amounts**

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$'000.

t. **Contributed Equity**

Ordinary shares are classified as equity.

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

If the entity reacquires its own equity instruments, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**u. Critical Accounting Estimates and Judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**Exploration and Evaluation Expenditure**

Following impairment analysis on capitalised exploration and evaluation expenditure, including assumptions on maintenance of title, ongoing expenditure and prospectivity, expenditure has been carried forward. This is in accordance with accounting policy Note 1(e) whereby, at this stage either costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. In the event that either of these assumptions no longer hold then this expenditure may, in part or full, be expensed through the profit or loss in future periods.

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are utilised. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

**NOTE 2: FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT**

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements. There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

**Principal financial instruments**

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

- a. receivables
- b. cash at bank
- c. bank at call deposits
- d. bank term deposits

**General objectives, policies and processes**

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

The Group and the parent entity hold the following financial instruments:

		31 Dec 12	31 Dec 11
<b>Financial Assets</b>	<b>Note</b>	<b>S'000</b>	<b>S'000</b>
Cash and cash equivalents	9	47,482	101,917
Other Receivables and Prepayments	10	3,087	3,707
Other non current assets	10	7,273	-
Sub Total		<u>57,842</u>	<u>105,624</u>
<b>Financial Liabilities</b>			
Trade and other payables	16	8,622	6,979
Borrowings	17	6,593	-
Sub Total		<u>15,215</u>	<u>6,979</u>
Net financial assets		<u>42,627</u>	<u>98,645</u>



**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 2: FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)**

Further details regarding these policies are set out below:

**Fair Value**

**Fair Value versus carrying amount**

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements.

	Carrying Amount S'000s	Fair Value S'000s	Average Interest Rate %
31 December 2012			
<b>Financial Assets</b>			
Cash and cash equivalents	47,482	47,482	4.44
Other Receivables and Prepayments	3,087	3,087	
Other non-current assets	7,273	7,273	
<b>Financial Liabilities</b>			
Trade and other payables	(8,622)	(8,622)	
Borrowings	(6,593)	(6,593)	
31 Dec 2011			
<b>Financial Assets</b>			
Cash and cash equivalents	101,917	101,917	4.11
Other Receivables and Prepayments	3,707	3,707	
<b>Financial Liabilities</b>			
Trade and other payables	(6,979)	(6,979)	
Borrowings	-	-	

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

**Credit Risk**

Credit risk is managed on a Group basis and arises principally from the Group's cash and receivables.

As the Group's primary activity is exploration, it has no trading risk. The majority of receivables are held with related parties or within the Group.

All cash balances are held at internationally recognised institutions either at call or at terms of less than 1 year.

Maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets summarised in the table above.

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

**Liquidity risk**

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due. The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 12 months.

The Board receives information regarding cash balances on a monthly basis, as well as a rolling 12-month cash flow projection every 6 months. At the statement of financial position date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

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**NOTE 2: FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)**

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2012	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total
	S'000	S'000	S'000	S'000	S'000	S'000
Trade and other payables	-	8,622	-	-	-	8,622
Borrowings	6,593	-	-	-	-	6,593
<b>Sub Total</b>	<b>6,593</b>	<b>8,622</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,215</b>
Year ended 31 December 2011	On demand	< 1 year	1-2 years	2-5 years	> 5 years	Total
	S'000	S'000	S'000	S'000	S'000	S'000
Trade and other payables	-	6,979	-	-	-	6,979
Borrowings	-	-	-	-	-	-
<b>Sub Total</b>	<b>-</b>	<b>6,979</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,979</b>

**Market risk**

Market risk arises from the Group's use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk). Market risk is managed on a Group basis now.

**Currency Risk**

As the Group's operations are centered in Mauritania, the Group holds assets in US dollars, Euro and local Mauritanian currency. The Group also has a history of entering into significant contracts payable in foreign currency. The Board considers the currency risk associated with operating in Mauritania to be acceptable, and no attempt is made to hedge this risk. When significant contracts in foreign currency are entered into, the currency risk is managed by the direct purchase of the relevant currency prior to the required payment date(s), based on management appraisal of foreign currency markets.

The Group exposure to foreign currency risk at the reporting date was as follows:

	31-Dec-12			31-Dec-11		
	USD	EUR	MRO	USD	EUR	MRO
	S'000	S'000	S'000	S'000	S'000	S'000
Cash and Cash Equivalents	4,485	206	371	1,700	114	345
Trade and other Receivables	869	-	-	3,254	-	21
Non-current receivables	6,593	-	679	-	-	-
<b>Sub Total</b>	<b>11,947</b>	<b>206</b>	<b>1,050</b>	<b>4,954</b>	<b>-</b>	<b>366</b>
Trade and Other Payables	-	-	-	-	-	(818)
Borrowings	(6,593)	-	-	-	-	-
<b>Sub Total</b>	<b>(6,593)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(818)</b>
<b>Net</b>	<b>5,354</b>	<b>206</b>	<b>1,050</b>	<b>4,954</b>	<b>114</b>	<b>(452)</b>

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**NOTE 2: FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)**

Sensitivity analysis illustrating the effect of a reasonably possible 10% movement in foreign exchange rates on Financial Assets at 31 December 2012 is as follows:

As at 31 December 2012	Carrying Value S'000	+ 10%	Equity S'000	- 10%	Equity S'000
		Profit / Loss S'000		Profit / Loss S'000	
Net foreign financial assets (Group)	6,610	661	-	(661)	-

As at 31 December 2011	Carrying Value S'000	+ 10%	Equity S'000	- 10%	Equity S'000
		Profit / Loss S'000		Profit / Loss S'000	
Net foreign financial assets (Group)	3,141	314	-	(314)	-

**Interest rate risk**

The Group carries no material debt.

The Group invests surplus cash in At-Call or Term Deposit accounts with AA rated banks. No more than 30% of funds are held at any one financial institution. Interest rate risk is managed by the selection of term deposit interest rates and terms that reflect management's market expectations, to terms not exceeding 12 months. Funds are only held at call when it is reasonably expected that those amounts will be required prior to existing term deposits reaching maturity.

The Group's exposure to interest rate risk and the effective weighted interest rate for each class or financial assets and financial liabilities is shown below:

	Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Maturing in one year or less	Non-Interest Bearing	Total
	%	S'000	S'000	S'000	S'000
<b>2012</b>					
Cash and Cash Equivalents	4.44	7,084	33,000	7,398	47,482
<b>2011</b>					
Cash and Cash Equivalents	5.08	4,767	95,000	2,150	101,917

Sensitivity analysis illustrating the effect of a 1% movement in Interest rates on Financial Assets at 31 December 2012 are as follows:

As at 31 December 2012	Carrying Value S'000	+ 1%	Equity S'000	- 1%	Equity S'000
		Profit / Loss S'000		Profit / Loss S'000	
Cash and Cash Equivalents (Group)	47,482	401	-	(401)	-
<b>As at 31 December 2011</b>					
Cash and Cash Equivalents (Group)	101,917	998	-	(998)	-

1% is considered to be a conservative estimate on likely interest rate movements in the next 12 months.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 3: CAPITAL RISK MANAGEMENT**

The Group considers its capital to comprise its ordinary share capital, share-based payment and foreign currency translation reserves, as well as accumulated losses.

In managing its capital, the Group's primary objective is to maintain its status as a going concern and ensure a long-term return for its equity shareholders through developing mining assets. In order to achieve this objective, the Group seeks to remain debt free, using equity contributions only to meet its working capital and strategic needs. In making decisions to adjust its capital structure to achieve these aims by new share issues, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

**NOTE 4: OTHER REVENUE**

	12 months to 31 Dec 12 S'000	18 months to 31 Dec 11 S'000
Interest	3,207	4,313
Other Income	-	243
<b>Total Other Revenue</b>	<b>3,207</b>	<b>4,556</b>

**NOTE 5: EXPENSES**

Profit/(loss) for the year includes the following specific expenses:

	12 months to 31 Dec 12 S'000	18 months to 31 Dec 11 S'000
Finance costs:		
- Interest and finance charges paid or payable to other persons	(2)	(32)
Depreciation of:		
- Plant and equipment	-	30
- Office and computer equipment	-	8
- Motor vehicle	-	18
Total depreciation	-	56
Amortisation of:		
- Finance leased motor vehicle	-	22
Total amortisation	-	22
<b>Total amortisation and depreciation</b>	<b>-</b>	<b>78</b>

Rental expense on operating leases	65	153
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**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 6: INCOME TAX EXPENSE**

	12 months to 31 Dec 12 \$'000	18 months to 31 Dec 11 \$'000
<b>(a) Income tax expense</b>		
Current Tax	-	-
Deferred Tax	-	-
Under/(over) provided in prior years	-	-
	<u>-</u>	<u>-</u>
The prima facie tax on loss before income tax is reconciled to the income tax as follows:		
Profit (Loss) before income tax	2,620	(10,074)
Tax at the Australian tax rate of 30% (2011 - 30%)	786	(3,022)
	<u>2,620</u>	<u>(10,074)</u>
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry items	15	2
Share-based payments	6	566
Deferred tax asset in respect to foreign losses not brought to account	74	862
Deferred tax asset in respect to Australian losses not brought to account	0	1,592
Use of tax losses not previously recognised	(881)	-
Income tax expense	<u>-</u>	<u>-</u>

The group made an election in order that the Australian companies will form a tax-consolidated group from 1 July 2006. As a consequence, transactions between the member entities will be ignored.

On 12 September 2011, the Australian tax consolidated group was granted a substituted accounting period to align with the 31 December financial year end. A transitional income tax return has been lodged for the period 1 July 2011 to 31 December 2011.

	12 months to 31 Dec 12 \$'000	18 months to 31 Dec 11 \$'000
<b>Unrecognised deferred tax benefits / (liabilities) for Australia at 30%</b>		
Deductible timing difference	529	685
Taxable timing difference	(215)	(317)
Unused revenue tax loss	4,565	5,393
Sub-total	<u>4,879</u>	<u>5,761</u>
Foreign Losses at 25%*	<u>4,179</u>	<u>4,105</u>
Potential tax benefit	<u>9,058</u>	<u>9,866</u>

Deferred income tax assets have not been recognised as it is not probable that future profit will be available against which tax losses and deductible temporary differences can be utilised.

\*Mauritanian income tax applicable to mining interests is taxed at the rate of 25% under the applicable Mining Code.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**NOTE 7: REMUNERATION OF AUDITORS**

Total of all remuneration received or due and receivable by the auditors of the business:

	12 months to 31 Dec 12 \$	18 months to 31 Dec 11 \$
<b>Ernst &amp; Young</b>		
Audit or review of the financial reports	107,303	111,773
Subsidiary audits in Mauritania	22,841	22,000
	<u>130,144</u>	<u>133,733</u>

**NOTE 8: EARNINGS/(LOSS) PER SHARE**

	12 months to 31 Dec 12 \$'000	18 months to 31 Dec 11 \$'000
<b>Basic and diluted loss per share</b>		
Net profit (loss)	2,620	(10,074)
<b>Weighted average number of shares</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	212,985,597	182,700,713
Basic earnings (loss) per share	1.23 cents	(5.51) cents
Diluted earnings (loss) per share	1.20 cents	(5.51) cents

**Additional information**

None of the options have been included in the determination of the diluted earnings/(loss) per share for the prior year because they are not considered dilutive as they decrease the loss per share.

The weighted average number of ordinary shares used in calculating the basic earnings/(loss) per share is derived from the fully paid shares on issue.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 9: CASH AND CASH EQUIVALENTS**

	31 Dec 12 S'000	31 Dec 11 S'000
Cash at bank and on hand	7,398	6,917
Short-term bank deposits	40,084	95,000
<b>Balance as per Statement of Cash Flows</b>	<b>47,482</b>	<b>101,917</b>

**Deposits on Call**

The deposits are bearing fixed and variable interest rates between 0% and 5.55%. Maturity dates on term deposits are stacked within the first three months of the 2013 year.

**NOTE 10: TRADE, OTHER RECEIVABLES AND PREPAYMENTS**

	31 Dec 12 S'000	31 Dec 11 S'000
<b>Current</b>		
<i>Trade and other receivables</i>		
Other receivables	280	439
Receivable from JV partner – SNIM*	2,565	2,491
Staff Advances	14	14
<b>Total trade and other receivables</b>	<b>2,859</b>	<b>2,944</b>
<i>Prepayments</i>		
Prepayments to contractors	228	763
<b>Total prepayments</b>	<b>228</b>	<b>763</b>
	<b>3,087</b>	<b>3,707</b>
<b>Non-current</b>		
Loan to JV entity	7,273	-
	<b>7,273</b>	<b>-</b>

\*(Société Nationale Industrielle et Minière)

**a) Impaired loans**

As at 31 December 2012, no other receivables were considered impaired (2011: Nil).

**b) Past due but not impaired**

Trade and other receivables do not contain any past due not impaired balances.

**c) Fair Value and Credit risk**

Due to the nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The fair value of securities held for certain trade receivables is insignificant, as is the fair value of any collateral sold or re-pledged.

Refer to note 2 for more information on the risk management policy of the group and the credit quality of the entities trade receivables.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 11: CONTROLLED ENTITIES**

Subsidiaries of Sphere Minerals Limited	Country of Incorporation	Class of Shares	Equity holding	
			31 Dec 12 %	31 Dec 11 %
Sphere Mining Pty Ltd. <sup>(1)(2)</sup>	Australia	Ordinary	100	100
Sphere Iron Ore Pty Ltd. <sup>(1)</sup>	Australia	Ordinary	100	100
Sphere Resources Pty Ltd <sup>(1)</sup>	Australia	Ordinary	100	100
Mauritania Holdings Pty Ltd <sup>(1)</sup>	Australia	Ordinary	100	100
Sphere Mauritania SA <sup>(4)</sup>	Mauritania	Ordinary	90	100
Sphere Lebtheinia SA <sup>(3)</sup>	Mauritania	Ordinary	100	100

(1) Controlled entity that is a small proprietary company not required to prepare financial statements.

(2) Formerly Sphere Exchange Pty Ltd.

(3) Formally incorporated 18 August 2010

(4) Pursuant to the Mauritanian Mining Code 2008, as modified by article 38(§2) of law No 2009/26 passed on 7 April 2009, an exploitation permit can only be granted to a Mauritanian legal entity in which the Mauritanian State holds a 10% free carry stake. Following Sphere Mauritania SA having been granted an exploitation permit for the Askaf project it has transferred 10% of the share capital of the company to the Islamic Republic of Mauritania for no consideration. In addition the mining code provides The Islamic Republic of Mauritania with an option to increase its share up to 20% of the share capital at a strike computed based on the share capital nominal value. A Sphere Mauritania SA Shareholders Agreement that will stipulate the terms of the 10% option is as at the date of this report being discussed with the Islamic Republic of Mauritania.

**NOTE 12: PARENT COMPANY DISCLOSURES**

The following details information related to the parent entity, Sphere Minerals Limited, at 31 December 2012. The ultimate Australian parent of the group is Ploutos Pty Limited. The ultimate group parent is Xstrata plc. The information presented here has been prepared using consistent accounting policies as presented in Note 1.

	Parent Entity	
	31 Dec 12 \$'000	31 Dec 11 \$'000
<b>Financial position of parent entity at year end</b>		
Current assets	47,772	103,986
Non Current assets	210,232	135,527
<b>Total Assets</b>	<b>258,004</b>	<b>239,513</b>
Current liabilities	8,152	6,173
Non Current liabilities	-	-
<b>Total Liabilities</b>	<b>8,152</b>	<b>6,173</b>
<b>Total equity of the parent entity comprising of</b>		
Contributed equity	287,605	266,552
Accumulated losses	(38,404)	(41,528)
Reserves	650	8,316
<b>Total equity</b>	<b>249,851</b>	<b>233,340</b>
<b>Result of parent entity</b>		
Profit/ (Loss) for the year	2,918	(6,636)
Other comprehensive income	-	-
<b>Total comprehensive loss for the year</b>	<b>2,918</b>	<b>(6,636)</b>



**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 13: INTERESTS IN JOINTLY CONTROLLED ENTITIES**

The Group has a 50% interest in El Aouj Mining Company SA, the principal activities of which are the same as the parent entity. The interest in this jointly controlled entity is accounted using the proportional consolidation method. The jointly controlled entity does not have any material commitments or contingent liabilities at the date of this report.

Summarised financial statement information (50% share) of the proportionally consolidated jointly controlled entity is disclosed below:

	El Aouj Mining SA	
	31 Dec 12 S'000	31 Dec 11 S'000
Current assets	2,055	2,713
Non-Current assets	42,320	38,669
<b>Total Assets</b>	<b>44,375</b>	<b>41,382</b>
Current liabilities	179	1,530
Non-Current liabilities	6,593	-
<b>Total Liabilities</b>	<b>6,772</b>	<b>1,530</b>
	<b>12 months to 31 Dec 12</b>	<b>12 months to 31 Dec 11</b>
<b>Result of El Aouj Mining SA</b>		
Income	-	-
Expenses	-	(153)
<b>Total comprehensive result for the year</b>	<b>-</b>	<b>(153)</b>

**NOTE 14: PROPERTY, PLANT & EQUIPMENT**

	31 Dec 12 S'000	31 Dec 11 S'000
Office and computer equipment at cost	968	244
Accumulated depreciation	(385)	(141)
	<b>583</b>	<b>103</b>
Plant and equipment at cost	3,142	2,596
Accumulated depreciation	(1,978)	(2,014)
	<b>1,164</b>	<b>582</b>
Motor vehicles at cost	2,382	2,079
Accumulated depreciation	(1,141)	(948)
	<b>1,241</b>	<b>1,131</b>
Motor vehicles under finance lease	-	-
Accumulated amortisation	-	-
	<b>-</b>	<b>-</b>
Land and buildings at cost	1,110	1,110
Accumulated amortisation	(115)	-
	<b>995</b>	<b>1,110</b>
Work in progress	636	-
<b>Total property, plant and equipment</b>	<b>4,619</b>	<b>2,926</b>

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 14: PROPERTY, PLANT & EQUIPMENT (continued)**

**Reconciliations**

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Office and Computer equipment	Plant & equipment	Motor vehicles	Leased motor vehicle	Land and buildings	Work in Progress	Total
<b>Consolidated Entity- 2012</b>							
Carrying amount at 1 January 2012	103	582	1,131	-	1,110	-	2,926
Additions	524	761	361	-	-	636	2,282
Disposals	-	-	-	-	-	-	-
Depreciation / amortisation	(38)	(170)	(193)	-	(115)	-	(516)
FX gains / (losses) on translation	(6)	(9)	(58)	-	-	-	(73)
<b>Carrying amount at 31 December 2012</b>	<b>583</b>	<b>1,164</b>	<b>1,241</b>	<b>-</b>	<b>995</b>	<b>636</b>	<b>4,619</b>

	Office and Computer equipment	Plant & equipment	Motor vehicles	Leased motor vehicle	Land	Work in Progress	Total
<b>Consolidated Entity- 2011</b>							
Carrying amount at 1 July 2010	158	714	545	44	339	-	1,800
Additions	132	496	955	-	771	-	2,354
Disposals	(70)	(1)	(17)	(22)	-	-	(110)
Depreciation / amortisation	(105)	(625)	(347)	(22)	-	-	(1,099)
FX gains / (losses) on translation	(12)	(2)	(5)	-	-	-	(19)
<b>Carrying amount at 31 December 2011</b>	<b>103</b>	<b>582</b>	<b>1,131</b>	<b>-</b>	<b>1,110</b>	<b>-</b>	<b>2,926</b>

Depreciation and amortisation is capitalised as exploration and evaluation assets where the property, plant and equipment are directly related to the activities or the assets.

**NOTE 15: EXPLORATION AND EVALUATION EXPENDITURE**

	12 months to 31 Dec 12 S'000	18 months to 31 Dec 11 S'000
Opening balance	125,100	79,425
Capitalised during the period	71,215	60,350
Foreign Exchange Translation on Capitalised Exploration Expenditure	(5,687)	(14,675)
<b>Closing balance</b>	<b>190,628</b>	<b>125,100</b>

Capitalised exploration and evaluation expenditure represents the accumulated cost of acquisition and subsequent cost of exploration and evaluation of the properties. In the opinion of the Directors the value of the properties is at least that at which they are carried in the financial report.

Ultimate recoupment of these costs is dependent on the successful development and commercial exploitation, or alternatively sale of the respective areas of interest.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 16: TRADE AND OTHER PAYABLES**

	31 Dec 12	31 Dec 11
	S'000	S'000
<b>Current</b>		
Trade payables	8,416	7,017
Other payables	206	(38)
<b>Total</b>	<u>8,622</u>	<u>6,979</u>

**NOTE 17: BORROWINGS**

	31 Dec 12	31 Dec 11
	S'000	S'000
<b>Current borrowings</b>		
JV partner share of loan	6,593	-
	-	-
<b>Non-current borrowings</b>		
Other borrowings	-	-
	-	-
<b>TOTAL BORROWINGS</b>	<u>-</u>	<u>-</u>

For further details on risk exposure refer to note 2.

**NOTE 18: ISSUED CAPITAL**

	31 Dec 12	31 Dec 11
	S'000	S'000
218,269,296 (2011: 211,819,296) fully paid authorised ordinary shares.	287,606	266,346
	<u>287,606</u>	<u>266,346</u>

	Number of shares	Issue Price \$	S'000
<b>Opening balance 1 January 2012</b>	<b>211,819,296</b>		<b>266,346</b>
<b>Shares issued during the 12 month period ended 31 December 12.</b>			
26 October 2012	Sidero exercise of options	3,200,000	1.80
26 October 2012	Sidero exercise of options	3,250,000	2.40
26 October 2012	Transfer of share based payments reserve	-	-
<b>31 December 2012</b>	<b>Closing Balance</b>	<u>218,269,296</u>	<u>287,606</u>

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 18: ISSUED CAPITAL (continued)**

**Ordinary Shares**

Ordinary Shares entitled the holder to participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of and amounts paid on the shares held.

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

**Options**

For information relating to share options issued during the financial year, refer to note 24 Share-Based Payments.

**NOTE 19: OTHER EQUITY**

	31 Dec 12	31 Dec 11
	S'000	S'000
<b>a) Reserves</b>		
Foreign Currency Translation Reserve	(13,629)	(8,651)
Share Based Payment Reserve	-	7,553
Option Reserve	-	147
Other reserves	85	-
	<u>(13,544)</u>	<u>(951)</u>

<b>(i) Foreign Currency Translation Reserve</b>	31 Dec 12	31 Dec 11
	S'000	S'000
Opening Balance	(8,651)	(2,567)
Currency translation differences arising during the year	(4,978)	(6,084)
<b>Closing Balance</b>	<u>(13,629)</u>	<u>(8,651)</u>

The Foreign Currency Translation Reserve records exchange differences arising on translation of foreign controlled subsidiaries.

<b>(ii) Share-Based Payments Reserve</b>	31 Dec 12	31 Dec 11
	S'000	S'000
Opening Balance	7,700	6,053
Share-based payments	-	1,647
Transfer to share capital upon issuance of share options	(7,700)	-
<b>Closing Balance</b>	<u>-</u>	<u>7,700</u>

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 19: OTHER EQUITY (continued)**

The Share-Based Payments Reserve records items recognised as expenses on valuation of directors' and employee share options. Any proceeds from the exercise of options are recorded as contributed equity at the time the options are exercised.

(iii) **Other Reserves**

	31 Dec 12 S'000	31 Dec 11 S'000
Opening Balance	-	-
Minority Interest arising from issuance of share capital in a group subsidiary	85	-
<b>Closing Balance</b>	<b>85</b>	<b>-</b>

Minority interest has been recognised to reflect the Islamic Republic of Mauritania obtaining a 10% interest in the capital of Sphere Mauritania S.A. for nil consideration.

	31 Dec 12 S'000	31 Dec 11 S'000
<b>b) Accumulated losses</b>		
Opening Balance	(38,756)	(28,682)
Net profit/ (loss) for the year	2,620	(10,074)
<b>Closing Balance</b>	<b>(36,136)</b>	<b>(38,756)</b>

**Dividends**

No dividends were paid or declared during the period.

**NOTE 20: CAPITAL AND LEASING COMMITMENTS**

	2012 S'000	2011 S'000
<b>a. Operating Lease Commitments</b>		
Non-cancellable operating leases contracted for but not capitalised in the financial statements		
Payable minimum lease payments		
- not later than 12 months	65	59
- between 12 months and 5 years	-	-
	<b>65</b>	<b>59</b>

The property lease / license agreement is for a 12 month period, commencing November 2012 and expiring October 2013. The rent is payable monthly in advance. The previous property lease, ended November 2012.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 20: CAPITAL AND LEASING COMMITMENTS (continued)**

**b. Capital commitments**

The total capital commitments as at 31 December is as follows:

	31 Dec 12 \$'000
Within one year	3,342
After one year but not more than 5 years	19,498
More than five years	-
	<u>22,840</u>

**NOTE 21: CONTINGENT LIABILITY**

From time to time, the Group is subject to claims and litigation during the normal course of business. The Board has given consideration to such matter, which are or may be subject to litigation at year end and is of the opinion that no material liability exists.

**NOTE 22: SEGMENT INFORMATION**

The consolidated entity operates predominately in the minerals exploration sector. The principal activity of the consolidated entity is exploration for iron ore. The consolidated entity classifies this activity under a single operating segment; the Mauritanian exploration project.

Regarding the exploration operating segment, the Chief Operating Decision Maker (determined to be the Board of Directors) receives information on the exploration expenditure incurred. No segment revenues are disclosed as each exploration tenement is not at a stage where revenues have been earned. Furthermore, no segment costs are disclosed as all segment expenditure is capitalised.

**NOTE 23: CASH FLOW INFORMATION**

	12 months to 31 December 12 \$'000	18 months to 31 Dec 11 \$'000
Profit / (Loss) after income tax	2,620	(10,074)
<b>Add (less) non-cash items:</b>		
Depreciation and amortisation	-	56
Share based payments	-	1,646
Foreign Exchange	(16)	-
Carrying value of assets sold / disposed	-	88
<b>Sub Total</b>	<u>2,604</u>	<u>(8,284)</u>
<b>Changes in assets and liabilities</b>		
(Increase)/decrease in other receivables and prepayments	619	(1,441)
(Increase)/decrease in other current assets	-	(208)
Increase/(decrease) in payables	(50)	5,372
Increase/(decrease) in provisions	-	(228)
<b>Net cash (outflow) inflow from operating activities</b>	<u>3,173</u>	<u>(4,789)</u>

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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**NOTE 24: SHARE BASED PAYMENTS**

6,450,000 options were exercised during the 12 month period ended 31 December 2012 (2011: 0). The weighted average share price of options exercised during the prior year was \$2.10

No share-based payment arrangements remain at 31 December 2012.

Grant Date	Expiry Date	Exercise Price (\$)	Balance at start of the year (number)	Granted during the year (number)	Exercised During the year (number)	Forfeited / Expired during the year (number)	Balance at the end of the year (number)	Vested and exercisable at the end of the year (number)
<b>Consolidated entity 2012</b>								
06/11/09	31/10/12	1.80	2,700,000	-	2,700,000	-	-	-
06/11/09	31/10/12	1.80	200,000	-	200,000	-	-	-
06/05/10	31/10/12	1.80	300,000	-	300,000	-	-	-
31/05/10	31/10/13	2.40	1,500,000	-	1,500,000	-	-	-
02/08/10	31/10/13	2.40	1,750,000	-	1,750,000	-	-	-
<b>Total</b>			<b>6,450,000</b>	<b>-</b>	<b>6,450,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
Weighted Average Exercise Price			\$2.10	\$0.00	\$2.10	\$0.00	\$0.00	\$0.00

Grant Date	Expiry Date	Exercise Price (\$)	Balance at start of the year (number)	Granted during the year (number)	Exercised During the year (number)	Forfeited / Expired during the year (number)	Balance at the end of the year (number)	Vested and exercisable at the end of the year (number)
<b>Consolidated entity 2011</b>								
06/11/09	31/10/12	1.80	2,700,000	-	-	-	2,700,000	2,700,000
06/11/09	31/10/12	1.80	200,000	-	-	-	200,000	200,000
06/05/10	31/10/12	1.80	300,000	-	-	-	300,000	300,000
31/05/10	31/10/13	2.40	1,500,000	-	-	-	1,500,000	1,500,000
02/08/10	31/10/13	2.40	-	1,750,000	-	-	1,750,000	1,750,000
<b>Total</b>			<b>4,700,000</b>	<b>1,750,000</b>	<b>-</b>	<b>-</b>	<b>6,450,000</b>	<b>6,450,000</b>
Weighted Average Exercise Price			\$1.99	\$2.40	\$0.00	\$0.00	\$2.10	\$2.10

**NOTE 25: EVENTS AFTER STATEMENT OF FINANCIAL POSITION DATE**

On 20 November 2012 Xstrata's non-Glencore shareholders voted to approve the proposed all-share merger of Xstrata plc and Glencore International plc.

Completion of the Merger remains conditional upon the receipt of the outstanding regulatory approval in China, completion of the Xstrata court process as further set out in the New Scheme Document in connection with the Merger and Glencore giving effect to the commitments required by the European Commission.

No other matter or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in the subsequent financial years.

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
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**NOTE 26: RELATED PARTY TRANSACTION**

During the period considerable restructuring has occurred resulting in a number of the management services previously been conducted by Xstrata Coal Pty Limited (Xstrata) now being conducted by employees of Iron Ore Services AG (XIOSAG) and Xstrata France SAS (XFr). As a result of these changes the Xstrata management service agreement was revised and two new management agreements with XIOSAG and XFr were entered into. Pursuant to the agreements, Sphere Minerals Limited will receive a comprehensive range of management services from XIOSAG and XFr in consideration for a management fee of cost plus a 10% mark-up on Value Added Services as per the respective service agreements. The agreements were independently reviewed and approved by the Board.

The Sphere Group has also entered into service agreements with Xstrata Project Services (UK) and Xstrata France. The service agreements allow direct costs which Xstrata Project Services and Xstrata France incur on behalf of the Group to be recharged accordingly. The agreements were independently reviewed and approved by the Board.

As disclosed in Note 24, Sidero Pty Limited (an indirect subsidiary of Xstrata) exercised the outstanding options held in the name of the Company during the financial year.

The following is a summary of transactions with related parties:

	Related party	Purchases and management fee \$'000	Accounts payable \$'000	Exercise of share options \$'000	Proceeds from rights issue \$'000
12 months to 31 December 2012	Xstrata Group	15,864	2,898	13,560	-
18 months to 31 December 2011	Xstrata Group	4,027	-	-	111,564



**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
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1. In the opinion of the Directors:
- a. the accompanying financial statements, notes and additional disclosures are in accordance with the Corporations Act 2001 including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the 12 month period then ended; and
    - (ii) complying with Accounting Standards (includes the Australian Accounting Interpretations) and Corporations Regulations 2001.
  - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the 12 month period ended 31 December 2012.

This declaration is signed in accordance with a resolution of the Board of Directors.



Peter Freyberg  
Chairman

12 March 2013

## Independent audit report to members of Sphere Minerals Limited

### Report on the financial report

We have audited the accompanying financial report of Sphere Minerals Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

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

#### *Auditor's responsibility*

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

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

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

*Independence*

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

*Opinion*

In our opinion:

- a. the financial report of Sphere Minerals Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report of the directors' report for the year ended 31 December 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 Australian Auditing Standards.

*Opinion*

In our opinion, the Remuneration Report of Sphere Minerals Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Scott Jarrett  
Partner  
Sydney  
12 March 2013

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**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**ASX ADDITIONAL INFORMATION**  
**For the 12 month period ended 31 December 2012**

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 15 March 2013.

**(a) Distribution of Equity Securities**

The number of shareholders, by size of holding, in each class of share is:

			<b>Listed Ordinary Shares</b>	
			<b>Number of Holders</b>	<b>Number of Shares</b>
1	–	1,000	45	9,036
1,001	–	5,000	19	63,996
5,001	–	10,000	11	77,258
10,001	–	100,000	12	430,220
100,001	–	and over	3	217,688,786
			90	218,269,296
The number of shareholders holding less than a marketable parcel of shares are:			29	525

**(b) Twenty Largest Shareholders**

The names of the twenty largest holders of quoted shares are:

			<b>Listed Ordinary Shares</b>	
			<b>Number of Shares</b>	<b>Percentage of Shares %</b>
1	Sidero Pty Limited		192,431,526	88.16
2	Qatar Steel Company		16,406,250	7.52
3	Aus-Ore Investments Pty Ltd		8,851,010	4.06
4	Mr Paul David Jordan		100,000	0.05
5	Citicorp Nominees Pty Limited		71,716	0.03
6	Sin-Tang Development Pte Limited		48,990	0.02
7	Regal Plan Ltd		42,875	0.02
8	Climax Super Pty Ltd		37,500	0.02
9	Mr Sin Jen Hwang		36,700	0.02
10	SSI Nominees Pty Ltd		24,625	0.01
11	HSBC Custody Nominees		18,100	0.01
12	Mr Sunardi Purwasumitra		15,000	0.01
13	Merrill Lynch (Australia)		12,000	0.01
14	National Nominees Limited		11,464	0.01
15	Mr Beng Hui Cheok		11,250	0.01
16	Mr Alexander Raj Kumar Charles		10,000	0.005
17	Clifton Furniture Pty Ltd		10,000	0.005
18	Mr Gary James Denton		8,500	0.004
19	Mr Alan Cheok		7,500	0.003
20	Mr Choi Chung Wah		7,000	0.003
			<b>218,162,006</b>	<b>99.95</b>

**SPHERE MINERALS LTD AND ITS CONTROLLED ENTITIES**  
**ASX ADDITIONAL INFORMATION**  
**For the 12 month period ended 31 December 2012**

**(c) Substantial Shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Number of Shares	Percentage of Ordinary Shares	Preference Shares
Sidero Pty Limited	192,431,526	88.16	--
Sin-Tang Development Pte Limited	48,990	0.02	--
Genesis Asset Managers LLP	--	--	--
Genesis Emerging Markets Opportunities Fund Limited	--	--	--
UBS AG	--	--	--
Acorn Capital Limited	--	--	--
Dundee Corporation	--	--	--

**(d) Voting Rights**

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

**(e) Unquoted Securities**

None

**(f) Securities Exchange Listing**

Quotation has been granted for all the ordinary shares of the company on all Member Exchange of the ASX Limited.

**(g) Tenement Schedule**

Exploitation License Schedule

Exploitation (Mining) license	Name	Area (km <sup>2</sup> )	Date Granted	Grant Period (Years)	Holding Company	Interest
EL 609	El Aouj / (Tintekrate)	520	27 April 2008	30	El Aouj Mining Company SA	50%
EL 1620	Askaf	194	26 September 2012	30	Sphere Mauritania SA	90%

Exploration License Schedule

Exploration License	Name	Area (km <sup>2</sup> )	Expiry date of licence	Holding Company	Interest
EL 264	Lebtheinia	324	5 September 2015	Sphere Lebtheinia SA	100%
EL 325	Aoueoua	45	5 May 2013 <sup>(1)</sup>	Sphere Lebtheinia SA	100%

(1) Application for a three year extension of the exploration license in progress.