

AuStar Gold Limited

ABN 70 107 180 441

Half-Year Financial Report

For the half-year ended

31 December 2017

Table of Contents

Corporate Directory	3
Directors' Report	4
Auditor's Independence Declaration	18
Consolidated Statement of Comprehensive Income	19
Consolidated Statement of Financial Position	20
Consolidated Statement of Cash Flows	21
Consolidated Statement of Changes in Equity	22
Notes to the Consolidated Financial Statements	23
Directors' Declaration	28
Independent Auditor's Review Report	29

Corporate Directory

Directors

Mr Richard Valenta	Non-Executive Director
Mr Ian King	Non-Executive Director
Mr Matthew Gill	Non-Executive Director

Company Secretary

Mr Brent Hofman

Principal Place of Business and Registered Office

Level 6
15 Astor Terrace
Springhill QLD 4000

Contact Details

Website: www.austargold.com
Email: admin@austargold.com

Tel: +61 7 3319 4120

Solicitors to the Company

GRT Lawyers
Level 2
400 Queen Street
Brisbane QLD 4000

Share Registry

Security Transfer Registrars
Alexandria House
Suite 1
770 Canning Highway
Applecross WA 6153

Tel: +61 8 9315 2333
Fax: +61 8 9315 2233

Auditors

RSM Australia Partners
Level 32 Exchange Tower
2 The Esplanade
Perth WA 6000

Stock Exchange

Australian Securities Exchange
Level 40, Central Park
152-158 St George's Terrace
Perth WA 6000

ASX Code: AUL, MNMOB and
MNMOC

Director's Report

The Directors of AuStar Gold Limited ("AuStar" or "the Company") submit herewith the financial report of AuStar Gold Limited and its subsidiaries (the "Group") for the half-year ended 31 December 2017. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the Directors of the Company during or since the end of the half-year are:

Mr Richard Valenta	Non-Executive Director
Mr Ian King	Non-Executive Director
Mr Matthew Gill	Non- Executive Director

Results

The loss of the Group for the half-year ended 31 December 2017 after providing for income tax amounted to \$150,794 (31 December 2016: \$5,365,183).

No dividends were declared or paid during the half-year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES IN AFFAIRS

AuStar Gold Limited (ASX:AUL), recently renamed from Mantle Mining Corporation Limited (ASX:MNM)(the "**Company**"). is an ASX listed emerging gold miner with projects located in Queensland and Victoria. The Company has undergone an extensive transformation over the last 15 months to reposition as an advanced high grade gold exploration play, with significant infrastructure, regional tenement footprint and prospectivity, well positioned for near-term trial mining. With a small dedicated team of experienced in-house and consultant personnel, the Company is now singularly focused on high quality gold projects, having low-cost, short start-up production capability.

Following an internal review of its diverse project portfolio, the Company prioritised the high-grade Morning Star gold mine and adjoining tenements as its key development focus, and determined to repay outstanding legacy debt associated with the Morning Star mine via a series of capital raisings, assisted by a program of divestment of non-core assets.

During the period the following major milestones were achieved:

- Final payment and acquisition of incumbents made by Chillee on the Morning Star assets;
- Extensive geological data review of Morning Star was undertaken with several prospective mining areas identified;
- Further identification of the Stacpoole reef zone utilizing diamond drilling from the Morning Star adit. This has led to the decision to trial mine the Stacpoole zone and process in the onsite gravity plant.
- Recommissioning of key infrastructure such as the Winder and the Morning Star Shaft.
- Recruitment of key operational personnel and commencing development on 2 level to access the Stacpoole Zone.
- Diamond drilling along the line of dyke at nearby Rose of Denmark mine with early success from visible gold intercepts.
- Continued discussions for the sale of the Company's non-core assets including the Norton Gold Project and other Queensland projects, which has progressed to final stages of transaction.



Figure 1: AuStar's existing project locations.

PROJECT OVERVIEW

As at the end of the financial year, the Company held interests in the following projects:

Morning Star Gold Project - the Company holds a 95% interest in Morning Star Gold NL, which in turn owns the Morning Star high-grade gold project. The Morning Star project has a number of positive characteristics which demonstrate its potential to create value for AuStar shareholders:

- For information on the existing resource, please refer to the report entitled "910,000 Ounces Gold JORC Resource" created on 30 July 2008, which is available to view at www.asx.com.au under ASX code MCO;
- An 80,000 tonne per annum processing plant on site requiring minimal upgrade to recommence processing;
- Mains power at the site (500 KVA line);
- A refurbished shaft (down to 300 metres below surface) with new winder;
- An existing paste plant attached to the mill for environmentally-friendly in-mine disposal of tailings;
- AuStar is the dominant landholder in the district with 667 km² under tenement in a large region of historically-mined high grade reefs; and
- A local and corporate team with significant experience in the development, construction and mining of high grade underground gold deposits.

Director's Report

Rose of Denmark Mine – under Joint Venture with Shandong Tianye, where Morning Star Gold NL owns 49% and is the controlling manager of the lease and mine. The Rose of Denmark mine is approximately 22 km by road from the Morning Star processing plant and is located north and on the same line of workings as the operating A1 mine (ASX:CTL) and is located behind the township of Gaffneys creek.

Norton Gold Project – the Company holds a 90% interest in the Norton Gold Project which comprises one mining licence (ML 80035) located within the historic Norton gold field less than 100 km south of the port city of Gladstone, Queensland and is the subject of sale to a number of interested parties.

Granite Castle Project – the Company holds a 100% interest in the Granite Castle Gold Project which comprises two exploration licences (EPM 14179 & 15527) and an application for a mineral development licence (MDL 2005), located approximately 260km west of Townsville and 120km north of Hughenden in Queensland and is in the final stages of divestment (completed February 2018)

Charters Towers Project – the Company holds a 100% interest in one exploration licence (EPM 14388) located around the township of Charters Towers in north Queensland and is in the final stages of divestment (Completed February 2018)

Lionsville Gold Project – AuStar holds a 100% interest in EL 6074. Lionsville is an historic gold province in Northern NSW that has seen little modern exploration.

Black Range Gold Project - as part of the Morning Star acquisition, AuStar has become a 13% holder in the Black Range Project (EL 5878) near Cobar in central west NSW, along with 87% holder Heron Resources. The project is centred around the historically high grade Overflow underground gold mine.

Morning Star Gold NL Overview:

Victoria is a globally significant gold producing region, having recorded production in excess of 2,400 tonnes of gold since 1850, which represents approximately 2% of world gold production¹. The Morning Star gold mine is located near the town of Woods Point approximately 120 km northeast of Melbourne (Figures 2 and 3). It is located in geological terms within the Walhalla Synclinorium, a fault zone of gold mineralisation contained in a regionally extensive north-west/south-east dyke swarm extending from Jamieson to Walhalla in eastern Victoria. The Woods Point-Walhalla goldfield has produced in excess of 5 million ounces of gold² and is the third largest hard rock gold field in Eastern Australia.

Figure 2: Morning Star gold mine location.



Figure 3: AUL Tenements.

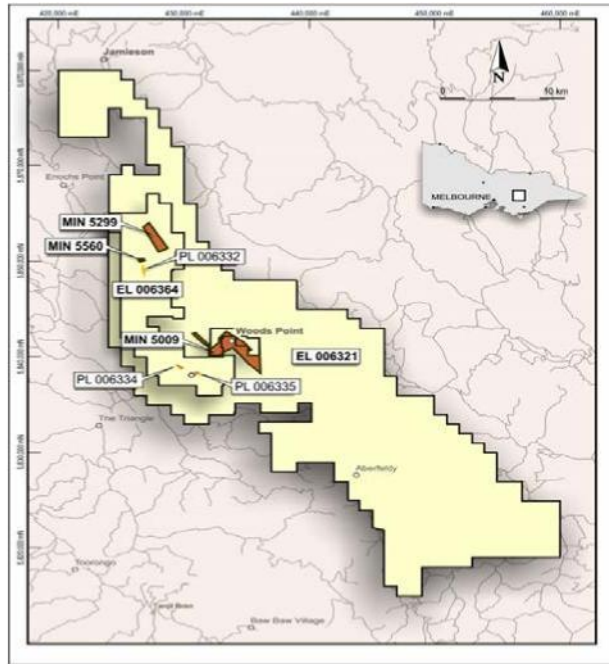
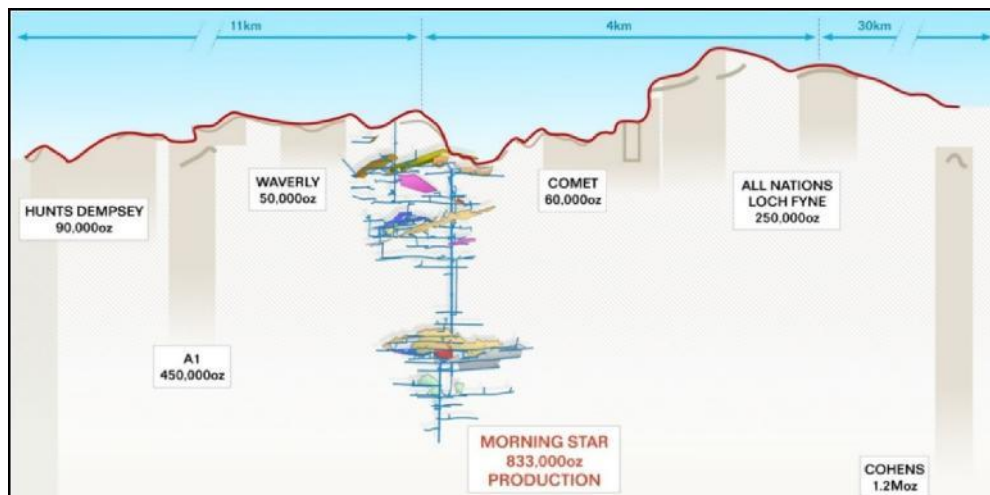


Figure 4: Regional gold mines with historic production (A1 and Cohens held by others).



¹ Source: Earth Resources, a portfolio of the Victorian Department of Economic Development, Jobs, Transport and Resources.

² Goodz et al (2008)

Historic mining occurred in the upper levels of the mine and Gold Mines of Australia (WMC Ltd) operated the mine between 1934 and 1959 (predominantly in the deeper levels). Morning Star is reported to have produced 883,000 ounces of gold at an average grade of 26.6 g/t Au over its lifetime, of which 200,000 ounces was from 2 level and above. It closed in 1960 when the gold price was fixed at \$35/oz, and was allowed to flood (Figure 4).

The mine exploits narrow quartz veins deposits hosted in a diorite dyke that is 700m long by 120m wide. The quartz veins are stacked and range 50mm to 2m thick. Historic workings continue underground for 815m below the surface, to 25 Level, and the dyke remains open at depth (Figures 5 and 6).

Morning Star Gold NL acquired the assets in 1992 and a new headframe and winder have been installed. The mine was subsequently de-watered down to below 10 Level and development drives rehabilitated in the upper levels. Initially, production was targeted from remnant stopes above 10 Level short distances from the refurbished shaft (Figure 7).

Figure 5: Historical Morning Star dyke view. cross section.

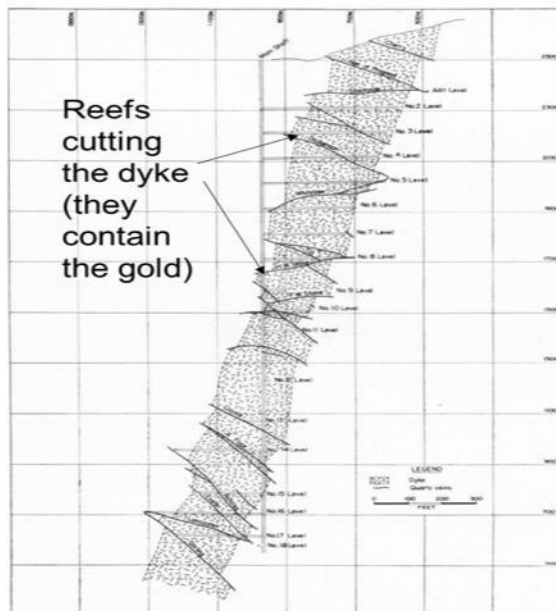


Figure 6: Morning Star dyke oblique 3D

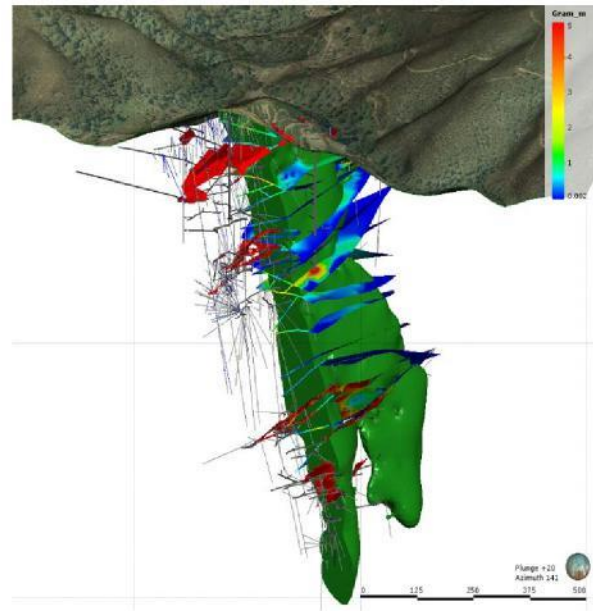
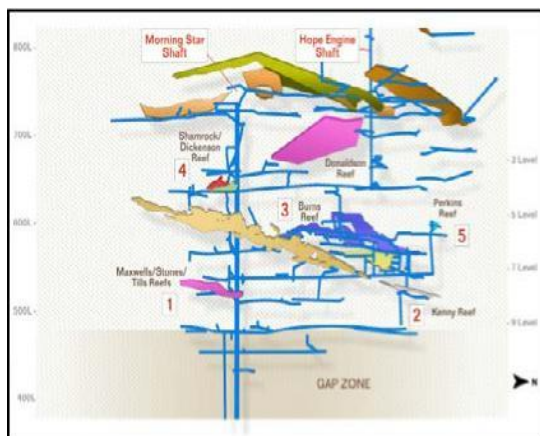


Figure 7: Production targets in upper areas of the mine



Picture 1: Morning Star process plant



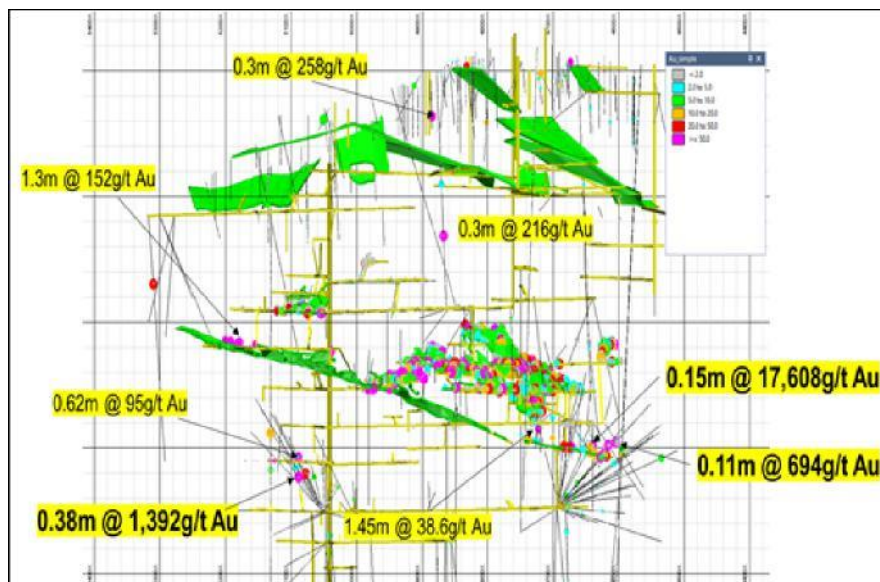
Director's Report

A new beneficiation plant was installed and a paste backfill plant built. Supporting infrastructure includes a water treatment plant, surface and underground power supplies and various site offices, workshops and a miner's camp (Picture 1). Numerous other dyke hosted mines exist on the Morning Star Gold NL tenements (Figure 3).

Gold at Morning Star is traditionally free milling, allowing for production of a high grade concentrate from a simple gravity processing facility. The plant is located centrally to other historically and currently operating gold mines that suffer from a lack of such infrastructure.

An extensive geological data reinterpretation of the large amount of sample and drill hole data was undertaken with an interactive 3D model developed to assist with the visualisation of the mined orebodies and areas that may still hold potential ore bodies. This can be found on the AuStar web site or directly on <https://skfb.ly/X8SD> (Figure 9). The data review revealed a great number of isolated high grade targets that require additional follow up as exemplified below in Figure 8, some of which are quite distant from any development or stoping and have obviously not been tested in the past.

Figure 8: Isolated high grade intersection to be further tested.



As a result of the geological data review, the Kenny orebody was identified as a high grade and economically viable orebody that could be mined as outlined in ASX release dated 15 May 2017.

Figure 9: Interactive 3D model.

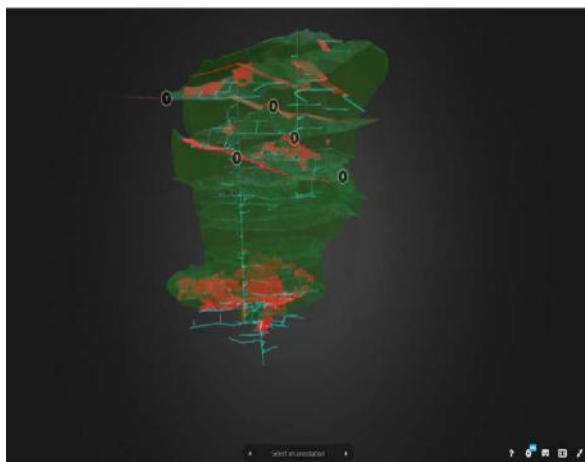


Figure 10: Kenny's reef with high grade drill holes.

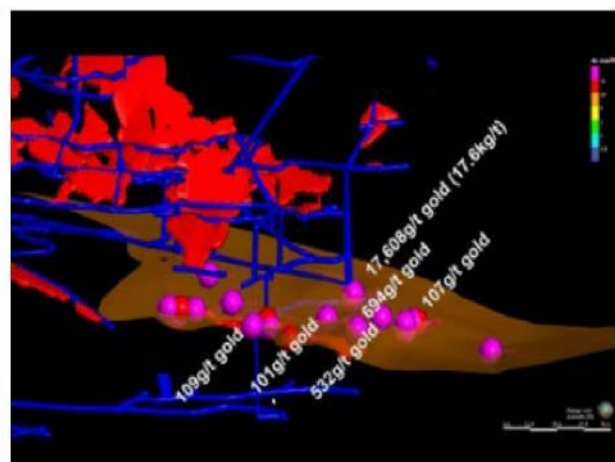
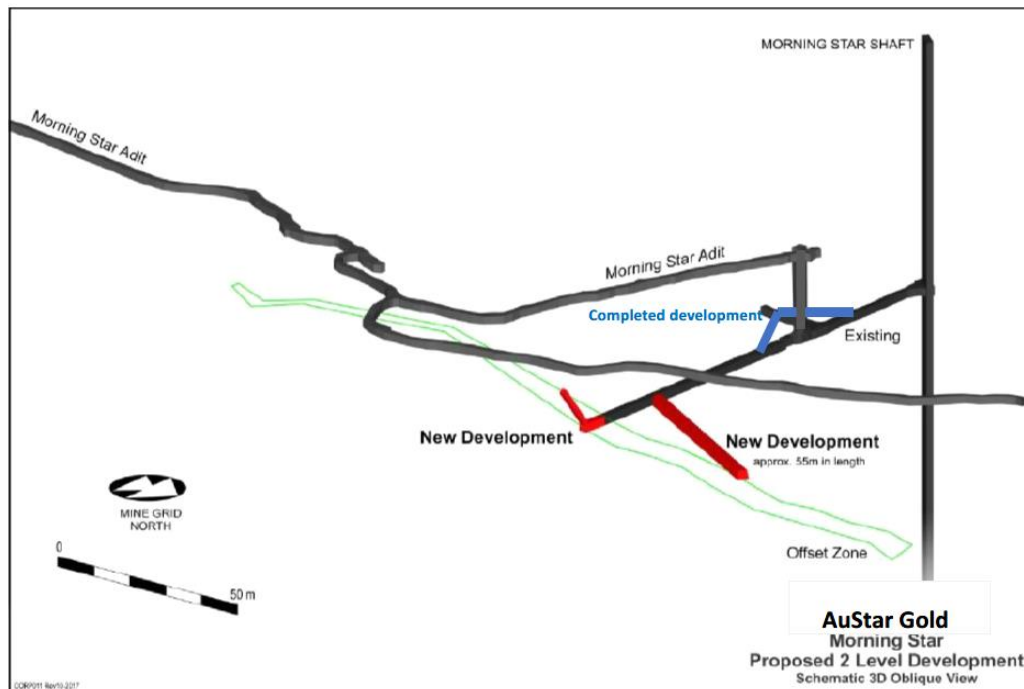


Figure 12: Development proposed and completed on 2 level to Stacpoole zone. Targeted Stacpoole zone offset marked in green



Rose of Denmark Mine

The Rose of Denmark (RoD) mine is held in joint venture with Shandong Tianye Group (51%) where Morning Star Gold NL (49%) is the controlling manager of the lease and mine. The Rose of Denmark is approximately 15 km by road from the Morning Star processing plant and is located north and on the same line of workings as the operating A1 mine (ASX:CTL).

Figure 14: RoD ML in relation to A1 Mine.

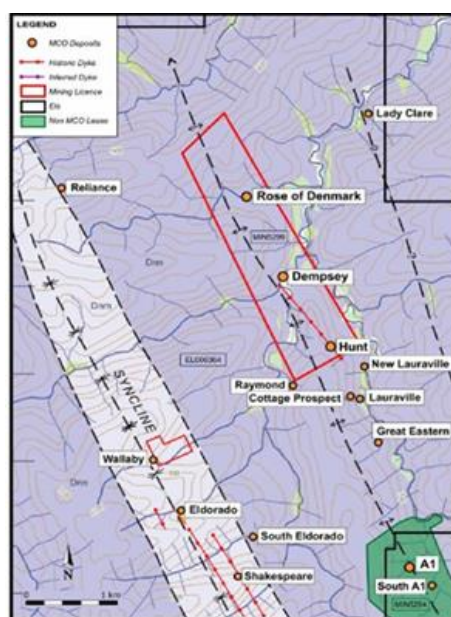


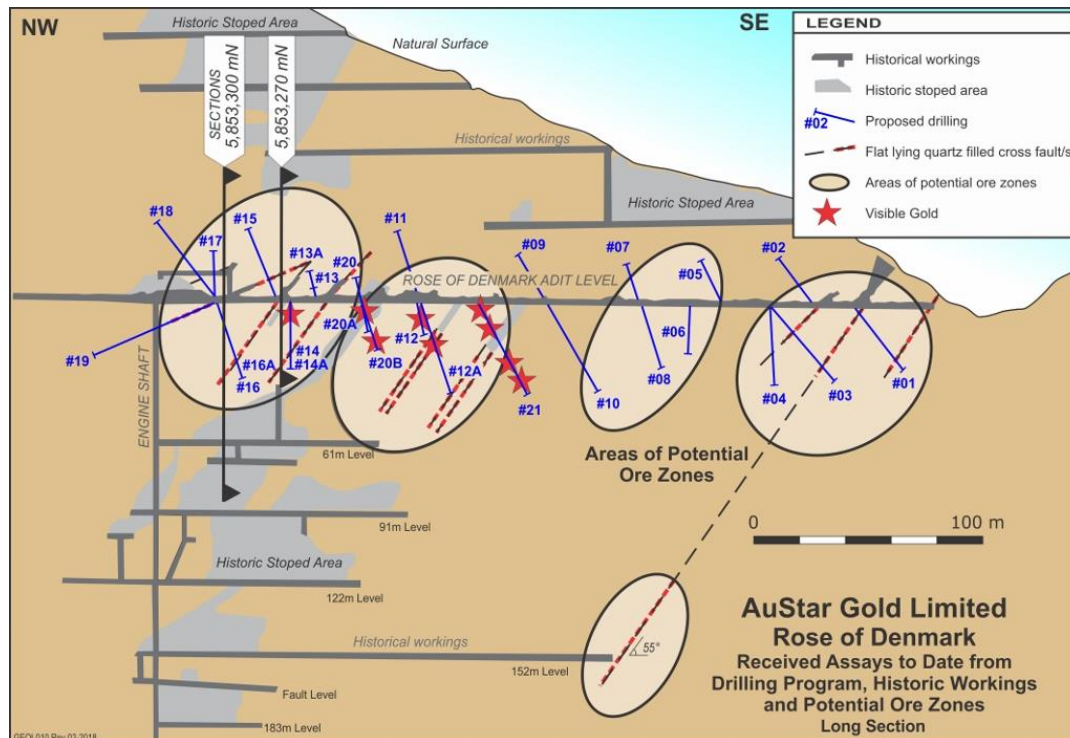
Figure 15: Plan showing rubber tyre



access of RoD.

The Rose of Denmark mine has been opened and fully ground supported using rubber-tyred equipment with a 2.8 m wide opening, making it available for diamond drill testing with more modern drilling equipment. Figure 16 show completed and actual diamond drilling to mid-February 2018 with visible gold intercepts marked. (refer to ASX: AUL 19 Feb 2018)

Figure 16: Completed and proposed diamond drilling at Rose of Denmark mine



Prior to closure, Morning Star Gold NL mined an 800 tonne bulk sample which was subsequently processed. Processing of the Rose of Denmark ore was reportedly at the plant's rated throughput and with less sulphide in the gold concentrate. The ore extracted was estimated to contain in the order of 8 g/t Au. It is of interest to note that this was exposed and accessible by the original miners who chose not to mine the ore.

Morning Star Strategy

AuStar's operating strategy in regard to Morning Star can be summarised as follows:

- Maximise Opportunity on a cost effective basis
- Minimise Risk
- Be In Control

The process of re-commissioning the Morning Star gold mine is very interactive, with new information being sourced and reviewed on a continual basis. This requires operational systems and processes that are sufficiently flexible to allow changes in the operations resulting from ongoing review of evolving information.

AuStar Gold is cognisant of not repeating the mistakes of the past. To ensure this, the operational philosophy is based upon small steps forward with each decision an improvement in its own right, whilst maintaining the tenets of the Company's operating strategy.

Directors' Report

Maximise Opportunity

- Flexibility – the ability to take advantage of opportunity
 - Allow a mining method that allows variance in plan as data is found
 - Minimise commitment in capital and lead times
 - Minimise permanent employees to allow variance in plan
 - Optimise variable cost and minimise fixed costs

Minimise Risk

- Maintain options– Prevents being forced into a decision
 - Multiple ore sources, in-mine and intra-mine
 - Optimise variable cost, minimise fixed cost
 - Minimal capital commitments
 - Maintain flexibility
 - Rolling plan, reviewed regularly
 - Regular communications

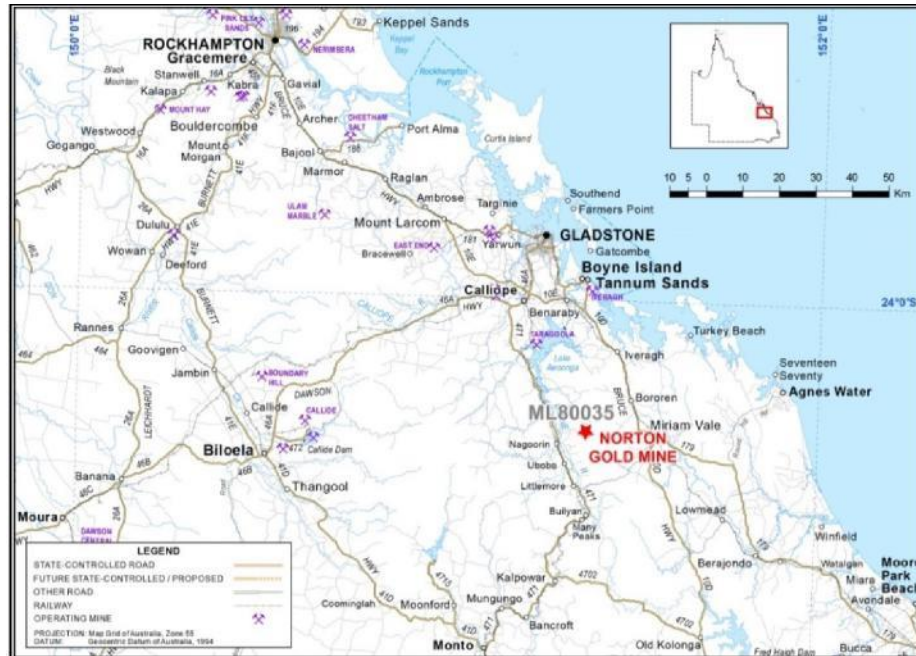
Be in Control

- Quality people who will make quality and timely decisions
 - Clear goals and objectives
 - Generate income
 - Organise data for recall

The Norton Gold Project Overview:

The Norton Project is located less than 100 km south of the port city of Gladstone, Queensland (Figure 16).

Figure 16: Norton Gold Project location.



At Norton, gold is contained in high grade, sub-vertical shears, which outcrop near surface. In 2015, a gold Resource Base was calculated and an indicative mine design undertaken

During the current financial year, the Company determined that the Norton Project was a non-core asset and is progressing alternatives for its divestment.

Lionsville Gold Project:

AuStar acquired 100% of Lionsville Gold Pty Ltd in 2016: Lionsville is an historic gold province in northern NSW that has seen little modern exploration. This project is also designated as non-core and is in the process of divestment.

Black Range Gold Project:

As part of the Morning Star acquisition, AuStar became a 13% holder in the Black Range Project near Cobar in central west NSW, along with 87% holder Heron Resources. The project is centred around the historically high grade Overflow underground gold mine.

Table 2: AuStar's Tenement Schedule.

Tenement	Project	Name	Grant Date	Expiry Date	Area	Interest (%)
MIN 5009 ²	Morning Star	Morning Star	21/09/1990	Renewal	657 Ha	95
EL 6364	Morning Star	Morning Star	Application		101 km ²	95
MIN 5299 ²	Morning Star	Rose of Denmark	10/11/1981	Renewal	211 Ha	47
MIN 5560 ²	Morning Star	Wallaby	17/12/2013	16/12/2018	10 Ha	95
EL 6321	Morning Star	Morning Star	Application		547 km ²	95
ML 80035 ¹	Norton	Norton	04/04/1996	30/04/2017	22 Ha	90
EL 6074	Lionsville	Lionsville	06/05/2003	Renewal	4 units	100
EL 5878 ²	Black Range	Overflow	24/07/2001	Renewal	3 units	13

1. Norton is 90% held by AuStar Gold Limited.

2. Morning Star is 100% owned by Morning Star Gold NL, in turn owned 95% by AuStar Gold Limited. MIN 5299 is a Joint Venture wherein Morning Star Gold NL holds 49%.

Directors' Report

Mineral Resources as at 31 December 2017:

Morning Star Mineral Resource (95% held by AuStar).

For information on the existing resource, please refer to the report entitled "910,000 Ounces Gold JORC Resource" created on 30 July 2008, which is available to view at www.asx.com.au under ASX code MCO.

Norton Mineral Resource

Class	Tonnes	Au (g/t)	Au (oz)	Ag (g/t)	Ag (oz)
Indicated	107,000	6.2	21,100	15	50,300
Inferred	141,000	3.9	17,700	12	52,600
Total	248,000	4.9	38,800	13	103,000

Table 2: Norton Mineral Resource (90% held by AuStar).

The information in Table 2 is extracted from the report entitled "Norton Gold Mine Resource Estimate" created on 15 May 2015 and is available to view on www.austargold.com

Granite Castle Mineral Resource

Class	Tonnes	Au (g/t)	Au (oz)	Ag (g/t)	Ag (oz)
Measured	111,000	4.3	15,500	58	205,800
Indicated	250,000	3.6	28,800	71	567,900
Inferred	403,000	2.5	32,900	56	727,200
Total	765,000	3.1	77,200	61	1,500,900

Table 3: Granite Castle Mineral Resource.

The information in Table 3 is extracted from the report entitled "Improved Confidence Levels for Granite Castle Resource" created on 28 May 2008 and is available to view on www.austargold.com

Charters Towers Mineral Resource

Class	Tonnes	Au (g/t)	Au (oz)
Inferred	1,535,000	2.2	109,000
Total	1,535,000	2.2	109,000

Table 4: Charters Towers Mineral Resource.

The information in Table 4 is extracted from the report entitled "Disclosure Document" created on 2 October 2006 and is available to view on www.austargold.com

In relation to Tables 2 through 4, the Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcements continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcements.

Competent Person Statement:

The information in this report that relates to Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Dr. Richard Valenta, Executive Director of AuStar Gold Ltd. Dr. Valenta is a Fellow of the Australasian Institute of Mining and Metallurgy and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Dr. Valenta

Directors' Report

consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Auditor's independence declaration

The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is included within this half-year financial report.

Signed in accordance with a resolution of directors made pursuant to s306(3) of the *Corporations Act 2001*.

A handwritten signature in black ink, consisting of a stylized 'H' followed by a 'K' and a long horizontal stroke.

Director

Dated this 16th day of March 2018



RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +618 9261 9100

F +618 9261 9111

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of AuStar Gold Limited for the half year ended 31 December 2017, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

RSM

RSM AUSTRALIA PARTNERS

ALW

ALASDAIR WHYTE
Partner

Perth, WA
Dated: 16 March 2018

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

Consolidated Statement of Comprehensive Income
for the half-year ended 31 December 2017

	Note	31 December 2017 \$	31 December 2016 \$
Interest income		3,625	2,600
Other Income		88,131	19,182
Administrative expenses		(86,681)	(172,571)
Consultancy and legal expenses	2	(323,651)	(387,937)
Compliance and regulatory expenses		(87,375)	(58,960)
Depreciation expense		(41,845)	(25,506)
Director and employee related expenses	2	(90,219)	(439,393)
Other exploration expenses		(14,797)	(16,195)
Interest expense		(311,633)	(100,456)
Share based payment		(88,604)	(15,851)
Reversal/(impairment) of exploration expenditure		802,255	(4,170,096)
Loss before income tax expense		(150,794)	(5,365,183)
Other comprehensive income		-	-
Total comprehensive loss for the period		(150,794)	(5,365,183)
Total comprehensive loss attributable to members of the Company		(150,794)	(5,365,183)
Total comprehensive loss for the period attributable to:			
Non-controlling interest		(348)	(80)
Owners of AuStar Gold Limited		(150,446)	(5,365,103)
		(150,794)	(5,365,183)
Basic and diluted loss per share (cents)		(0.01)	(0.41)

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

as at 31 December 2017

	Note	31 December 2017 \$	30 June 2017 \$
Current assets			
Cash and cash equivalents	3	855,479	374,035
Trade and other receivables		461,907	522,408
Other current assets		32,045	50,018
Assets held for sale	4	925,000	-
Total current assets		<u>2,274,431</u>	<u>946,461</u>
Non-current assets			
Receivables		17,914	17,914
Property, plant and equipment		604,123	643,873
Exploration and evaluation expenditure	5	5,725,149	4,748,394
Total non-current assets		<u>6,347,186</u>	<u>5,410,181</u>
Total assets		<u>8,621,617</u>	<u>6,356,642</u>
Current liabilities			
Trade and other payables		808,131	1,546,754
Provisions		-	18,537
Borrowings	6	386,708	90,153
Derivative liability	6	352,667	-
Total current liabilities		<u>1,547,506</u>	<u>1,655,444</u>
Total liabilities		<u>1,547,506</u>	<u>1,655,444</u>
Net assets		<u>7,074,111</u>	<u>4,701,198</u>
Equity			
Contributed equity	8	33,798,099	31,402,555
Reserves	8	1,840,194	1,712,031
Accumulated losses		(28,761,801)	(28,611,355)
Equity attributable to the members of the consolidated entity		<u>6,876,492</u>	<u>4,503,231</u>
Non-controlling interest		<u>197,619</u>	<u>197,967</u>
Total equity		<u>7,074,111</u>	<u>4,701,198</u>

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
for the half-year ended 31 December 2017

	31 December 2017 \$	31 December 2016 \$
Cash flows from operating activities		
Cash payments in the course of operations	(1,283,360)	(433,677)
Cash payments for exploration expenditure	(1,099,500)	(874,356)
Interest received	3,625	2,600
Interest paid	(22,908)	(100,456)
Net cash used in operating activities	<u>(2,402,143)</u>	<u>(1,405,889)</u>
Cash flows from investing activities		
Payments for property, plant and equipment	(2,095)	(16,535)
Payments for investment	-	(1,100,000)
Net cash used in investing activities	<u>(2,095)</u>	<u>(1,116,535)</u>
Cash flows from financing activities		
Proceeds from issue of shares	385,682	1,525,097
Payment of Borrowings	-	(12,239)
Proceeds from Borrowings	2,500,000	-
Net cash provided by financing activities	<u>2,885,682</u>	<u>1,512,858</u>
Net change in cash and cash equivalents	481,444	(1,009,566)
Cash and cash equivalents at the beginning of the period	<u>374,035</u>	<u>1,292,414</u>
Cash and cash equivalents at the end of the period	<u><u>855,479</u></u>	<u><u>282,848</u></u>

3

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2017

	Contributed equity	Reserves	Accumulated losses	Non- Controlling interest	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2016	27,801,935	1,608,980	(20,973,635)	197,233	8,634,513
Total comprehensive loss for the period	-	-	(5,365,103)	(80)	(5,365,183)
Shares issued	1,832,150	-	-	-	1,832,150
Share issue costs	(24,903)	-	-	-	(24,903)
Share options issued	-	-	-	-	-
Share based payment	-	15,851	-	-	15,851
Balance at 31 December 2016	<u>29,609,182</u>	<u>1,624,831</u>	<u>(26,338,738)</u>	<u>197,153</u>	<u>5,092,428</u>
Balance at 1 July 2017	31,402,555	1,712,031	(28,611,355)	197,967	4,701,198
Total comprehensive loss for the period	-	-	(150,446)	(348)	(150,794)
Shares issued	2,512,421	-	-	-	2,512,421
Share issue costs	(116,877)	-	-	-	(116,877)
Share based payment	-	128,163	-	-	128,163
Balance at 31 December 2017	<u>33,798,099</u>	<u>1,840,194</u>	<u>(28,761,801)</u>	<u>197,619</u>	<u>7,074,111</u>

The accompanying notes form part of these financial statements.

Notes to the Consolidated Financial Statements

for the half-year ended 31 December 2017

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical costs. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the consolidated entity's annual financial report for the year ended 30 June 2017, except in relation to the matters disclosed below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

New and revised Accounting Standards and Interpretations

The consolidated entity has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these new and revised Accounting Standards and Interpretations has not resulted in a significant or material change to the consolidated entity's accounting policies.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted by the consolidated entity.

2. Expenses

Director and employee related expenses

	Consolidated	
	31 December 2017	31 December 2016
	\$	\$
Director and employee wages	(90,219)	(242,515)
Redundancy payments	-	(196,878)
	<u>(90,219)</u>	<u>(439,393)</u>

Consultancy and legal expenses

	Consolidated	
	31 December 2017	31 December 2016
	\$	\$
Consultants and legal costs	(323,651)	(206,437)
Termination of company secretarial service	-	(181,500)
	<u>(323,651)</u>	<u>(387,937)</u>

Notes to the Consolidated Financial Statements

for the half-year ended 31 December 2017

3. Cash and cash equivalents

For the purposes of the half-year statement of cash flows, cash and cash equivalents are comprised of the following:

	Consolidated 31 December 2017	30 June 2017
	\$	\$
Cash at bank and in hand	740,179	258,735
Cash on deposit	115,300	115,300
	<u>855,479</u>	<u>374,035</u>

4. Assets held for sale

	Consolidated 31 December 2017	30 June 2017
	\$	\$
Exploration assets held for sale	<u>925,000</u>	<u>-</u>

Exploration assets held for sale includes Charters Towers Project, Granite Castle Project and the Norton Gold Project.

5. Exploration and evaluation expenditure

	Consolidated 31 December 2017	30 June 2017
	\$	\$
Opening balance	4,748,394	9,516,136
Exploration incurred during the year	1,099,500	1,450,203
Impairment of exploration expenditure	-	(5,759,066)
Reversal of impairment	802,255	-
Research and development tax offset	-	(458,879)
Assets held for sale	(925,000)	-
Exploration expenditure	<u>5,725,149</u>	<u>4,748,394</u>

Notes to the Consolidated Financial Statements

for the half-year ended 31 December 2017

6. Borrowings

Convertible notes

The Company has secured \$1.5million in funding from MEF I, L.P. ('Magna') via a loan note and convertible note facility, of which \$1million has been drawn down. The final \$0.5million is available at the election of the Company, from 31 March 2018.

Details of the facility:

- The notes have a face value of \$1.10 for every \$1.00 received;
- The convertible notes are convertible at any time by Magna (subject to limits) at the lower of: (i) the lowest price for which the Company issues shares to others from the date of the agreement until the date of issue to Magna (noting shares will be issued for \$0.012 under the convertible loan facility referred to above) or (ii) a 15% discount from the lowest daily VWAP in the five days prior to conversion;
- The convertible notes have a maturity of 12 months after their respective issue dates, which may be extended by Magna at its election in limited circumstances;
- The notes are unsecured and bear no interest;
- The Company has an option to repay the loan notes prior to maturity at a premium to their face value;
- The notes and convertible notes are not redeemable by Magna;
- The agreement contains provisions restricting the periodic trading of shares on the market as well as a prohibition on short selling

Value of Convertible notes

	Consolidated	
	31 December 2017	30 June 2017
	\$	\$
<i>Convertible note</i>		
Convertible note (tranche A) 117,350 Notes	98,897	-
Convertible note (tranche B) 390,000 Notes	279,945	-
	<u>378,842</u>	-
<i>Derivative liability</i>		
Convertible note (tranche A) 117,350 Notes	81,572	-
Convertible note (tranche B) 390,000 Notes	271,095	-
	<u>352,667</u>	-
	<u>731,509</u>	-

7. Dividends

No dividend has been declared or paid during the half-year or the previous corresponding period. The Consolidated entity does not have any franking credits available for current or future years as it is not in a tax paying position.

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2017

8. Contributed equity & Reserves

Contributed equity

	Consolidated	
	31 December	30 June
	2017	2017
	\$	\$
Fully paid ordinary shares	33,750,658	31,402,555
Movement in ordinary shares on issue	Number	\$
Balance at beginning of period	1,324,974,610	31,402,555
Share placements	50,000,000	400,000
Shares issued in lieu of services performed	9,000,000	63,000
Conversion of convertible notes	60,249,848	399,421
Conversion of convertible loan	235,714,286	1,650,000
Share issue costs	-	(116,877)
Balance at end of period	1,679,938,744	33,798,099

Reserves

Balance at beginning of period	1,712,031	1,608,980
Options to directors - vesting over multiple periods	34,027	39,575
Options to sophisticated investor - vested immediately on 4 October 2017	39,559	-
Performance rights to directors - vesting over multiple periods	54,577	63,476
Balance at end of period	1,840,194	1,712,031

9. Segment reporting

As the consolidated entity operates wholly in one business segment, being mineral exploration and in one geographical segment, being Australia, the consolidated entity has not identified and therefore, not disclosed, any segment information on the basis of the internal reports being provided to the chief decision maker, which is the Board of Directors.

10. Contingent assets and liabilities

The Directors of the consolidated entity are unaware of any existing contingent assets and liabilities.

Notes to the Consolidated Financial Statements

for the half-year ended 31 December 2017

11. Commitments

Exploration expenditure commitments

	Consolidated	
	31 Dec 2017	30 June 2017
	\$	\$
Within one year	303,000	824,000
After one year but not more than five years	-	1,278,000
	<u>303,000</u>	<u>2,102,000</u>

The above exploration expenditure commitments assume no relinquishments or reductions during the period.

12. Events subsequent to balance date

Subsequent to the period, the consolidated entity announced the following to the ASX:

The sale of Charters Towers and Granite Castle assets was completed on 20 February 2018.

Other than disclosed above, there are no other matters or circumstances that have arisen since the end of the half year which will significantly affect, or may significantly affect, the state of affairs or operations of the reporting entity in future financial periods.

Directors' Declaration

The directors of the company declare that:

1. The financial statements and notes, as set out in this half-year financial report, are in accordance with the *Corporations Act 2001*, including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date.
2. In the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Director

Dated this 16th day of March 2018

RSM Australia Partners

Level 32, Exchange Tower
2 The Esplanade Perth WA 6000
GPO Box R1253 Perth WA 6844

T +618 9261 9100

F +618 9261 9111

www.rsm.com.au

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
AUSTAR GOLD LIMITED**

We have reviewed the accompanying half-year financial report of AuStar Gold Limited which comprises the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of AuStar Gold Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

Independence

In conducting our review, 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 AuStar Gold Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of AuStar Gold Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

RSM

RSM AUSTRALIA PARTNERS

ALWhite

ALASDAIR WHITE
Partner

Perth, WA
Dated: 16 March 2018