LEYSHON RESOURCES LIMITED

ABN 75 010 482 274

FINANCIAL REPORT

FOR THE YEAR ENDED

31 DECEMBER 2013

CORPORATE DIRECTORY

Directors
Richard Seville – Non-Executive Chairman
Corey Nolan – Managing Director
Andrew Berry III – Non-Executive Director
Paul Atherley – Non-Executive Director

Company Secretary
Murray Wylie

Principal and Registered Offices

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Facsimile: +618 9322 4073

Auditor
Deloitte Touche Tohmatsu

Bankers
Bank of China - Beijing
National Australia Bank

Share Register

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United Kingdom

Australia
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Australia
Telephone: 1300 557 010
International: +618 9323 2000
Facsimile: +618 9323 2033

Solicitors
Jun He Law Offices - Beijing
Hardy Bowen Solicitors - Perth

Stock Exchange Listings
Alternative Investment Market
London Stock Exchange
10 Paternoster Square
London EC4M 7LS

Australian Securities Exchange
Home Branch – Perth
2 The Esplanade
Perth WA 6000

AIM and ASX Code
LRL

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DIRECTORS' REPORT

The Directors of Leyshon Resources Limited present their report on the Group consisting of Leyshon Resources Limited ("the Company" or "Leyshon Resources") and the entities it controlled at the end of, or during, the year ended 31 December 2013 ("Group"). All amounts presented in the annual report including the Directors' Report are presented in United States Dollars (US$) unless otherwise indicated.

DIRECTORS

The following persons were Directors of the Company during the year ended 31 December 2013 and up to the date of this report:

Richard P Seville
Corey Nolan – Appointed 14 February 2014
Paul C Atherley
Andrew Berry III
John W S Fletcher – Resigned 25 November 2013

INFORMATION ON DIRECTORS

Richard Seville
Non-Executive Director from date of appointment 1 February 2007
Non-Executive Chairman from 25 November 2013
Chairman of the Remuneration Committee and member of the Audit Committee
Qualifications – BSC (Hon), MEngSc, MAusIMM, ARSM

Mr Seville is a mining geologist and geotechnical engineer with more than 30 years experience covering exploration, mine development and mine operations in gold, base metals and coal projects in Australia, South America, Africa and Asia. Mr Seville also has significant corporate experience and has held the roles of operations director and/or managing director for ASX/AIM listed companies since 1994. He is currently Managing Director of ASX/TSX listed industrial minerals company Orocobre Ltd.

During the three year period to the end of the financial year, Mr Seville has held directorships in Orocobre Limited (November 2007 – present) and Elementos Limited (October 2013 – present).

Corey Nolan
Managing Director from date of appointment 14 February 2014
Qualifications – B Com, MMEE, GAICD

Nr Nolan has twenty years of diverse experience in the resources sector. This has included experience in mining operations, global resource evaluation, and the financing and development of new opportunities in Australia, South Africa, Asia and South America.

Mr Nolan is a qualified mineral economist. He has held specialist roles as an equities analyst in the mining and natural resources sector of stock broking firms Morgan Stanley and Wilson HTM. During this period he undertook detailed coverage of the Australian and global resources sector including the commodities market.

Mr Nolan has been a Director at PWC in the corporate finance and valuations practice, specialising in resources industry valuations for Australian and global resources firms.

During the three year period to the end of the financial year, Mr Nolan has held a directorship with Elementos Limited (July 2007 – present).

INFORMATION ON DIRECTORS (Cont'd)

Paul C Atherley
Managing Director from date of appointment 4 May 2004 until 14 February 2014
Non-Executive Director from 14 February 2014
Qualifications - BSc (Hons), MappSC, MBA, MAusIMM, ARSM

Mr Atherley graduated in mining engineering from the Royal School of Mines, Imperial College in 1982 and has over 30 years industry experience. He was an Executive Director of the Investment Bank arm of HSBC Australia where he undertook a range of advisory roles in the resources sector. During this period he completed a number of acquisitions and financings of resource projects in Australia, South-East Asia, Africa and Western Europe.

Mr Atherley is an experienced Managing Director with well established relationships in the London and Australian capital markets. He has been based in Beijing since 2005 and has pioneered the company's activities in China. During this period he has built the Leyshon Management team and established extensive government and industry relationships. He currently serves as the Vice Chairman of the China Britain Business Council and is Chairman of the Energy Committee. He also serves on the EU-China Chamber Energy Working Group.

During the three year period to the end of the financial year, Mr Atherley has not held a directorship in any other listed company.

Andrew Berry III
Non-Executive Director from date of appointment 10 October 2008
Chairman of the Audit Committee and member of the Remuneration Committee
Qualifications – BS Geological Engineering and MBA

Mr Berry has over 35 years experience in financing projects mainly with Chase Manhattan Bank in the Far East and Australia. During this period Mr Berry played an integral role in the completion of over US$25 billion in transactions for power generation, mining and petroleum companies in Australia and throughout the international arena.

Previously Mr Berry was a Non-Executive Director of several listed and unlisted Australian resource focused companies including the ASX and Port Moresby Stock Exchange listed Highlands Pacific Limited and the unlisted CorporActive Fund Limited. Mr Berry is a citizen of the United States and Australia.

During the three year period to the end of the financial year, Mr Berry has held directorships in CorporActive Fund Limited (September 2007 – August 2013) and Viridis Investment Management Limited (July 2005 – February 2011).

INFORMATION ON DIRECTORS (Cont'd)

John WS Fletcher CBE
Non-Executive Chairman from date of appointment 7 April 2006 until resignation on 25 November 2013

Mr Fletcher served as an Executive and main Board Director of the Trafalgar Group ("Trafalgar") for more than 20 years, which at the time was one of the UK's largest industrial groups. Following the acquisition of Trafalgar by Kvaerner ASA ("Kvaerner"), he became Chairman and President of Kvaerner's engineering and construction worldwide operations.

In 1996, he was awarded the title of CBE (Commander of the British Empire) for his contribution to British industry. He was a member of the international advisory team to the Beijing Mayor in 1998 and later held the position of Executive Vice Chairman of the Construction Supervision Committee for the National Stadium for the Beijing 2008 Olympics.

Mr Fletcher is based in Hong Kong and is a director and shareholder of Somerley Group Limited ("Somerley"), the holding company for Somerley Limited (a specialist financial services company which has been operating for more than 25 years with a Beijing Representative Office), Somerley China Associates Limited, Somerley Asset Management Limited, Somerley Singapore Pte Limited, Somerley Investment Consulting (Shanghai) Limited and Somerley Australia Limited. Somerley also own 40% of Sydney based financial advisory firm Inteq Limited in which Mr Fletcher is a Somerley Director. Somerley advises both Chinese and international groups from its Hong Kong, Beijing, Shanghai, Sydney and Perth offices on access to capital via the Hong Kong Stock Exchange and via foreign direct investment. Mr Fletcher continues to maintain his well-established industry, government and financial connections in London.

Mr Fletcher also sits on the Advisory Board of Ambienta SGR S.p.A a fund management company focusing on the environment based in Italy as well as Luxottica China Advisory Board.

During the three year period to the end of the financial year, Mr Fletcher has not held a directorship in any other listed company.

Company Secretary

Murray Wylie
Company Secretary from date of appointment 20 January 2012
Qualifications - B Com (Hon), GradDipAppCorpGov, ACIS

Mr Wylie has more than 30 years experience in administrative and accounting roles in both the public and private sectors, including several years experience as Company Secretary and accountant for another ASX/AIM listed company.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year consisted of exploration for unconventional gas and for gold and other minerals. There was no significant change in the nature of those activities during the year. Shareholders voted to change the Group's investing policy on 13 January 2014 to remove references to energy projects and focus on mineral exploration opportunities following the demerger of its energy assets.

CONSOLIDATED RESULTS

	Year ended 31 December 2013 $	Six months ended 31 December 2012 $
Loss of the Group before income tax	**(8,713,880)**	**(4,309,715)**
Income tax expense	**(10,095)**	**(70,257)**
Net loss attributable to members of Leyshon Resources Limited	**(8,723,975)**	**(4,379,972)**
Net cash flows used in operating activities	**(7,394,400)**	**(2,222,602)**

	31 December 2013 $	31 December 2012 $
Net assets	**32,352,084**	**47,821,581**

REVIEW OF OPERATIONS

During the year ended 31 December 2013, the Company has undertaken exploration drilling and testing on its Zijinshan unconventional gas project. The Company has been reviewing and undertaking due diligence on a number of investment opportunities, some of which have the potential to meet the Company's investment criteria. The Company has also been focussing on implementing a corporate restructure to effect the separation of its energy and mineral businesses.

During the year, the Company, through its wholly owned subsidiary Pacific Asia Petroleum Limited (PAPL), carried out drilling and testing programmes associated with its exploration and appraisal programme for its Zijinshan Gas Project on the eastern fringe of the prolific Ordos Gas Basin in Central China. The programme remains at an early stage in the exploration and appraisal phase of de-risking the project and accordingly each well will be fully evaluated before proceeding with the subsequent well.

The Zijinshan PSC is with PetroChina Coal Bed Methane Company Limited (PCCBM) which is a subsidiary of China National Petroleum Corporation, the country's largest integrated energy company. PCCBM has retained the right to buy back a 40% interest in the contract at the completion of the exploration phase and to jointly fund the project into production.

During the year, drilling of well ZJS6 was completed in January 2013 and well ZJS7 was completed in September 2013. Flow testing was carried out on wells ZJS5 (drilled in 2012) along with wells ZJS6 and ZJS7. The Company also acquired 318 kilometres of 2D seismic data.

Following the hydraulic facture stimulation of one of the target zones in well ZJS5 a free gas flow rate of 160,000 scf/day was recorded over eight hours of stable flow at a tubing head pressure of 200psi. The initial flow rate recorded on the single zone exceeded management's internal estimate for commercial production of 125,000 scf/day.

Analysis of the results to date suggests that further flow may be possible from untested potential pay zones. Following a three week shut-in period a formation pressure test on a single zone recorded 16.5MPa/2425psi, significantly higher than that recorded in nearby wells in the same strata.

Testing of well ZJS6 was suspended due to technical issues. The well has a total depth of 2,320 metres with 80 metres of cumulative potential pay interval intersected across 15 potential pay zones. Several of the zones tested, which elsewhere in the field are dry, produced water. It has not been possible to isolate or to accurately define the source of the water nor to determine whether these are issues specific to well ZJS6 or more general to this area of the licence. Accordingly the decision was made to discontinue testing on the well for the time being and to focus exploration and appraisal efforts on the upcoming programme.

It is possible that the ZJS6 well may be revisited at later date to attempt to isolate the water and to test different zones. However very useful information on the target zones has been gathered which will be valuable for testing future wells.

Interpretation of the 318 kilometres of 2D seismic data acquired was completed with the results being used to assist in determining future well locations and later to assist in resource assessment. The results are also required as supporting data for the Chinese Reserve Report submission.

The drilling of well ZJS7, at a location approximately three kilometres to the northeast of well ZJS5, has been completed and it is now undergoing testing. The well has a design depth of approximately 2,100 metres and is targeting the same potential pay zones as those intersected in well ZJS5.

BUSINESS STRATEGIES AND PROSPECTS

On 13 September 2013, the Company announced that it would seek shareholder and regulatory approvals to undertake a corporate restructure to effect the separation of its energy and mineral businesses.

The restructure was implemented on 23 January 2014 after obtaining shareholder approval on 13 January 2014. The restructure was achieved through the demerger of the Company's energy assets, including the Company's interests in the Zijinshan Gas Project along with cash reserves of approximately US$33 million, into an energy focussed vehicle, Leyshon Energy Limited (Leyshon Energy). The demerger was effected via a pro-rata in-specie distribution of 100% of shares in Leyshon Energy to the Company's shareholders on a one-for-one basis.

In the Directors' opinion, the principal advantages to shareholders of the Energy Separation are as follows:

- Shareholders will retain their current indirect interest in the Zijinshan Gas Project through their pro rata shareholding in Leyshon Energy.
- Shareholders will retain their shareholding in the Company in the same proportion in which it was held prior to the implementation of the Energy Separation.
- It enables the Company to focus on the Mt Leyshon Gold Project, and other mineral investment opportunities whilst enabling Leyshon Energy to focus on the Zijinshan Gas Project as well as actively seeking other investment and acquisition opportunities in the oil and gas sector in China and elsewhere.
- It provides a strategic opportunity to develop Leyshon Energy as a stand-alone company which can continue to explore and commercialise the Zijinshan Gas Project and should enable a more transparent market value to be placed on the Zijinshan Gas Project.

After approving the demerger of Leyshon Energy on 13 January 2014, shareholders approved amendments to the Company's investing policy to reflect the Company's focus on gold and other minerals exploration and investment opportunities by removing references to energy projects. The investing policy aims to capitalise on the Company's extensive experience in China. The policy focuses on acquiring and developing mineral projects in those commodities and located in those countries which it believes will be of interest to Chinese mining and other groups for either offtake, partnership or sale.

The Company continues to review, and in some cases carry out due diligence, on a number of possible projects both internationally and within China.

DIVIDENDS

No interim or final dividend has been declared in respect to the year ended 31 December 2013 (six months ended 31 December 2012: nil).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 13 September 2013 the Company announced that it that it would seek shareholder and regulatory approvals to undertake a corporate restructure to effect the separation of its energy and mineral businesses. On 9 December 2013 the Company despatched a Notice of Meeting seeking shareholder approval to demerge its energy assets via an in-specie distribution to eligible shareholders of the

Company. Shareholder approval was obtained subsequent to year end on 13 January 2014 and the demerger implemented on 23 January 2014.

During the year ended 31 December 2013, the Company announced the closure of its on-market share buyback programme. In the year to 31 December 2013, no shares were purchased by the Company under the share buyback programme.

On 17 December 2012 the Company announced that it had changed its financial year end from 30 June to 31 December and a change in presentation currency from Australian Dollars to United States Dollars, effective 1 January 2013.

Readers of this report should be aware that when comparing current period figures to comparatives, they are comparing the current twelve month period to the previous six month period. The current financial period covers 1 January 2013 to 31 December 2013 while the previous financial period covered 1 July 2012 to 31 December 2012.

SUBSEQUENT EVENTS

Other than as disclosed below, as at the date of this report there are no matters or circumstances which have arisen since 31 December 2013 that have significantly affected or may significantly affect:

a) the operations, in financial years subsequent to 31 December 2013, of the Group constituted by Leyshon Resources Limited and the entities it controls from time to time;
b) the results of those operations; or
c) the state of affairs, in financial years subsequent to 31 December 2013, of the Group.

On 13 January 2014, shareholders approved the demerger of the Company's energy assets via the in-specie distribution of 100% of the ordinary shares of Leyshon Energy Limited to eligible shareholders of the Company. The demerger was completed and Leyshon Energy Limited commenced trading on the AIM market of the London Stock Exchange on 23 January 2014.

Mr Corey Nolan was appointed as Managing Director of Leyshon Resources on 14 February 2014.

LIKELY DEVELOPMENTS

The Company continues to receive investment proposals from many locations around the world and it actively considers each one in light of its competitive advantage of being able to access the Chinese end user market.

The Company remains diligent in its assessment of assets at all times and is therefore prepared to commit significant expenditure on due diligence and other studies before committing to a transaction. The Company can give no assurance that these due diligence investigations and/or discussions will successfully conclude in an acquisition.

In the opinion of the Directors, any further disclosure of information regarding likely developments in the operations of the Group and the expected results of these operations in subsequent financial years may prejudice the interests of the Group and accordingly, has not been disclosed.

ENVIRONMENTAL REGULATIONS

The Group's operations are subject to various environmental laws and regulations under the relevant government's legislation. Full compliance with these laws and regulations is regarded as a minimum standard for all operations to achieve.

Instances of environmental non-compliance by an operation are identified either by external compliance audits or inspections by relevant government authorities.

Pursuant to an agreement between the Company and Newmont Australia Limited ("Newmont"), Newmont is responsible for all environmental obligations in respect of the Mt Leyshon leases in perpetuity regardless of changes to those obligations arising from changes to regulatory requirements and has indemnified the Company to that effect.

SHARES

During the year, no shares were issued by the Company.

OPTIONS

During the year ended 31 December 2013 no options were granted or lapsed. There were no unissued ordinary shares of Leyshon Resources under option at the date of this report.

During the year, the Company agreed to issue 5,000,000 performance rights to Key Management Personnel. These were deemed granted and an expense recognised. The intended recipients subsequently agreed to forego their entitlement should the demerger of the Company's energy assets proceed. The demerger was completed on 23 January 2014 and accordingly the performance rights will not be issued.

During the year no shares were issued as a result of the exercise of options. Since 31 December 2013 and up to the date of this report, no shares have been issued as a result of the exercise of options.

INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company, the company secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or an auditor.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's directors held during the year ended 31 December 2013, and the number of meetings attended by each director.

	Board Meetings		**Audit Committee Meetings**		**Remuneration Committee Meetings**	
	Held	Attended	Held	Attended	Held	Attended
Directors						
Richard Seville	13	10	2	2	1	1
Paul C Atherley	13	12	N/A	N/A	N/A	N/A
Andrew Berry III	13	13	2	2	1	1
John WS Fletcher	13	11	2	2	1	1

INFORMATION ON DIRECTORS' INTERESTS IN SECURITIES OF LEYSHON RESOURCES

	Interest in Securities at the date of this Report	
	Ordinary Shares	**Options**
Richard Seville	750,000	-
Corey Nolan	-	-
Paul C Atherley	31,330,000	-
Andrew Berry III	-	-

REMUNERATION REPORT (AUDITED)

This remuneration report which forms part of the directors' report, sets out information about the remuneration of Leyshon Resources Limited's directors and its senior management for the year ended 31 December 2013. The prescribed details for each person covered by this report are detailed below.

Director and Senior Management Details

The following persons acted as directors of Leyshon Resources Limited during or since the end of the financial year:

- Richard P Seville *(Non Executive Director, Chairman from 25 November 2013)*
- Corey Nolan *(Managing Director appointed 14 February 2014)*
- Paul C Atherley *(Non Executive Director, Managing Director until 14 February 2014)*
- Andrew J Berry III *(Non Executive Director)*
- John WS Fletcher *(Chairman – resigned 25 November 2013)*

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

- Peter Niu – *Chief Financial Officer*
- Frank Fu – *Chief Operating Officer*
- Murray Wylie – *Company Secretary*

There were no other group executives or Company executives during the period.

Remuneration policies

Executive remuneration

The Company's remuneration policy for executive directors and senior management is designed to promote superior performance and long term commitment to the Company. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Company's operations. Executives receive a base remuneration which is market related, together with an element of performance based remuneration.

Overall remuneration policies are subject to the discretion of the Board and will be adapted to reflect competitive market and business conditions where it is in the interests of the Company and shareholders to do so. Within this framework, the remuneration committee considers remuneration policies and practices generally, and determines specific remuneration packages and other terms of employment for executive directors and senior executive management.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance, relevant comparative information and expert advice.

The objective of any short term incentives is to link achievement of the Company's operational targets with the remuneration received by executives charged with meeting those targets. The objective of long term incentives is to reward executives in a manner which aligns this element of their remuneration with the creation of shareholder wealth.

The committee's remuneration policies are designed to align executive's remuneration with shareholders' interests and to retain appropriately qualified executive talent for the benefit of the Company. The main principles of the policies are that:

- Reward reflects the competitive market in which the Company operates;
- Individual reward should be linked to performance criteria; and
- Executives should be rewarded for both financial and non-financial performance.

REMUNERATION REPORT (Cont'd)

The structure of remuneration packages for executive directors and other senior executive management consists of the following:

- Salary – executive directors and senior executives receive a fixed sum base salary payable monthly in cash;
- Short term incentives – through eligibility to participate in performance bonus plans;
- Long term incentives – executive directors are eligible to participate in share option or performance rights schemes with the prior approval of shareholders. Senior management may also participate in employee share option or performance rights schemes, with any option or performance right issues generally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue shares or options to senior management outside of approved employee option plans and in the event that no employee option plan exists; and
- Other benefits - executive directors and senior management, where applicable, are eligible to participate in superannuation schemes.

Non-executive directors' remuneration

In accordance with current corporate governance practices, the structure for the remuneration of non-executive directors and senior management is separate and distinct. Shareholders approve the maximum aggregate remuneration for non-executive directors. The remuneration committee recommends the actual payments to directors and the Board is responsible for ratifying any recommendations, as appropriate. The maximum aggregate remuneration approved for non-executive directors is currently $250,000 which does not include any share based payments. The Board approves any consultancy arrangements for non-executive directors who provide services outside of and in addition to their duties as non-executive directors.

Non-executive directors are entitled to statutory superannuation benefits if applicable. In line with recommended corporate governance principles, non-executive directors are not entitled to participate in equity based remuneration schemes.

All directors are entitled to have their indemnity insurance paid by the Company.

Relationship between the remuneration policy and Company performance

The table below sets out summary information about the Group's earnings and movements in shareholder wealth for the five financial periods to December 2013. All amounts have been restated to reflect the change in the Group's presentation currency effective 1 January 2013.

	Year ended 31 December 2013	6 months ended 31 December 2012	Year ended 30 June 2012	Year ended 30 June 2011	Year ended 30 June 2010
	$	$	$	$	$
Revenue	715,130	1,162,143	3,160,146	2,979,510	26,388,977
Net (loss)/profit before tax	(8,713,880)	(4,309,715)	(3,240,541)	(525,996)	23,514,859
Net (loss)/profit after tax	(8,723,975)	(4,379,972)	(3,527,333)	(771,708)	23,375,243
Share price at start of period (AUD)	0.210	0.175	0.250	0.200	0.100
Share price at end of period (AUD)	0.105	0.210	0.175	0.250	0.200
Dividend paid	-	-	-	-	-
Basic (loss)/profit per share (cents)	(3.5)	(1.8)	(1.4)	(0.3)	10.8
Diluted (loss)/profit per share (cents)	(3.5)	(1.8)	(1.4)	(0.3)	10.8

There is currently no direct link in the relationship between the remuneration for key management personnel and the Company's financial performance, however, this position may change and be reassessed in the future.

REMUNERATION REPORT (Cont'd)

Service Agreements

Non Executive Directors

Mr Seville

The Company has entered into a service agreement with Mr Seville whereby he is paid a fee of A$45,000 per annum including superannuation in his capacity as Non-Executive Director with effect from 1 January 2009. Mr Seville is entitled to receive reimbursement for out of pocket expenses incurred whilst on Company business. The agreement is for no fixed term, does not provide for the payment of termination benefits and may be terminated by either party providing 90 days written notice.

In addition, the Company has entered into a consultancy arrangement with Richard Seville & Associates Pty Ltd for the provision of technical services by Mr Seville at the rate of A$1,600 per day. Either party can terminate the consultancy agreement by providing three months written notice.

Mr Berry

The Company has entered into a service agreement with Mr Berry whereby he is paid a fee of A$45,000 per annum including superannuation in his capacity as Non-Executive Director with effect from 1 January 2009. Mr Berry is entitled to receive reimbursement for out of pocket expenses incurred whilst on Company business. The agreement is for no fixed term, does not provide for the payment of termination benefits and may be terminated by either party by providing 90 days written notice.

Mr Fletcher

The Company has entered into a service agreement with Mr Fletcher whereby he is paid a fee of A$66,000 per annum in his capacity as Chairman with effect from 1 January 2009. Mr Fletcher is entitled to receive reimbursement for out of pocket expenses incurred whilst on Company business. The agreement is for no fixed term, does not provide for the payment of termination benefits and may be terminated by either party by providing 90 days written notice. Mr Fletcher resigned 25 November 2013.

Executive Director

Mr Atherley

The service agreement in place during the year with North Asia Metals Ltd (NAM) for Managing Director and consultancy services provided by Mr Atherley, contains the following key provisions:

- Entered into with effect from 6 August 2012 with end date 31 December 2015;
- Base fee of $460,000 per annum; and
- May be terminated by the Company with not more than three months notice or by NAM by providing at least six months notice;
- If Mr Atherley is removed as a director of the Company by shareholders, or as the managing director of the Company, then the Company will be deemed to have terminated the contract;
- An expatriate allowance of $105,000 per annum;
- An annual cash bonus of up to 50% of base fee per annum is payable based on, in the Board's view, the contribution of Mr Atherley towards the general performance of the Company and his achievement of any agreed personal objectives. A cash bonus of $105,000 was granted during the year ended 31 December 2013 (six months to 31 December 2012: nil);
- An annual long term incentive with the maximum accounting cost to the Company of 50% of the annual base fee;
- No amount is payable in the event of termination for neglect of duty or gross misconduct; and
- If Mr Atherley's contract is terminated, other than for neglect of duty or gross misconduct, then the Company shall pay to Mr Atherley a Termination Payment equal to the base fee for one year. In the event that the Termination Payment exceeds the amount calculated in accordance with section 200F of the Corporations Act or Chapter 10.19 of the ASX Listing Rules, then the Termination Payment will be reduced by such amount as is necessary so as to not exceed the amount permitted.

REMUNERATION REPORT (Cont'd)

Senior Management

Mr Niu

The service agreement in place with Mr Niu during the year contains the following key provisions:

- Entered into with effect from 6 August 2012 with end date 5 August 2015;
- Base salary of $300,000 per annum;
- May be terminated by the Company with not more than three months notice or by Mr Nui by providing at least six months notice;
- An expatriate allowance of $105,000 per annum;
- An annual discretionary cash bonus of up to 50% of base salary per annum is payable based on, in the Board's view, the contribution of Mr Nui towards the general performance of the Company and his achievement of any agreed personal objectives. A cash bonus of $105,000 was granted during the year ended 31 December 2013 (six months ended 31 December 2012: nil);
- An annual long term incentive with the maximum accounting cost to the Company of 50% of the annual base salary;
- No amount is payable in the event of termination for neglect of duty or gross misconduct; and
- If Mr Niu's contract is terminated, other than for neglect of duty or gross misconduct, then the Company shall pay to Mr Nui an amount equal to the base fee for six months.

Mr Fu

The service agreement in place during the financial period with Mr Frank Fu contains the following key provisions:

- Entered into with effect from 1 March 2013 with end date 29 February 2016;
- Base salary of RMB1,785,000 ($292,000) per annum;
- May be terminated by the Company with not more than three months notice or by Mr Fu by providing at least three months notice;
- Additional allowances and statutory welfare of RMB717,000 ($117,300) per annum;
- An annual discretionary cash bonus of up to 50% of base salary per annum is payable based on, in the Board's view, Mr Fu's achievement of any agreed personal objectives, performance targets and Company targets. A cash bonus of $75,000 was granted during the year ended 31 December 2013 (six months ended 31 December 2012: nil);
- An annual long term incentive with the maximum accounting cost to the Company of 50% of the annual base fee;
- No amount is payable in the event of termination for neglect of duty or gross misconduct; and
- If Mr Fu's contract is terminated, other than for neglect of duty or gross misconduct, then the Company shall pay to Mr Fu an amount equal to the base salary for three months

Mr Wylie

Mr Wylie receives payment of A$5,000 per month but has not entered into a formal service agreement.

Novation of Service Agreements to Leyshon Energy Limited

Deeds of novation were entered into with Mr Atherley, Mr Nui and Mr Fu to terminate their agreements with Leyshon Resources and transfer the agreements to Leyshon Energy Limited, with effect from the implementation of the demerger agreement on 23 January 2014.

REMUNERATION REPORT (Cont'd)

Details of Remuneration

The emoluments (paid or payable) of the Directors and senior management for the year ended 31 December 2013 are as follows:

	Short-term employee benefits			Post-employment		Share Based Payment		
	Salary & fees $	Bonus (1) $	Other (2) $	Super-annuation $	Termination Benefits $	Perform-ance rights (3) $	**Total $**	% relating to perfor-mance rights
Directors								
Paul C Atherley	556,896	104,585	104,737	-	-	6,825	773,043	0.9%
Richard Seville	42,511	-	-	896	-	-	43,407	-
Andrew Berry III	39,800	-	-	3,607	-	-	43,407	-
John WS Fletcher (4)	57,435	-	19,251	-	-	-	76,686	-
Senior management								
Peter Niu	314,297	109,943	103,130	-	-	2,531	529,901	0.5%
Frank Fu	265,936	78,530	102,498	13,389	-	1,688	462,041	0.4%
Murray Wylie	53,097	-	-	4,845	-	-	57,942	-
Total	1,329,972	293,058	329,616	22,737	-	11,044	1,986,427	0.6%

(1) 2012 Short Term Incentive bonus granted at the discretion of the Board.

(2) Expatriate allowance for Mr Atherley and Mr Niu. Additional allowances for Mr Fu. Consultancy fees for Mr Fletcher

(3) Agreements to issue performance rights but the officers subsequently agreed to forego conditional upon the demerger which was completed effective 23 January 2014. Refer Note 29 for further details.

(4) Mr Fletcher resigned 25 November 2013.

The emoluments (paid or payable) of the Directors and senior management for the six months ended 31 December 2012 are as follows:

	Short-term employee benefits			Post-employment	Share Based Payment			
	Salary & fees $	Bonus (1) $	Other (2) $	Super-annuation $	Termination Benefits $	Perform-ance rights $	**Total $**	% relating to perfor-mance rights
Directors								
Paul C Atherley	144,690	-	48,230	-	-	-	192,920	-
Richard Seville	21,703	-	-	-	-	-	21,703	-
Andrew Berry III	19,911	-	-	1,792	-	-	21,703	-
John WS Fletcher	31,832	-	-	-	-	-	31,832	-
Senior management								
Peter Niu	125,432	-	48,230	-	-	-	173,662	-
Frank Fu (3)	72,457	72,345	17,218	2,843	-		164,863	-
Murray Wylie	26,549	-	-	2,389	-	-	28,938	-
Total	442,574	72,345	113,678	7,024	-	-	635,621	-

(1) Mr Fu received a sign-on bonus, which was paid in cash on commencement of employment.

(2) Expatriate allowance for Mr Atherley, Mr Niu and Mr Fu.

(3) Mr Fu commenced 17 September 2012.

REMUNERATION REPORT (Cont'd)

Share-based Compensation

No options were granted, vested, exercised or lapsed in relation to Directors and senior management during the year. There were no options held by Directors or senior management during the period.

During the year, the Company agreed to issue 2,500,000 performance rights to Mr Atherley, 1,500,000 performance rights to Mr Niu and 1,000,000 to Mr Fu. Shareholder approval was obtained for Mr Atherley's performance rights on 31 May 2013.

Mr Atherley, Mr Fu and Mr Niu subsequently agreed in writing to forego their performance rights conditional on the successful demerger of the Group's energy assets and subsequent listing of Leyshon Energy Limited on London's AIM exchange. This occurred on 23 January 2014. As a result these performance rights will not be issued.

Each performance right would be valid for five years and would entitle the holder to one free fully paid ordinary share in Leyshon Resources Limited. The rights would vest upon achievement of set performance milestones in relation to the Zijinshan PSC. 50% would vest when pilot gas production commenced, 25 % after obtaining approval of a Chinese Reserves Report and the final 25% following approval of the Overall Development Plan.

The grant of share options or performance rights is not directly linked to previously determined performance milestones or hurdles as the current stage of the Group's activities make it difficult to determine effective and appropriate key performance indicators and milestones. No options were forfeited during the period. Certain additional details in relation to the performance rights have been included within Note 29 of the financial statements.

There is currently no Board policy in relation to the person granted the option limiting his or her exposure to risk in relation to the securities as the options are issued in addition to their separate remuneration package.

NON-AUDIT SERVICES

The Directors are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Audit Committee assesses the provision of non-audit services by the auditors to ensure that the auditor independence requirements of the Corporations Act 2001 in relation to the audit are met.

Details of amounts paid or payable to the auditor for non-audit services provided during the period by the auditor are outlined in note 4 to the financial statements.

REMUNERATION CONSULTANTS

During the year CRA Plan Managers Pty Limited (CRA) completed a review of the remuneration policies and strategies of the Company as well as a review of individual Director and Senior Management remuneration. No other kind of advice was provided by CRA. A cash fee of $7,336 was paid for remuneration consultancy provided during the period.

All data provided to the remuneration consultants was reviewed by the remuneration committee and all communications between the Company and the remuneration consultants were via the remuneration committee. The Board is satisfied that remuneration recommendations from CRA have been made free from undue influence by the members of key management personnel to whom the recommendations relate.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, Deloitte Touche Tohmatsu, to provide the directors of Leyshon Resources with an Independence Declaration in relation to the audit of the attached Financial Statements. This Independence Declaration is included in this Financial Report at page 17 and forms part of this Directors' Report.

REMUNERATION REPORT (Cont'd)

CHANGE OF REPORTING PERIOD – COMPARATIVE AMOUNTS

During the previous period the Company notified the Australian Securities and Investment Commission (ASIC) under s 323D(4) of the Corporations Act 2001 that the Company was changing its financial year end from 30 June to 31 December, effective 31 December 2012. The change was required to align Leyshon's financial year end with that of PAPL, following its acquisition on 6 August 2012. Consequently the comparative financial information is as at 31 December 2012 and for the six month period then ended.

The current financial period covers 1 January 2013 to 31 December 2013.

Readers of this report should be aware that when comparing current period figures to comparatives, they are comparing the current twelve month period to the previous six month period.

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

On behalf of the Directors

Corey Nolan
Managing Director

24 March 2014

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Leyshon Resources Limited
Suite 3, Level 3
1292 Hay Street
West Perth WA 6005

24 March 2014

Dear Board Members

Leyshon Resources Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Leyshon Resources Limited.

As lead audit partner for the audit of the financial statements of Leyshon Resources Limited for the financial year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D Newman.

David Newman
Partner
Chartered Accountants

DIRECTORS' DECLARATION

The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Company and the Group;

(c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in note 1; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

Corey Nolan
Managing Director

24 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Year Ended 31 Dec 2013 $	Six Months Ended 31 Dec 2012 $
Continuing operations			
Revenue	2(a)	**715,130**	1,161,892
Exploration expenses		(697)	(203,375)
Project evaluation		-	(150,515)
Administration expenses		(1,988,894)	(822,838)
Foreign exchange gains/(losses)		352,774	(14,898)
Mt Leyshon holding costs		(249,548)	(234,998)
Share-based payments		(11,044)	-
Loss before tax	**2(b)**	**(1,183,279)**	(264,730)
Income tax expense	3	(10,095)	(70,257)
Loss for the year from continuing operations		**(1,192,374)**	(334,987)
Discontinued operations			
Loss for the year from discontinued operations	8	(7,531,601)	(4,044,985)
Loss for the period		**(8,723,975)**	(4,379,972)
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(591,142)	156,800
Exchange differences on translating into presentation currency		(6,165,424)	1,049,772
Other comprehensive income for the period net of tax		(6,756,566)	1,206,572
Total comprehensive income for the period		**(15,480,541)**	(3,173,400)
Loss attributable to members of Leyshon Resources Limited		(15,480,541)	(3,173,400)
Total comprehensive income attributable to members of Leyshon Resources Limited		(15,481,457)	(3,173,400)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Cont'd)
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Year Ended 31 Dec 2013 $	Six Months Ended 31 Dec 2012 $
Loss Per Share			
From continuing and discontinued operations			
Basic (cents per share)	17	(3.5)	(1.8)
Diluted (cents per share)	17	(3.5)	(1.8)
From continuing operations			
Basic (cents per share)	17	(0.5)	(0.1)
Diluted (cents per share)	17	(0.5)	(0.1)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes. All amounts presented in respect of prior periods have been restated to reflect the change in presentation currency as set out in the accounting policies.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	31 Dec 2013 $	31 Dec 2012 $
ASSETS			
Current Assets			
Cash and bank balances	26(a)	3,070,886	47,253,874
Trade and other receivables	5	35,336	674,828
Current tax assets		24,639	-
Other assets	6	20,175	67,188
		3,151,036	47,995,890
Assets classified as held for distribution	9	38,186,634	-
Total Current Assets		**41,337,670**	47,995,890
Non-Current Assets			
Other financial assets	7	13,309	15,557
Property, plant and equipment	10	10,541	229,983
Exploration & evaluation assets	11	-	5,519,320
Total Non-Current Assets		**23,850**	5,764,860
TOTAL ASSETS		**41,361,520**	53,760,750
LIABILITIES			
Current Liabilities			
Trade and other payables	12	77,214	3,266,105
Current tax liabilities		-	188,765
Provisions	13	74,086	104,261
		151,300	3,559,131
Liabilities directly associated with assets classified as held for distribution	9	8,858,136	-
Total Current Liabilities		**9,009,436**	3,559,131
Non-Current Liabilities			
Trade and other payables	12	-	1,106,349
Deferred tax liability	3	-	1,273,689
Total Non-Current Liabilities		**-**	2,380,038
TOTAL LIABILITIES		**9,009,436**	5,939,169
NET ASSETS		**32,352,084**	47,821,581

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Cont'd)
AS AT 31 DECEMBER 2013

	Note	31 Dec 2013 $	31 Dec 2012 $
EQUITY			
Issued capital	14	57,071,050	57,071,050
Reserves	15	1,470,493	8,634,239
Accumulated losses	16	(26,607,683)	(17,883,708)
		31,933,860	47,821,581
Less amounts recognised in other comprehensive income and accumulated in equity relating to assets classified as held for distribution	15	418,224	-
TOTAL EQUITY		**32,352,084**	47,821,581

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes. All amounts presented in respect of prior periods have been restated to reflect the change in presentation currency as set out in the accounting policies.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Issued Capital	Equity-settled employee benefits reserve	Foreign exchange reserve	Accumulated losses	Total
	$	$	$	$	$
Balance at 1 July 2012	**56,167,213**	**-**	**7,427,667**	**(13,503,736)**	**50,091,144**
Loss for the period	-	-	-	(4,379,972)	(4,379,972)
Other comprehensive income for the period, net of tax	-	-	1,206,572	-	1,206,572
Total comprehensive income for the period	**-**	**-**	**1,206,572**	**(4,379,972)**	**(3,173,400)**
Issue of shares	1,817,970	-	-	-	1,817,970
Share transaction costs	(6,701)	-	-	-	(6,701)
Buy back of shares	(907,432)	-	-	-	(907,432)
Balance at 31 Dec 2012	**57,071,050**	**-**	**8,634,239**	**(17,883,708)**	**47,821,581**
Loss for the year	-	-	-	(8,723,975)	(8,723,975)
Other comprehensive income for the period, net of tax	-	-	(6,756,566)	-	(6,756,566)
Total comprehensive income for the period	**-**	**-**	**(6,756,566)**	**(8,723,975)**	**(15,480,541)**
Recognition of share-based payments	-	11,044	-	-	11,044
Balance at 31 Dec 2013	**57,071,050**	**11,044**	**1,877,673**	**(26,607,683)**	**32,352,084**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes. All amounts presented in respect of prior periods have been restated to reflect the change in presentation currency as set out in the accounting policies.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	Year Ended 31 Dec 2013 $	Six Months Ended 31 Dec 2012 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(7,677,413)	(2,811,506)
Mt Leyshon holding costs		(699,410)	(743,877)
Income tax paid		(212,446)	(61,664)
Interest received		1,194,868	1,394,445
Net cash flows used in operating activities	8, 26(b)	(7,394,401)	(2,222,602)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiary	24	-	(2,462,902)
Acquisition of plant and equipment	10	(122,136)	(62,823)
Net cash flows used in investing activities	8	(122,136)	(2,525,725)
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue costs		-	(6,698)
Payment for buy-back of shares		-	(898,065)
Share transaction costs		-	(9,048)
Net cash flows used in investing activities	8	-	(913,812)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(7,516,537)	(5,662,139)
Cash and cash equivalents at the beginning of the period		47,253,874	51,828,545
Effects of exchange rate changes on cash and cash equivalents		(3,546,346)	1,087,468
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	26(a)	36,190,991	47,253,874

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes. All amounts presented in respect of prior periods have been restated to reflect the change in presentation currency as set out in the accounting policies.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

Leyshon Resources Limited (the Company) is a limited company incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange, and on the AIM Board of the London Stock Exchange.

The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report.

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

These financial statements are a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The Group is a for profit entity primarily involved in mineral exploration.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 28 March 2014.

Change of reporting period – comparative amounts

During the previous period the Company notified the Australian Securities and Investment Commission (ASIC) under s 323D(4) of the Corporations Act 2001 that the Company was changing its financial year end from 30 June to 31 December, effective 31 December 2012. The change was required to align Leyshon's financial year end with that of PAPL, following its acquisition on 6 August 2012. Consequently the comparative financial information is as at 31 December 2012 and for the six month period then ended.

The current financial period therefore covers 1 January 2013 to 31 December 2013. The previous financial period covers 1 July 2012 to 31 December 2012.

Readers of this report should be aware that when comparing current period figures to comparatives, they are comparing the current twelve month period to the previous six month period.

In December 2012, the Company also announced a change in presentation currency from Australian dollars to United States dollars effective 1 January 2013 (Note 1(d)). All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US$.

Basis of preparation

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

New and revised Standards and Interpretations affecting amounts reported and/or disclosures in the financial statement

In the current year the Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual reporting period. The following Standards and Interpretations were adopted:

- AASB 10 – Consolidated Financial Statements
- AASB 11 – Joint arrangements
- AASB 12 – Disclosure of interest in Other Entities
- AASB 127 – Separate Financial Statements (2011)
- AASB 128 – Investments in Associates and Joint Ventures (2011)
- AASB 13 – Fair value measurement and related AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
- AASB 119 – Employee benefits (2011), AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (2011) and AASB 2011-11 Amendments to AASB 119 (2011)
- AASB 2011 4 – Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement Standards
- AASB 2011 9 – Amendments to Australian Accounting Standards - Presentation of other comprehensive income
- AASB 2012 2 – Amendments to Australian Accounting Standards - Disclosures - Offsetting financial assets and financial liabilities (Amendments to AASB 7)
- AASB 2012 5 – Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The adoption of these standards did not result in changes in accounting policies or adjustments to the amounts recognised in the financial statements. The standards only affected disclosures in the notes to the financial statements.

<u>Impact of the application of AASB 10</u>
AASB 10 changes the definition of control such that an investor has control over an investee when a) it has power of the investee b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
The application of AASB 10 has had no impact on the consolidated financial statements.

<u>Impact of the application of AASB 11</u>
AASB 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under AASB 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under AASB 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e joint venturers) have rights to the net assets of the arrangement. Previously, AASB 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangement under AASB 31 was primarily determined based on the legal form of the arrangement.
The application of AASB 11 should have no impact as there are no joint arrangements at present

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

New and revised Standards and Interpretations affecting amounts reported and/or disclosures in the financial statement (cont'd)

Impact of the application of AASB 12
AASB 12 is a new disclosure standard and is applicable to entities that have interest in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements but this has not had a material impact on the current year consolidated financial statements.

Impact of the application of AASB 13
The Consolidated Entity has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurement and disclosures about fair value measurements. The scope of AASB 13 is broad, the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASB require or permit fair value measurements and disclosures about fair value measurements, except share-based payment transactions that are within the scope of AASB 2, leasing transactions within the scope of AASB 17 and measurements that have some similarities to fair value but are not fair value.
AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation n technique. Also, AASB 13 includes extensive disclosure requirements.
AASB 13 requires prospective application from 1 January 2013. The application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 119
In the current year, the Consolidated Entity has applied AASB 119 (as revised in 2011) 'Employee Benefits' and the related consequential amendments for the first time.
AASB 119 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. These are not currently relevant for the Consolidated Entity and has not had any impact on the amounts recognised in the consolidated financial statements.

Impact of the application of AASB 2012-2
The Consolidated Entity has applied the amendments to AASB 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities' for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Consolidated Entity does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.
The Consolidated Entity has not elected to early adopt any new standards or amendments.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Adoption of new and revised Accounting Standards

At the date of authorisation of the financial report, a number of Standards and Interpretations were on issue but not yet effective:

Affected Standards and Interpretations	Effective for annual reporting periods beginning on or after
AASB 9 'Financial Instruments'(December 2009) and AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' AASB 2012-6 'Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 8 and Transition Disclosure' AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	1 January 2017
AASB 1031 'Materiality' (2013)	1 January 2014
ASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013
AASB 2012-3 'Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities'	1 January 2014
AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets'	1 January 2014
AASB 2013-4 'Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting'	1 January 2014
AASB 2013-9 'Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments'	Part B – Materiality 1 January 2014 Part C – Financial Instruments 1 January 2014

Management is currently evaluating the impact that the initial application of these standards and interpretations will have on the financial reports of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 1, the Directors' are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

a) Significant accounting judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Capitalisation of exploration and evaluation expenditure

The Group has capitalised significant exploration and evaluation expenditure associated with the acquisition of Pacific Asia Petroleum Limited, on the basis either that this is expected to be recouped through future successful development or alternatively sale of the Areas of Interest. If ultimately the area of interest is abandoned or is not successfully commercialised, the carrying value of the capitalised exploration and evaluation expenditure would be written down to its recoverable amount.

Deferred tax assets

The Group expects to have carried forward tax losses which have not been recognised as deferred tax assets because it is not considered sufficiently probable at this point in time, that these losses will be recouped by means of future profits taxable in the relevant jurisdictions.

b) Significant accounting estimates and assumptions

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of capitalised exploration and evaluation expenditure
The future recoverability of capitalised exploration and evaluation expenditure associated with the acquisition of Pacific Asia Petroleum Limited is dependent on a number of factors, including whether the Group decides to exploit the area of interest itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal and political changes, and changes to commodity prices.

As at 31 December 2013, the carrying value of capitalised exploration expenditure is $4,721,611, refer to note 11. This amount was transferred to assets classified as held for distribution, refer to note 9.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Going Concern Basis

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business. The cash assets to be retained by the Group following the demerger of Leyshon Energy are considered sufficient to fund its known expenditure commitments beyond the next twelve months.

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) as at 31 December 2013 and the results of all subsidiaries for the year then ended. Leyshon Resources Limited and its subsidiaries together are referred to as the Group. A list of subsidiaries is provided in note 21.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)). Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company's financial statements.

Intercompany transactions and balances, and unrealised gains on transactions between Group companies, are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and statement of financial position respectively.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(c) Share Based Payments

Share based payments may be provided to directors, employees, consultants and other advisors.

For shares issued as payment, the fair value of the shares issued is recognised as an expense with a corresponding increase in equity. The fair value of the shares issued is based on the volume weighted average share price on the ASX for the previous 10 trading days before they are issued.

For share options granted, the following treatment is adopted:

- The fair value of options granted is recognised as an expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the holders 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 share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

- The fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The expense recognised each period takes into account the most recent estimate.

- Upon the exercise of options, the balance of the reserve relating to those options is transferred to share capital.

(d) Foreign Currency Translation

(i) Change in reporting currency
Effective 1 January 2013, the Company changed its presentation currency from Australian dollars (AUD$) to United States dollars (US$). The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the industry. Prior to 1 January 2013, the Company reported its financial statements in AUD$. A change in presentation currency is a change in accounting policy which is accounted for retrospectively. In making this change in presentation currency, the Company followed the requirements set out in AASB 121 "The Effects of Change in Foreign Exchange Rates" ("AASB 121"). In accordance with AABS 121, the financial statements for all periods presented have been translated into the new presentation currency using the current rate method. Under this method, the consolidated statement of Profit or Loss and other comprehensive income and the consolidated statement of cash flows for each period have been translated into the presentation currency using the average exchange rates prevailing during each reporting period.

All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheets dates. Shareholders' equity transactions have been translated using the rates of exchange in effect as of the dates of the various capital transactions, while shareholders' equity balances from the translation are included as a separate component of other comprehensive income. All resulting exchange differences arising from the translation are included as a separate component of other comprehensive income. All comparative financial information has been restated to reflect the Company's results as if they had been historically reported in US$ and the effect on the consolidated financial statements resulted in an accumulated other comprehensive income adjustment which increased the Foreign exchange reserve to $7.4 million at 1 July 2012.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(ii) Functional currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are recognised in Australian dollars, which is the Company's functional currency. The consolidated financial statements are then translated in United States dollars, which is the company's presentation currency

(iii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iv) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Company's functional currency are translated into the functional currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity in the foreign currency translation reserve.

Where a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

Interest
Interest earned from cash reserves is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(f) Income Tax

The income tax expense or income for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Leyshon Resources Limited and its wholly owned Australian controlled entities have not implemented the tax consolidation legislation.

(g) Operating Leased Assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leased assets, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are not capitalised and rental payments are expensed to the income statement over the lease term on a straight line basis except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's sharebased payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Noncurrent Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

(i) Impairment of Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment where an asset does not generate cash flows that are independent from other assets, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and Cash Equivalents

"Cash and cash equivalents" includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(k) Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

(l) Other Financial Assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

(ii) Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised costs less impairment.

(m) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

(n) Non-current assets held for distribution

Non-current assets and disposal groups are classified as held for distribution if their carrying amount will be returned to shareholders through an in-specie distribution rather than through continuing use. This condition is regarded as met only when the distribution is highly probable and the asset (or disposal group) is available for immediate distribution in its present condition. Management must be committed to the distribution, which should be expected to qualify for recognition as a completed disposal within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for distribution are measured at the lower of their previous carrying amount and fair value less costs to sell.

(o) Property, Plant and Equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 economic 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 income statement during the financial period in which they are incurred.

Plant and equipment are depreciated at rates based upon their expected useful lives as follows:

	Life	**Method**
Plant and Equipment	2 - 15 years	Diminishing value

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 (note 1(i)). Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(p) Payables

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

(q) Employee Benefits

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

The liability for long service leave not expected to be settled within 12 months is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Contributions to superannuation funds are recognised as an expense as they become payable.

(r) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(s) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.
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.

Where the Company reacquires its own shares, for example as a result of share buy-back, those shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid to acquire the shares, including any directly attributable transaction costs net of income taxes, is recognised directly as a reduction from equity.

(t) Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at statement of financial position date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(u) Earnings per Share (EPS)

Basic earnings per share is calculated by dividing the consolidated profit/(loss) attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

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 dilutive 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.

(v) Exploration and evaluation expenditure

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

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

(1) the rights to tenure of the area of interest are current; and
(2) the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale.

For each area of interest, expenditure incurred in the acquisition of rights to explore is capitalised, classified as tangible or intangible, and recognised as an exploration and evaluation asset. Exploration and evaluation assets are measured at cost at recognition. Exploration and evaluation expenditure incurred by the Group subsequent to acquisition of the rights to explore is expensed as incurred until it is determined that expenditures are expected to be recouped and an asset is recognised.

(w) Goods and Services Tax

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

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Year Ended 31 Dec 2013	Six Months Ended 31 Dec 2012
2. LOSS FROM OPERATIONS	**$**	**$**

(a) Revenue
Revenue consisted of the following items:

Interest received/receivable	715,130	1,161,892
Total revenue	715,130	1,161,892

(b) Loss before income tax from continuing operations
Loss before income tax from continuing operations has been arrived at after charging the following losses and expenses:

Depreciation and amortisation - plant and equipment	4,557	5,299
Net movement in provisions for employee entitlements	(2,370)	25,951
Exploration expenses	697	203.375
Project evaluation expenses	-	150,515
Mt Leyshon holding costs	249,548	234,998
Foreign exchange (gain)/loss	(352,774)	14,898
Share-based payments	11,044	-
Rental expense relating to operating leases (minimum lease payments)	50,528	23,824
Directors fees	278,971	118,014
Consultancy	385,200	209,405
Legal fees	353,303	78,796

3. INCOME TAX

Income tax expense		
Current tax	10,095	70,257
Deferred tax	-	-
	10,095	70,257

Numerical reconciliation of income tax expense to prima facie tax payable		
Loss before income tax expense from continuing operations	(1,192,374)	(334,987)
Loss before income tax expense from discontinued operations	(7,531,601)	(4,044,985)
Loss before income tax expense	(8,723,975)	(4,379,972)
Tax at the Australian tax rate of 30% (31 December 2012: 30%)	(2,617,193)	(1,313,992)
Tax effect of amounts which are not deductible in calculating taxable income:		
Other non-deductible expenditure	(647,358)	89,277
	(3,264,551)	(1,224,715)
Tax losses not brought to account	3,274,646	1,294,972
Income tax expense	**10,095**	70,257

Current tax and income tax expense relate to assessable income in China Metals Pty Ltd as the Group is not consolidated for tax.

		Year Ended 31 Dec 2013	Six Months Ended 31 Dec 2012
		$	$

3. INCOME TAX (Cont'd)

Deferred tax liabilities

The balance comprises temporary differences attributable to:			
Fair value adjustments on acquisition of subsidiary [(i)]		-	1,273,689
		-	1,273,689

(i) The deferred tax liability arises upon adoption of the balance sheet method for the acquisition of PAPL as required by AASB 112 *Income Taxes.* Although this does not represent a cash liability payable by the controlled entity, nonetheless the adoption of AASB 112 requires that it be brought to account. On the basis that the controlled entity receives revenue in the future from its operations in China, it will receive an income tax benefit to its Income Statement representing the amortization of the deferred tax liability in line with the amortization of the Exploration and Evaluation expenditure which has been carried forward in respect of this asset.

Movements			
Opening balance at start of period		1,273,689	-
Arising on business combination		-	1,273,689
Foreign exchange movement		(184,807)	
Reclassification to assets held for distribution	9	(1,089,602)	
Closing balance at 31 December		-	1,273,689

Unrecognised Deferred Tax Balances

The following deferred tax assets have not been brought to account as assets:		
Tax losses – revenue	14,158,169	13,032,553
	14,158,169	13,032,553

Movements		
Opening balance at start of period	13,032,553	11,520,156
Tax losses not brought to account during the period	3,271,616	1,273,896
Foreign exchange movement	(2,146,000)	238,501
Closing balance at 31 December	14,158,169	13,032,553

Tax Consolidations

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. The Company and its wholly owned Australian resident entities are eligible to consolidate for tax purposes under this legislation.

The Board has not yet resolved to consolidate eligible entities within the Group for tax purposes. The Board will review this position annually, before lodging of that year's income tax return.

	Year Ended 31 Dec 2013 $	Six Months Ended 31 Dec 2012 $
4. REMUNERATION OF AUDITORS		
Auditor of the parent entity		
Audit Services		
Fees paid to Deloitte Touche Tohmatsu		
- Audit and review of the financial reports and other audit work	79,805	43,097
Other non-audit services		
- Taxation advice	25,683	-
Total remuneration	105,488	43,097

5. TRADE AND OTHER RECEIVABLES

	31 Dec 2013 $	31 Dec 2012 $
Current		
Amounts relating to:		
- interest receivable	-	515,007
- other [(1)]	35,336	159,821
	35,336	674,828

[(1)] Other receivables comprise office rent security deposits and staff expense advances.

Refer note 28 for disclosures on interest rate, foreign exchange, liquidity and credit risk, including aging and recoverability of trade and other receivables.

6. OTHER ASSETS

Current		
Prepayments	20,175	67,188

7. OTHER FINANCIAL ASSETS

Non-current		
Shares in other entities	1	1
Security deposits	13,308	15,556
	13,309	15,557

Each reporting period, the recoverable amount of all non-current assets is assessed. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The recoverable amount of the asset has been based on its fair value less costs to sell. The recoverable amount write down represents the excess of the carrying amount over the recoverable amount as determined by the directors.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

8. DISCONTINUED OPERATIONS

On 13 September 2013, the Company announced that it would seek shareholder and regulatory approvals to separate its energy and mineral businesses. On 9 December 2013 the Company despatched a Notice of Meeting seeking shareholder approval to demerge its energy assets via an in-specie distribution to eligible shareholders of the Company. Shareholders subsequently approved the demerger on 13 January 2014 and the demerger was implemented on 23 January 2014.

The results of the discontinued operations included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income are set out below. The current and comparative period loss and cash flows relating to the energy business have been presented below and have been classified as discontinued operations.

	Year Ended 31 Dec 2013 $	Six Months Ended 31 Dec 2012 $
Loss for the year from discontinued operations		
Revenue	747	251
Exploration expenses	(8,327,824)	(3,224,634)
Exchange gains/(losses)	2,335,170	(127,024)
Other expenses	(1,539,694)	(693,578)
Loss before tax	(7,531,601)	(4,044,985)
Attributable income tax expense	-	-
Loss for the year from discontinued operations (attributable to owners of the Company)	(7,531,601)	(4,044,985)
Loss per share from discontinued operations		
Basic (cents per share)	(3.0)	(1.7)
Diluted (cents per share)	(3.0)	(1.7)
Cash flows from discontinued operations		
Net cash outflows from operating activities	(5,782,695)	(1,866,996)
Net cash outflows from investing activities	(122,136)	(62,824)
Net cash outflows from financing activities	-	-
Net cash outflows	(5,904,831)	(1,929,820)

The energy assets have been classified and accounted for at 31 December 2013 as assets held for distribution (see note 9).

9. ASSETS CLASSIFIED AS HELD FOR DISTRIBUTION

As disclosed in Note 8, the Group obtained shareholder approval on 13 January 2014 to demerge its energy assets via an in-specie distribution to eligible shareholders of the Company, which was implemented on 23 January 2014.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

9. ASSETS CLASSIFIED AS HELD FOR DISTRIBUTION (Cont'd)

The major classes of assets and liabilities of the energy business at the end of the reporting period are as follows:

	31 Dec 2013 $
Cash and bank balances	33,120,105
Trade and other receivables	100,579
Property, plant and equipment	207,278
Exploration & evaluation assets	4,721,611
Other assets	37,061
Assets classified as held for distribution	38,186,634
Trade and other payables	7,726,308
Provisions	42,226
Deferred tax liabilities	1,089,602
Liabilities associated with assets classified as held for distribution	8,858,136
Net assets classified as held for distribution	29,328,498
Amounts recognised directly in equity relating to assets classified as held for distribution	418,224

	31 Dec 2013 $	31 Dec 2012 $
10. PROPERTY, PLANT AND EQUIPMENT		
Plant & equipment		
At cost	111,221	398,487
Accumulated depreciation	(100,680)	(168,504)
Total plant and equipment (Note 10(a))	10,541	229,983
(a) Reconciliation		
Plant and Equipment		
Carrying amount at beginning of year	229,983	24,048
Additions	82,763	63,370
Additions through business combination	-	156,555
Depreciation expense	(48,078)	(14,007)
Reclassification to assets held for distribution	(207,278)	-
Foreign exchange movement	(46,849)	17
Total plant & equipment	10,541	229,983

11. EXPLORATION AND EVALUATION ASSETS

	31 Dec 2013 $	31 Dec 2012 $
Current		
Balance brought forward	5,519,320	-
Additions through business combination	-	5,526,484
Foreign exchange movement	(797,709)	(7,164)
Reclassification to assets held for distribution	(4,721,611)	-
Closing balance	-	5,519,320

The Group has exploration and evaluation assets in the Ordos Gas Basin in Central China. Recoverability of the carrying amount of exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively the sale, of the respective areas of interest. Refer note 1 for further information on the recoverability of this asset.

In July 2012, Leyshon acquired 100% of Pacific Asia Petroleum Limited (PAPL), which owns a 100% interest in the Zijinshan Production Sharing Contract (PSC), which is located on the eastern fringe of the prolific Ordos Gas Basin in Central China. Upon acquisition of PAPL, an exploration and evaluation asset of $5,526,484 was recognised by the Group. Refer note 24 for further information in relation to the acquisition of PAPL. Exploration and evaluation expenditure subsequent to the acquisition is expensed until it is determined that expenditures are expected to be recouped and an asset is recognised, refer note 1(v).

At 31 December 2013, the exploration and evaluation assets associated with PAPL were reclassified as assets held for distribution (Note 9) in recognition of the decision to seek shareholder approval for the demerger of the Company's energy assets via an in-specie distribution (Note 8) to eligible shareholders.

12. TRADE AND OTHER PAYABLES

	31 Dec 2013 $	31 Dec 2012 $
Current		
Trade creditors	40,786	250,704
Accruals	36,428	2,497,169
Mt Leyshon Compensation Agreements	-	518,182
	77,214	3,266,105
Non-Current		
Mt Leyshon Compensation Agreements	-	1,106,349
	-	1,106,349

Trade creditors represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. The amounts are unsecured and non-interest bearing with average payment terms of 30 days.

Refer to note 30(d) for further information concerning amounts due in relation to the Mt Leyshon compensation agreements.

Refer note 28 for disclosures on foreign exchange and liquidity risk.

13. PROVISIONS

	31 Dec 2013 $	31 Dec 2012 $
Employee benefits	74,086	104,261

14. ISSUED CAPITAL	**31 Dec 2013 $**	**31 Dec 2012 $**
(a) Issued capital		
249,457,212 (31 Dec 2012: 249,457,212) fully paid ordinary shares	57,071,050	57,071,050

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

(b) Movements in share capital were as follows (Group and Company):-

Date	Details	Ordinary Shares (Number)	Ordinary Shares ($)
1/07/12	**Opening Balance**	**244,311,383**	**56,167,213**
6/08/12	Share issue – PAPL acquisition (i)	10,000,000	1,817,970
	Share issue costs		(6,701)
4/10/12	Buy-back of shares (ii)	(4,854,171)	(898,381)
	Share buy-back costs		(9,051)
31/12/12	**Closing Balance**	**249,457,212**	**57,071,050**
31/12/13	**Closing Balance**	**249,457,212**	**57,071,050**

Note

(i) On 6 August 2012, the Company issued 10,000,000 fully paid ordinary shares as part of the consideration for the acquisition of PAPL from Houston based CAMAC Energy Inc, refer note 24 for further information.

(ii) From 10 July 2012 to 4 October 2012, the Company purchased 4,854,171 fully paid ordinary shares that were acquired in an on market share buy-back at an average price of A$0.178 per share. These treasury shares were subsequently cancelled on 5 November 2012.

(iii) Fully paid ordinary shares carry one vote per share and carry the right to dividends.

(iv) During 2013, the Company agreed to issue 5,000,000 performance rights to Key Management Personnel, however the officers concerned agreed to forego their entitlement should the demerger of the Company's energy assets proceed. The demerger was completed on 23 January 2014 and accordingly the performance rights have not been and will not be issued.

15. RESERVES	**31 Dec 2013** $	**31 Dec 2012** $
Share-based payment reserve	11,044	-
Foreign currency translation reserve	1,877,673	8,634,238
	1,888,717	8,634,238
Less amounts recognised in other comprehensive income and accumulated in equity relating to assets classified as held for distribution	(418,224)	-
	1,470,493	8,634,238

The amounts recognised in other comprehensive income and accumulated in equity relating to assets classified as held for distribution relates to foreign exchange on the translation of foreign operations

Movement in reserves

The movement in each of the reserves has been set out in the Statement of Changes in Equity**.**

Nature and purpose of reserves

Share-based payment reserve

The share-based payment reserve is used to recognise the fair value of services provided to the Company in return for the issue of equity-based payments in the Company.

Foreign currency translation reserve

The foreign currency translation reserve recognises exchange differences that arise from translation of foreign controlled entities into the Group's functional currency and from translation from the functional currency to the presentation currency for reporting. Exchange differences arising from translation of foreign controlled entities into the functional currency are taken to the foreign currency translation reserve as described in note 1(d). The accumulated exchange difference is recognised in profit or loss when the net investment is disposed of.

Foreign exchange translation reserve relating to translation of foreign operations	(412,110)	153,856
Foreign exchange translation reserve relating to translation into presentation currency	2,289,783	8,480,382
	1,877,673	8,634,238

16. ACCUMULATED LOSSES

Balance at the beginning of the financial year	(17,883,708)	(13,503,736)
Net loss attributable to members of Leyshon Resources	(8,723,975)	(4,379,972)
Balance at the end of the financial period	(26,607,683)	(17,883,708)
Adjusted franking account balance (tax paid basis)	6,269,331	7,328,524

	Year Ended 31 Dec 2013	Six Months Ended 31 Dec 2012
17. EARNINGS PER SHARE	**$**	**$**
From continuing and discontinued operations		
Basic loss per share (cents per share)	(3.5)	(1.8)
Diluted loss per share (cents per share)	(3.5)	(1.8)
From continuing operations:		
Basic loss per share (cents per share)	(0.5)	(0.1)
Diluted loss per share (cents per share)	(0.5)	(0.1)

The following reflects the earnings and average number of ordinary shares and potential ordinary shares used in the calculations of basic and diluted earnings per share:

From continuing and discontinued operations:		
Net loss used in calculating basic earnings per share	(8,723,975)	(4,379,972)
Earnings used in calculating basic and diluted earnings per share	(8,723,975)	(4,379,972)
From continuing operations:		
Net loss used in calculating basic earnings per share	(1,192,374)	(334,987)
Earnings used in calculating basic and diluted earnings per share	(1,192,374)	(334,987)

	Number of Shares 31 Dec 2013	Number of shares 31 Dec 2012
Weighted average number of ordinary shares used in calculating basic earnings per share	249,457,212	248,758,590
Effect of dilutive securities	-	-
Adjusted weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	249,457,212	248,758,590

(a) Conversions, calls, subscriptions or issues after 31 December 2013

There have been no conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

(b) Non-dilutive securities

There were 5,000,000 (31 December 2012: nil) potential ordinary shares excluded from the weighted average number of ordinary shares used in the calculation of diluted earnings per share. These have not been taken into account because they would not have a dilutive effect on earnings per share as calculated in accordance with AASB 133.

18. DIVIDENDS PAID OR PROVIDED FOR

No dividends have been paid or provided for during the year (Dec 2012: nil).

19. COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES

There are no commitments for expenditure at 31 December 2013 (31 December 2012: nil). Refer to note 30(d) for a discussion around contingent liabilities for the parent entity, Leyshon Resources Limited.

20. LEASE COMMITMENTS

Operating leases

Leasing arrangements

The operating leases relate to the lease of an office in Beijing, China and an office in Perth, Australia. The current lease in Beijing is for a period of two years commencing 1 November 2012 and the lease in Perth is for a period of 1 year commencing 1 September 2013. The Group does not have an option to acquire the leased assets at the expiry of the lease period.

	31 Dec 2013 $	31 Dec 2012 $
Non-cancellable operating leases		
Not longer than 1 year	279,970	355,046
Longer than 1 year and not longer than 5 years	-	261,215
Longer than 5 years	-	-
	279,970	616,261

21. SUBSIDIARIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 31 Dec 2013 %	Equity Holding 31 Dec 2012 %
Parent Entity				
Leyshon Resources Limited	Australia			
Controlled Entities				
China Metals Pty Ltd	Australia	Ordinary	100	100
Ikh Zuchi Resources LLC	Mongolia	Ordinary	100	100
South Gobi Coal Company Limited	Cayman Islands	Ordinary	100	100
Xinjiang Exploration & Development Ltd	British Virgin Islands	Ordinary	100	100
Chang Xing Ltd	British Virgin Islands	Ordinary	100	100
Trident Investment Ltd	Hong Kong	Ordinary	100	100
Beijing North Asia Mining Management and Consulting Co., Ltd	People's Republic of China	N/A	100	100
Leyshon Energy Limited	United Kingdom	Ordinary	100	100
Leyshon Energy Limited (1)	British Virgin Islands	Ordinary	100	100
Pacific Asia Petroleum, Limited (1)	Hong Kong	Ordinary	100	100
Pacific Asia Petroleum (HK) Ltd (1)	Hong Kong	Ordinary	100	100

(1) These entities were demerged from the Group on 23 January 2014.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

22. SEGMENT INFORMATION

At the end of the year, the Group had two operating segments, being the exploration for unconventional gas in China and exploration for minerals, (the Group's Energy and Minerals businesses respectively). In relation to the exploration for unconventional gas in China, the Group had non-current exploration and evaluation assets of $4,721,611 and property, plant and equipment of $207,278 located in China. These assets were transferred to assets held for distribution (Note 9). All other non-current assets are located in Australia. All the other necessary reporting disclosures are disclosed elsewhere in the notes to the financial statements, specifically notes 8 and 9. All assets, liabilities, revenue and expenses that do not relate to the Energy business relate to the Group's continuing Minerals business.

23. RELATED PARTY DISCLOSURES

(a) Equity interests in related parties

Equity interests in subsidiaries
Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 21 to the financial statements.

(b) Key management personnel compensation

The directors' and key management personnel of the Group during the year were as follows. Unless otherwise specified each person held their position for the full financial year.

- Richard Seville (Non Executive Director, Chairman from 25 November 2013)
- Paul C Atherley (Managing Director)
- Andrew J Berry III (Non Executive Director)
- John WS Fletcher (Chairman) – resigned 25 November 2013
- Peter Niu – Chief Financial Officer, Leyshon Resources Limited
- Frank Fu – Chief Operating Officer
- Murray Wylie – Company Secretary

The aggregate compensation made to key management personnel of the Company and the Group is set out below:

	Year Ended 31 Dec 2013 $	Six Months Ended 31 Dec 2012 $
Short-term employee benefits	1,952,646	628,597
Post-employment benefits	22,737	7,024
Termination benefits	-	-
Share-based payments	11,044	-
	1,986,427	635,621

Details of individual key management personnel compensation are disclosed in the Remuneration Report.

23. RELATED PARTY DISCLOSURES (cont'd)

(c) Key management personnel equity holdings

Fully paid ordinary shares of Leyshon Resources

	Balance at the start of the period	Purchases	Received on exercise of options	Other changes[(i)]	Disposals	Balance at the end of the period
31 Dec 2013						
Mr Paul Atherley	29,530,000	1,800,000	-	-	-	31,330,000
Mr John Fletcher [(1)]	2,316,324	-	-	(2,316,324)	-	-
Mr Richard Seville	750,000	-	-	-	-	750,000
Mr Andrew Berry III	-	-	-	-	-	-
Mr Peter Niu	28,026	-	-	-	-	28,026
Mr Frank Fu	-	-	-	-	-	-
Mr Murray Wylie	-	-	-	-	-	-
31 Dec 2012						
Mr Paul Atherley	29,530,000	-	-	-	-	29,530,000
Mr John Fletcher	2,316,324	-	-	-	-	2,316,324
Mr Richard Seville	750,000	-	-	-	-	750,000
Mr Andrew Berry III	-	-	-	-	-	-
Mr Peter Niu	28,026	-	-	-	-	28,026
Mr Murray Wylie	-	-	-	-	-	-

(1) Mr Fletcher resigned on 25 November 2013

Options

There were no options on issue during the year ended 31 December 2013 (six months to 31 December 2012: nil).

Performance rights

During the year, Company agreed to issue 5,000,000 performance rights to Key Management Personnel as Long Term Incentive payments, however the officers concerned agreed to forego their entitlement should the demerger of the Company's energy assets proceed. The demerger was completed on 23 January 2014 and accordingly the performance rights will not be issued.

Share-based payments were recognised in relation to these performance rights to record the proportional expense at 31 December 2013 in the event that the demerger did not proceed.

(d) Other transactions with key management personnel (and their related parties) of Leyshon Resources

During the year, Mr Fletcher received consulting fees of $19,251 for business advisory services provided in relation to potential merger and acquisition opportunities. There were no other transactions with key management personnel (and their related parties) during the year (six months to 31 December 2013: nil).

(e) Parent entity

The parent entity in the Group and the ultimate parent entity is Leyshon Resources Limited.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

24. BUSINESS COMBINATIONS

Subsidiaries Acquired

	Principal activity	Date of Acquisition	Proportion of shares acquired (%)	Consideration Transferred $
Year ended 31 December 2013				
No business combinations occurred during the year ended 31 December 2013				
Six months ended 31 Dec. 2012				
Pacific Asia Petroleum Limited	Unconventional gas exploration	22 July 2012	100	4,371,027

With effect from 22 July 2012, Leyshon Resources Limited acquired 100% of the issued capital of Hong Kong registered company Pacific Asia Petroleum Limited (PAPL). PAPL's key asset is a 100% interest in the Zijinshan Production Sharing Contract (PSC) located on the eastern fringe of the prolific Ordos Gas Basin in Central China. The numbers presented below have been accounted for using the acquisition method of accounting.

The book value and provisional fair value of the assets and liabilities acquired were as follows:	Note	Book value $	Fair value adjustments $	Fair value on acquisition $
Cash and cash equivalents		90,793	-	90,793
Other debtors		60,505	-	60,505
Property, plant and equipment		156,555	-	156,555
Exploration and evaluation asset		-	5,526,484	5,526,484
Trade and other payables		(187,968)	-	(187,968)
Deferred tax liability recognised on acquisition		-	(1,275,342)	(1,275,342)
Fair value of net identifiable assets acquired		119,885	4,251,142	4,371,027

Total purchase consideration comprises:	
Consideration in cash and cash equivalents	2,553,695
Issue of Ordinary Shares (i)	1,817,332
	4,371,027

(i) Comprises 10,000,000 fully paid Leyshon Resources Limited ordinary shares issued to the vendors at settlement on 6 August 2012. These shares were issued at the ASX closing price of a fully paid Leyshon Resources Limited ordinary share on 22 July 2012 when the definitive share sale and purchase agreement was entered into, being A$0.175 per share.

(ii) The effective date of the acquisition for accounting purposes is 22 July 2012.

24. BUSINESS COMBINATIONS (cont'd)

	$
Cash outflow on acquisition:	
Consideration settled in cash and cash equivalents	2,533,695
Less cash and cash equivalents acquired	(90,793)
Net cash outflow on acquisition	2,462,902

25. SUBSEQUENT EVENTS AFTER BALANCE DATE

On 13 January 2014, shareholders approved the demerger of the Company's energy assets via an in-specie distribution of Leyshon Energy shares on a one-for-one basis to existing Leyshon Resources shareholders, The in-specie distribution was completed on 23 January 2014 and Leyshon Energy commenced trading on AIM on the same day.

On 14 February 2014. Mr Corey Nolan was appointed Managing Director of Leyshon Resources. Mr Paul Atherley resigned from his position as Managing Director of Leyshon Resources on the same day to concentrate on his role as Managing Director of Leyshon Energy. Mr Atherley remains on the Board of Leyshon Resources as a non-executive director.

There were no other significant events occurring after balance date requiring disclosure in the financial statements.

26. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash and cash equivalents

Cash and cash equivalents at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	31 Dec 2013 $	31 Dec 2012 $
Cash and bank balances relating to continuing operations	3,070,886	47,253,874
Cash and bank balances included in a disposal group held for distribution (Note 9)	33,120,105	-
	36,190,991	47,253,874

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

26. NOTES TO THE STATEMENT OF CASH FLOWS (cont'd)

(b) Reconciliation of loss for the year to net cash provided (used) by operating activities

	Year Ended 31 Dec 2013 $	Six Months Ended 31 Dec 2012 $
(Loss)/profit for the period	(8,723,975)	(4,379,972)
Depreciation and amortisation	48,078	14,007
(Decrease)/increase in provision for employee entitlements	29,484	26,840
Unrealised foreign exchange differences	(2,687,944)	141,616
Share based payments	11,044	-
(Increase)/decrease in trade and other receivables and other assets	480,131	176,334
(Decrease)/increase in payables	3,448,781	1,798,573
Net cash used by operating activities	(7,394,401)	(2,222,602)

(c) Non cash transactions

31 December 2013

During the financial year there were no non cash transactions.

31 December 2012

During the six months to 31 December 2013 there were 10,000,000 fully paid ordinary shares issued as part consideration for the acquisition of PAPL, refer note 24 for further information.

27. JOINTLY CONTROLLED ENTITY

The Group was not a venturer in any jointly controlled entities at 31 December 2013 (31 December 2012: nil).

Through PAPL, the Group held a 100% interest in the Zijinshan Production Sharing Contract ("PSC") with PetroChina Coal Bed Methane Company Limited (PCCBM). PCCBM has retained the right to buy back a 40% interest in the contract at the completion of the exploration phase and to jointly fund the project into production. The Group's interest in PAPL and the Zijinshan PSC ceased following the demerger of its energy assets into Leyshon Energy Limited on 23 January 2014 (Note 9).

28. FINANCIAL RISK MANAGEMENT

Overview

This note presents information about the Company's and Group's exposure to credit, liquidity and market risks, their objectives, policies and processes for measuring risk, and management of capital.

The Company and the Group does not use any form of derivatives as it is not at a level of exposure that requires the use of derivatives to hedge its exposure. Exposure limits are reviewed by management on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

28. FINANCIAL RISK MANAGEMENT (Cont'd)

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

Credit risk

Credit risk refers to the risk that counter-party will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted the policy of only dealing with creditworthy counter-parties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group measures credit risk on a fair value basis. The Group does not have any significant credit risk exposure to any single counter-party.

Cash and cash equivalents

The Group limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have an acceptable credit rating.

Trade receivables and other equivalents

As the Group operates primarily in exploration activities, it does not have trade receivable and therefore is not exposed to credit risk in relation to trade receivables.

The Company and Group have established an allowance for impairment that represents their estimate of incurred losses in respect of other receivables (mainly relates to staff advances and security bonds) and investments. The management does not expect any counterparty to fail to meet its obligations.

Exposure to credit risk

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

	31 Dec 2013 $	31 Dec 2012 $
Loans and receivables	1,427,582	690,385
Cash and cash equivalents	3,070,886	47,253,874
	4,498,468	47,944,258

Impairment losses
As at 31 December 2013 none of the Groups' other receivables are past due or impaired (31 Dec 2012: nil)

28. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves from funds raised in the market and by continuously monitoring forecast and actual cash flows. The Group does not have any external borrowings.

After the demerger of Leyshon Energy in January 2014, Leyshon Resources will retain around $3 million cash. With a strong cash position and minimal expenditure commitments, it is unlikely that the Group will need to raise additional capital in the next 12 months to meet its currently known obligations.

The following are the maturities of financial assets including estimated interest receipts and excluding the impact of netting agreements of the Group:

	31 Dec 2013 $	31 Dec 2012 $
Less than 6 months	36,326,906	47,928,702
6 months to 1 year	-	-
1 to 5 years	-	-
Over 5 years	-	-
	36,326,906	47,928,702

The following are the maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements of the Group:

Less than 6 months	3,331,186	3,454,871
6 months to 1 year	-	-
1 to 5 years	-	1,140,842
Over 5 years	-	-
	3,331,186	4,595,713

All financial liabilities of the Group and Company are non-interest bearing.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, whilst optimising the return. The Group manages market risk by ensuring it only holds short-term, predominantly fixed interest financial instruments with maturities of less than six months.

Currency Risk

The Group is exposed to currency risk on investments, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, which is primarily the Australian Dollar (AUD). The currencies in which these transactions primarily are denominated are USD, GBP, HKD and RMB.

28. FINANCIAL RISK MANAGEMENT (cont'd)

The Group has not entered into any derivative financial instruments to hedge such transactions. The Group has adopted a policy of maintaining the majority of its available cash and cash equivalents in USD to minimise currency risk.

The Group's investments in its subsidiaries are not hedged as those currency positions are considered to be long term in nature.

Exposure to Currency Risk

The Group's exposure to foreign currency risk at balance date based on notional amounts was as follows:

	$				
	RMB	USD	HKD	GBP	**Total**
31 Dec 2013					
Financial Assets					
Cash and cash equivalents	164,910	35,808,332	27,352	292	**36,000,886**
Receivables	113,595	-	-	-	**113,595**
Financial Liabilities					
Amortised cost	(6,313,275)	-	-	-	**(6,313,275)**
Net balance sheet exposure	6,034,770	35,808,332	27,352	292	**29,801,206**
31 Dec 2012					
Financial Assets					
Cash and cash equivalents	213,317	9,112,077	69,353	8,066	**9,402,813**
Receivables	120,281	-	-	-	**120,281**
Financial Liabilities					
Amortised cost	(2,496,897)	-		(12,287)	**(2,509,184)**
Net balance sheet exposure	(2,163,299)	9,112,077	69,353	(4,221)	**7,013,910**

Sensitivity analysis

A 20 percent strengthening of the Australian dollar against the following currencies at 31 December 2013 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 31 December 2012.

31 Dec 2013	**Other Equity $**	**Profit/(loss) $**
RMB	-	27,531
USD	-	7,121,281
HKD	-	5,390
GBP	-	58
	-	7,154,260

28. FINANCIAL RISK MANAGEMENT (cont'd)

31 Dec 2012	Other Equity $	Profit/(loss) $
RMB	-	25,434
USD	-	1,609,321
HKD	-	13,278
GBP	-	(844)
	-	1,674,819

A 20 percent weakening of the Australian dollar against the above currencies at 31 December 2012 would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The Group is exposed to interest rate risk (primarily on its cash and cash equivalents), which is the risk that a financial instrument's value will fluctuate as a result of changes in the market interest rates on interest-bearing financial instruments. The Group does not use derivatives to mitigate these exposures.

The Group has adopted a policy of ensuring that as far as possible it maintains excess cash and cash equivalents in USD denominated accounts available at call. These accounts currently earn low interest.

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

	Weighted Average Effective Interest Rate %	Variable Interest Rate $	Fixed Interest Rate $	Total $
31 Dec 2013				
Financial Assets				
Cash and cash equivalents	0.31%	36,190,991	-	36,190,991
Financial Liabilities				
Financial liabilities		-	-	-
		36,190,991	-	36,190,991
31 Dec 2012				
Financial Assets				
Cash and cash equivalents	3.90%	47,253,874	-	47,253,874
Financial Liabilities				
Financial liabilities		-	-	-
		47,253,874	-	47,253,874

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2012.

28. FINANCIAL RISK MANAGEMENT (cont'd)

	Other Equity $	Profit or loss $
31 Dec 2013		
Variable rate instruments	393,422	393,422
31 Dec 2012		
Variable rate instruments	473,152	473,152

Commodity Price Risk

The Group is still operating primarily in the exploration and evaluation phase and accordingly the Group's financial assets and liabilities are not yet subject to commodity price risk.

Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, issue new shares or sell assets to reduce debt. The Group's focus has been to raise sufficient funds through equity to fund exploration and evaluation activities.

There were no changes in the Group's approach to capital management during the year. Risk management policies and procedures are established with regular monitoring and reporting.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained losses as disclosed in Notes 14, 15 and 16 respectively.

29. SHARE BASED PAYMENTS

The Company does not have a formal employee share option plan, however the Board has from time to time granted shares or options to employees and officers on a discretionary basis as it is considered that this provides a cost-effective and efficient means of remunerating and incentivising employees. In addition, shareholders have in General Meeting approved the granting of all incentive options to Directors. The share based payment "expenses have been recognised in respect of the fair value of shares or options granted as remuneration.

In May 2013, shareholders approved the implementation of the Leyshon Resources Limited Performance Rights plan. The rights to be granted under this plan are dependent on Company performance. Each Performance Right is a personal contractual right to be satisfied through the issue or procurement of shares in the Company. A performance right may be exercised if it has not otherwise lapsed in accordance with the performance rights plan, on the satisfaction of prescribed performance criteria within the performance period. At the date of this report, there have been no performance rights issued under the plan.

31 Dec 2013

During the year, the Company agreed to issue 2,500,000 performance rights to Mr Atherley, 1,500,000 performance rights to Mr Niu and 1,000,000 to Mr Fu. Shareholder approval was obtained for Mr Atherley's performance rights on 31 May 2013.

NOTES TO THE FINANCIAL STATEMENTS
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29. SHARE BASED PAYMENTS (Cont'd)

Mr Atherley, Mr Fu and Mr Niu subsequently agreed in writing to forego their performance rights conditional upon the successful demerger of the Group's energy assets and subsequent listing of Leyshon Energy Limited on London's AIM exchange. This occurred on 23 January 2014. As a result these performance rights have not been and will not be issued.

Each performance right would be valid for five years and would entitle the holder to one free fully paid ordinary share in Leyshon Resources Limited. The rights would vest upon achievement of set performance milestones in relation to the Zijinshan PSC. 50% would vest when pilot gas production commenced, 25 % after obtaining approval of a Chinese Reserves Report and the final 25% following approval of the Overall Development Plan.

31 Dec 2012

There were no share based payments in existence during the period.

Fair value of performance rights granted in the year

The following table illustrates the number (No.) and weighted average exercise prices of Performance Rights granted as share based payments and outstanding at 31 December 2013.

	Number of performance rights	Exercise price	Deemed grant date [1]	Earliest exercise date	Latest exercise date	Fair value at grant date $
P Atherley	2,500,000	Nil	31 May 2013	30 June 2014	31 May 2018	0.023
P Nui	1,500,000	Nil	9 July 2013	30 June 2014	9 July 2018	0.017
F Fu	1,000,000	Nil	9 July 2013	30 June 2014	9 July 2018	0.017

[1] No performance rights were issued by the Company during the year. For accounting purposes, pursuant to AASB 2 "Share-based Payment", performance rights for Mr Atherley are deemed to have been granted at the date of shareholder approval and performance rights for Mr Nui and Mr Fu are deemed to have been granted at execution of revised employment agreements.

All of the Performance Rights were issued under the terms of the Company's Performance Rights Plan. Under the terms of the Performance Rights Plan, the above performance rights are only exercisable once the respective performance hurdles have been met. All performance hurdles relate to the Zijinshan Gas Project.

- 50% (2,500,000) performance rights are exercisable following the commencement of Pilot Production under a Pilot Development Programme approved by the relevant Chinese authorities. This is considered an important step forward from the exploration phase, both technically and commercially, with the generation of income from associated gas sales.

- 25% (1,250,000) performance rights are exercisable after approval is obtained for a Chinese Reserves Report. This is an important step for the project in determining the development strategy and is an essential requirement for obtaining approval of the Overall Development Plan.

- 25% (1,250,000) performance rights are exercisable after approval of the Overall Development Plan by the relevant Chinese authorities. This incorporates the detailed plans for construction and development of the production wells, associated plant and environmental and government approvals.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

29. SHARE BASED PAYMENTS (Cont'd)

Inputs for the valuation of the performance rights include:

	M Atherley	P Nui	F Fu
Dividend yield (%)	Nil	Nil	Nil
Expected volatility (%)	90%	90%	90%
Risk-free interest rate (%)	2.75%	2.75%	2.75%
Expected life of performance right	5 years	5 years	5 years
Exercise price	Nil	Nil	Nil
Share price at grant date	0.23	0.18	0.18
Valuation date	31 May 2013	9 July 2013	9 July 2013

30. PARENT ENTITY DISCLOSURES
Financial Statements

(a) Financial Position

	31 Dec 2013 **$**	**31 Dec 2012** **$**
Assets		
Current assets	36,839,903	45,040,033
Non-current assets	4,331,850	6,052,778
Total assets	**41,171,753**	51,092,811
Liabilities		
Current liabilities	1,471,635	703,027
Non-current liabilities	1,089,603	2,380,020
Total liabilities	**2,561,238**	3,083,047
Equity		
Issued capital	57,071,050	57,071,050
Retained losses	(18,460,535)	(9,061,286)
Total equity	**38,610,515**	48,009,764

(b) Financial performance

Loss for the period	(9,410,293)	(763,283)
Other comprehensive income	11,044	-
Total comprehensive income	**(9,399,249)**	(735,003)

(c) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries	**-**	-

30. PARENT ENTITY DISCLOSURES (cont'd)

(d) Contingent liabilities of the Group and parent entity

Mount Leyshon Assets

As part of the restructure of the Company in November 2001 that saw the Company cease to be a subsidiary of Newmont Australia Limited (then Normandy Mining Limited) ("Newmont"), the Company and Newmont entered into a Management Agreement on 30 November 2001 in respect of the closure of the Mt Leyshon mine ("Management Agreement"). It was intended and agreed that Newmont would implement a mine closure plan and be responsible for all ongoing environmental obligations associated with the Mt Leyshon assets.

Pursuant to the terms of the Management Agreement, Newmont agreed to be responsible in perpetuity for the Company's rehabilitation obligations arising out of the Mt Leyshon mine site and has agreed to indemnify the Company in respect of all environmental obligations in relation to or as a result of mining activities at Mt Leyshon.

It is not considered that the Company carries any risk of any substantive liability for anything done or omitted to be done, at the Mt Leyshon mine site, prior to 2001.

Prior to the restructure of the Company in November 2001, the Company had previously entered into Compensation Agreements with landholders part of whose lands were covered by the Company's mining leases at the Mt Leyshon mine site. The entry into Compensation Agreements with landholders is a statutory requirement for the holder of a mining lease in Queensland. Compensation had been paid in advance under each landholder Compensation Agreement. In each case advance compensation was only paid until 2002 or thereabouts on the basis that production from the Mt Leyshon mine site would have ceased. The Company has a continuing primary responsibility to the landholders under the Compensation Agreements whilst it remains the holder of mining leases in Queensland and Newmont continues to undertake rehabilitation activities.

Leyshon Resources and Newmont Australia Limited ("Newmont") reached settlement for the landholder Compensation Agreements in 2011. The Company will continue to be responsible for its share of ongoing management costs in relation to the Mount Leyshon assets.

	31 Dec 2013 $	31 Dec 2012 $
(e) Commitments for the acquisition of property, plant and equipment by the parent entity	-	-

(f) Transactions with other related parties

Transactions between Leyshon and its subsidiaries

Inter-company Account
Leyshon provides working capital to its controlled entities. Transactions between Leyshon and controlled entities in the wholly owned group during the year ended 31 December 2013 consisted of:

(i) Working capital advanced by Leyshon;
(ii) Working capital repaid to Leyshon; and

The above transactions were made interest free with no fixed terms for the repayment of principal on the working capital advanced by Leyshon.

At balance date amounts receivable from controlled entities totalled $7,432,478 (31 December 2012: $9,091,456).

Deloitte.

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Independent Auditor's Report to the members of Leyshon Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of Leyshon Resources Limited, which comprises the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 18 to 60.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Leyshon Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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 consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in page 10 to 15 of the directors' report for the year ended 31 December 2013. 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 Leyshon Resources Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D Newman

David Newman
Partner
Chartered Accountants
Perth, 24 March 2014