

HAMMER METALS LIMITED
ABN 87 095 092 158
and its Controlled Entities

INTERIM FINANCIAL REPORT

6 MONTHS ENDED

31 DECEMBER 2016

DIRECTORS' REPORT

The directors present their report together with the condensed consolidated financial report for the six months ended 31 December 2016 and the review report thereon.

DIRECTORS

The directors of the Company at any time during or since the end of the half year are:

Mr Russell Davis Chairman	Director since 13 January 2014
Mr Alexander Hewlett Executive Director	Director since 26 June 2013
Mr Nader El Sayed Non Executive Director	Director since 26 June 2013
Mr Simon Bodensteiner Non Executive Director	Director since 8 September 2015

REVIEW OF OPERATIONS

The Group incurred an after tax loss attributable to equity holders of the parent entity for the half year ended 31 December 2016 of \$436,342 (31 December 2015: loss \$457,346).

The Group operated during the period as a mineral explorer in Queensland and Western Australia.

The Company raised \$2,257,500 (before costs) during the period by private placement of 32,250,002 shares. The convertible note held in 2016 was converted to equity by issue of 11,374,711 shares.

300,000 unlisted options with an exercise price of \$0.30 expired on 11 September 2016. No options were granted or exercised during the period.

Queensland Projects

Mount Isa Region Projects

The Company is exploring its Mount Isa project for large iron oxide copper-gold (IOCG) deposits of the Ernest Henry style (approximately 220 million tonnes at 1.1% Cu and 0.5g/t Au).

A systematic IOCG targeting exercise within the Mount Isa region is ongoing.

Kalman

The Kalman Deposit and immediate strike extensions were geologically remapped resulting in a clearer understanding of the deposit's geology and controls on high grade mineralization.

The Mineral Resource Estimate update for Kalman was completed during the period.

The new estimate comprises a combined 20 million tonnes at 1.8% CuEq at 0.61% copper, 0.34g/t gold. 0.14% molybdenum and 3.7g/t rhenium in the Indicated and Inferred categories at revised cut-off grades. (Refer to ASX release dated 27 September 2016 for full details of the Mineral Resource Estimate.)

Kalman Mineral Resource – refer ASX release dated 27 September 2016

Classification	Mining Method	CuEq Cut-off	Tonnes Kt	CuEq %	Cu %	Mo %	Au ppm	Ag ppm	Re ppm
Indicated	Open Pit	0.75%	7,100	1.5	0.48	0.12	0.27	1.4	2.9
Inferred	Open Pit	0.75%	6,200	1.6	0.44	0.15	0.24	1.5	3.9
Inferred	Underground	1.4%	7,000	2.4	0.89	0.16	0.50	2.9	4.5
Total			20,000	1.8	0.61	0.14	0.34	1.9	3.7

Note – Totals may differ due to rounding

The Company confirms that it is not aware of any information or data that materially affects the information included in the original market announcement and, in the case of estimated Mineral Resources or Ore Reserves, which all material assumptions and technical parameters underpinning the estimates in the relevant market announcement 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 announcement.

A drilling program was undertaken in the quarter to December 2016 and airborne VTEM survey was completed.

Further modelling will be completed on the Down Hole EM data from the deep diamond hole drilled at Kalman, with testing of this target by drilling one or more wedge holes under consideration.

Following the VTEM survey final data processing and target generation utilizing all available datasets is currently underway with field programs investigating the targets to commence in the next quarter.

Millennium

In May 2016, the Company acquired five Mining Leases over the Millennium copper-cobalt-gold project near Cloncurry. The acquisition secured a prospective high-grade cobalt-copper-gold target that complements Hammer's existing tenement portfolio in the region. The cost of the acquisition was \$50,000 in cash to Elementos Ltd and 500,000 Hammer shares to Chinalco Yunnan Copper Resources Ltd.

RC drilling programs were completed in the period to December 2016. The objective of this program was to provide an initial test of the continuity of mineralisation in previous drilling. The lease area has been geologically mapped in detail and this together with drill data provided control for the construction of a three-dimensional geological model.

The maiden Mineral Resource Estimate for Millennium was announced to the ASX on 6th December 2016.

Millennium November 2016 Mineral Resource - Inferred- refer ASX release dated 6 December 2016

CuEq Cut-off	Tonnes	CuEq (%)	Cu (%)	Co (%)	Au (ppm)
1.0%	3,070,000	1.29	0.35	0.14	0.12
0.7%	5,890,000	1.08	0.32	0.11	0.11

The Company confirms that it is not aware of any information or data that materially affects the information included in the original market announcement and, in the case of estimated Mineral Resources or Ore Reserves, which all material assumptions and technical parameters underpinning the estimates in the relevant market announcement 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 announcement.

The resource model can now be used as a basis for mining and metallurgical studies. Petrological studies are presently being undertaken on a range of the mineralised drill samples. There is significant potential to increase the size of the deposit in untested, geochemically anomalous zones to the north with additional drilling.

Newmont – Farm-in / JV

In December 2015, the Company executed a farm-in and JV agreement with Newmont Exploration Pty Ltd (Newmont), encompassing three of Hammer's IOCG prospects – Overlander, Even Steven and Dronfield, covering approximately 250km² of Hammer's 2500km² Mount Isa project which includes 17 sub-blocks of EPM's 14232, 18116 and 25369 held 100% by Hammer and all sub-blocks in EPM18084 (Dronfield) in

which Hammer has earned an 80% interest. The joint venture is targeting an Ernest Henry style IOCG copper- gold deposit. Hammer will manage the initial joint venture exploration activities utilising in-house technical support from Newmont. Hammer retains 100% ownership of the existing resources at Kalman (Cu-Au-Mo-Re), Overlander (Cu) and Mt Philp (Fe).

In the half-year to December 2016, Newmont met the first minimum expenditure of US\$500,000 required and elected to enter into Stage 1, whereby Newmont can earn up to 35% by spending a total of US\$1,450,000 within two years.

A two-hole diamond drilling program at Overlander was completed in the period. A full review of data is currently underway. A decision regarding further drilling will be made once the alteration patterns and assay results indicated by the drilling to date are assessed.

In the quarter to December, Newmont completed the processing of data from the second NEWDAS survey at Dronfield within EPM 18084. Drilling to test two of the targets defined by the work to date is planned to commence following the rainy season.

Future activities

Between the activities undertaken under the Farm-in and Joint Venture Agreement with Newmont and Hammer's own programs, a significant quantity of geological, geophysical and assay data were collected in the last quarter, with much of this data not yet fully processed and assessed.

Work is currently focusing on completing this assessment and a targeting exercise is planned for the first quarter of 2017 finalise the exploration priorities and program for 2017.

Acquisition of tenements

Hammer entered into an agreement to acquire 100% of Chinalco Yunnan Copper Resources Limited (CYU) tenement interests in the Mount Isa district. Completion of the acquisition has not yet occurred.

The acquisition includes a 100% interest in EPM's 14019, 14022 and 12205 which cover the previously defined Elaine-Dorothy copper-gold resource of 27 Mt at 0.53% Cu and 0.08g/t Au (CYU ASX release 18/10/2012), the GEM copper-gold resource (CYU ASX release 9/06/2010) and the Elaine uranium prospect (CYU ASX release 24/03/2010) as well as a range of other copper-gold drill intersections at the Mt Dorothy, Pindora and Prince of Wales prospects. The tenements also cover strike extensions of mineralised trends and favorable host rocks identified within Hammer's adjacent tenements. The acquisition also includes CYU's 51% interest in EPM 14467 (Mt Frosty), located adjacent to the Mary Kathleen uranium mine and which covers the Blue Caesar, Jubilee and Koppany copper prospects. The tenement is currently in joint venture with a third party. The acquisition of the 51% interest is contingent on Hammer reaching agreement with the third party on acceptable revised commercial terms to the current JVA.

Hammer's regional targeting exercise is ongoing. New targets identified to date but held by other parties will be opportunistically acquired if they become available.

Mount Morgan Region

The Golden Peaks project is located to the southeast of the Mount Morgan gold-copper mine in Central Queensland which produced over 8,000,000 ounces of gold and 387,000 tonnes of copper. The Company has a farm-in agreement with Perilya Limited over EPM15810.

During the half year, two diamond drill holes for 436.5 metres were drilled at the Golden Peaks project to test VTEM anomalies at Mt Dick North and Plummys. The drill hole at Mt Dick North (239 metres) intercepted zones of strongly altered volcanoclastics with sufficient disseminated iron sulphides (pyrite) to have potentially caused the VTEM anomaly, however no significant base metal sulphides were recorded. The drill hole at Plummys (197.5 metres) intersected a sequence of banded volcanoclastic sediments and jaspers containing minor disseminated pyrite.

EVENTS AFTER BALANCE DATE

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set on page 4 and forms part of the directors' report for the half year ended 31 December 2016.

Signed in accordance with a resolution of the directors:



A Hewlett
Executive Director
Perth
Dated 13 March 2017

Competent Persons Statement

The information in this report that relates to Sampling Techniques and Data and Exploration Results is based on information supplied by Mr John Downing, a Competent Person who is a Member of the Australian Institute of Geoscientists and a long-term contractor to Hammer. Mr Downing has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves'. John Downing consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



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

To: the directors of Hammer Metals Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2016 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG.

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta', with a stylized flourish at the end.

R Gambitta
Partner

Perth

13 March 2017

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	31 December 2016 \$	30 June 2016 \$
Current assets			
Cash and cash equivalents		2,136,166	1,892,094
Trade and other receivables		73,673	57,509
Other financial asset		268,412	535,433
Total current assets		<u>2,478,251</u>	<u>2,485,036</u>
Non-current assets			
Other financial assets		82,500	97,500
Plant and equipment		5,833	5,964
Exploration and evaluation expenditure	7	8,813,082	7,055,058
Total non-current assets		<u>8,901,415</u>	<u>7,158,522</u>
Total Assets		<u>11,379,666</u>	<u>9,643,558</u>
Current liabilities			
Trade and other payables		401,326	155,387
Advanced cash call		245,368	510,561
Total current liabilities		<u>646,694</u>	<u>665,948</u>
Total Liabilities		<u>646,694</u>	<u>665,948</u>
Net Assets		<u>10,732,972</u>	<u>8,977,610</u>
Equity			
Share capital	8	42,621,360	39,800,503
Reserves	8	2,507,769	3,152,521
Accumulated losses		(34,396,157)	(33,975,414)
Total Equity		<u>10,732,972</u>	<u>8,977,610</u>

This condensed consolidated statement of financial position is to be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	31 December 2016 \$	31 December 2015 \$
Continuing operations		
Other income	86,640	-
Marketing expenses	(29,476)	(44,794)
Administrative expenses	(227,240)	(261,108)
Share based payments	-	(29,228)
Project evaluation	-	(12,700)
Depreciation	(2,875)	(2,886)
Occupancy expenses	(22,688)	(22,401)
Impairment of exploration assets	(248,907)	(43,736)
Impairment of assets available for sale	-	(45,000)
Results from operating activities	<u>(444,546)</u>	<u>(461,853)</u>
Financial income	8,204	4,507
Financial expenses	-	-
Net financing income	<u>8,204</u>	<u>4,507</u>
Loss before tax	(436,342)	(457,346)
Income tax benefit	-	-
Loss for the period from continuing operations	<u>(436,342)</u>	<u>(457,346)</u>
Loss for the period	<u>(436,342)</u>	<u>(457,346)</u>
Other comprehensive income		
Net change in fair value of available for sale financial assets	(15,000)	(30,000)
Total comprehensive loss for the period	<u>(451,342)</u>	<u>(487,346)</u>
Basic and diluted loss per share	0.25 cents	0.43 cents

This condensed consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

HAMMER METALS LIMITED and its Controlled Entities

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Share capital \$	Share based payment reserve \$	Fair value reserve \$	Convertible notes reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2016	39,800,503	2,508,368	30,000	614,153	(33,975,414)	8,977,610
Total comprehensive income for the period						
Loss for period	-	-	-	-	(436,342)	(436,342)
Other comprehensive income						
Revaluation of available for sale investment	-	-	(15,000)	-	-	(15,000)
Total comprehensive income for the period	-	-	(15,000)	-	(436,342)	(451,342)
Shares issued for cash	2,258,658	-	-	-	-	2,258,658
Costs of share issue	(51,954)	-	-	-	-	(51,954)
Share based payments	-	-	-	-	-	-
Conversion of convertible notes	614,153	-	-	(614,153)	-	-
Options expired	-	(15,599)	-	-	15,599	-
Balance at 31 December 2016	42,621,360	2,492,769	15,000	-	(34,396,157)	10,732,972

This condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

HAMMER METALS LIMITED and its Controlled Entities

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2015

	Share capital \$	Share based payment reserve \$	Fair value reserve \$	Convertible notes reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2015	37,277,606	1,776,945	30,000	-	(32,330,054)	6,754,497
Total comprehensive income for the period						
Loss for period	-	-	-	-	(457,346)	(457,346)
Other comprehensive income						
Revaluation of available for sale investment	-	-	(30,000)	-	-	(30,000)
Total comprehensive income for the period	-	-	(30,000)	-	(457,346)	(487,346)
Shares issued for cash	430,600	-	-	-	-	430,600
Costs of share issue	(17,752)	-	-	-	-	(17,752)
Share based payments	-	29,228	-	-	-	29,228
Issue of convertible notes	-	-	-	650,000	-	650,000
Balance at 31 December 2015	37,690,454	1,806,173	-	650,000	(32,787,400)	7,359,227

This condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

HAMMER METALS LIMITED
and its Controlled Entities

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	31 December 2016 \$	31 December 2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	8,204	4,507
Cash payments in the course of operations	(289,723)	(337,692)
Payments for evaluation of new projects	-	(12,700)
Net cash used in operating activities	<u>(281,519)</u>	<u>(345,885)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Exploration and evaluation expenditure	(1,785,555)	(602,085)
Reimbursement of exploration and evaluation expenditure from farm-in partner	20,546	103,448
Received as management fee from farm-in partners	56,640	-
Payments for purchase of plant and equipment	(2,744)	(3,238)
Sale of Royalty	30,000	-
Cash calls received from farm-in partner in advance	-	361,172
Net cash used in investing activities	<u>(1,681,113)</u>	<u>(140,703)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	2,257,500	430,600
Proceeds from convertible note	-	650,000
Transaction costs from issue of shares	(50,796)	(17,752)
Net cash provided by financing activities	<u>2,206,704</u>	<u>1,062,848</u>
Net increase / (decrease) in cash and cash equivalents	244,072	576,260
Cash at the beginning of the financial period	<u>1,892,094</u>	<u>391,707</u>
Cash at the end of the financial period	<u>2,136,166</u>	<u>967,967</u>

This condensed consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

HAMMER METALS LIMITED

and its Controlled Entities

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

1. Reporting entity

Hammer Metals Limited (the "Company") is a company domiciled in Australia. These condensed consolidated interim financial statements ('interim financial statements') as at and for the six months ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group is primarily involved in mineral exploration in Western Australia and Queensland.

The consolidated annual financial statements of the Group as at and for the year ended 30 June 2016 is available upon request from the Company's registered office at Suite 1, 827 Beaufort Street Mt Lawley, WA, 6050 or at www.hammermetals.com.au.

2. Statement of compliance

The interim financial statements are general purpose financial statements prepared in accordance with AASB 134: *Interim Financial Reporting* and the Corporations Act 2001.

Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 30 June 2016. This report does not include all of the information required for full annual financial report and should be read in conjunction with the consolidated financial report of the Group as at and for the year ended 30 June 2016.

This consolidated interim financial report was approved by the Board of Directors on 10 March 2017.

3. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2016.

4. Going concern

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.

For the period ended 31 December 2016, the Group has incurred a consolidated loss of \$436,342 and experienced net operating cash outflows of \$281,519 and net investing cash outflows of \$1,681,113. As at 31 December 2016 the Group had \$2,136,166 in cash and cash equivalents and net current assets of \$1,831,557.

During the prior period, the Group entered into a Farm-in and Joint Venture agreement with a third party that provides the third party an option to fund significant exploration expenditure on certain of the Group's exploration projects, which would significantly reduce the Group's minimum expenditure on these projects. Whilst not immediately required, the Group will need to raise additional funds to meet its ongoing obligations and subject to the results of its ongoing exploration activities, expand or accelerate its work programs.

The Group's capacity to raise additional funds will be impacted by the success of the ongoing exploration activities and market conditions. Additional sources of funding available to the Group include a capital raising via preferential issues to existing shareholders, placements to new and existing investors or through farm in or similar arrangements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

4. Going concern (continued)

If necessary the Group can delay exploration expenditure and the directors can also institute cost saving measures to further reduce corporate and administrative costs.

The Directors have reviewed the Group's overall financial position and are of the opinion that the use of the going concern basis of accounting is appropriate as they believe the Group has sufficient funds available for at least the next 12 months and when required will be able to raise further funding via the methods set out above.

5. Use of judgements and estimates

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2016.

6. Operating Segments

The Group is engaged in Copper-Gold exploration, being its main operating segment.

Operating segments are determined with reference to the monthly management accounts, program budgets and cash flow forecasts used by the chief operating decision maker to make decisions regarding the Group's operations and allocation of working capital.

Information about reportable segments	Copper - Gold \$	Total Segments \$	Unallocated \$	Total Consolidated \$
For the six months ended 31 December 2016				
Other income	56,640	56,640	30,000	86,640
Financial income	-	-	8,204	8,204
Reportable segment result	(192,267)	(192,267)	(244,075)	(436,342)
Reportable segment assets	9,081,495	9,081,495	2,298,172	11,379,667
Reportable segment liabilities	(613,793)	(613,793)	(32,901)	(646,694)
For the six months ended 31 December 2015				
Other income	-	-	-	-
Financial income	-	-	4,507	4,507
Reportable segment result	(55,090)	(55,090)	(402,256)	(457,346)
Reportable segment assets	6,722,995	6,722,995	1,080,494	7,803,489
Reportable segment liabilities	(409,640)	(409,640)	(34,622)	(444,262)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

7. Exploration and evaluation expenditure

	31 December 2016 \$	30 June 2016 \$
Balance at the beginning of the period	7,055,058	6,312,460
Exploration and evaluation expenditure incurred	2,027,495	1,130,657
Exploration and evaluation assets acquired	-	50,000
Reimbursement of costs on exploration and evaluation	(20,564)	(128,675)
Exploration and evaluation expenditure written off	(248,907)	(309,384)
Balance at the end of the period	<u>8,813,082</u>	<u>7,055,058</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas of interest at an amount greater or equal to the carrying value.

8. Capital and reserves

The following table summarises the shares issued during the six months ended 31 December 2016.

	31 December 2016 \$	30 June 2016 \$
Issued capital		
197,059,674 (30 June 2016:153,434,961) ordinary fully paid shares	<u>42,621,360</u>	<u>39,800,503</u>
	Number of shares	\$
Movements for Ordinary shares:		
Balance at 30 June 2016	153,434,961	39,800,503
Issued for cash at \$0.07 per share	32,250,002	2,257,500
Issued for conversion of Convertible note	11,374,711	614,153
Cost of shares issued	-	(50,796)
Balance at 31 December 2016	<u>197,059,674</u>	<u>42,621,360</u>
	Number of options	\$
Unlisted options		
Unlisted options on issue	<u>54,850,287</u>	<u>2,492,769</u>

300,000 Unlisted options with an exercise price of \$0.30 expired on 11 September 2016.

No options were granted or exercised during the period.

Dividends

No dividends were declared or paid during the six months ended 31 December 2016 (2015: NIL).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

8. Capital and reserves (continued)

Reserves	31 December 2016	30 June 2016
Share based payment reserve ⁽¹⁾	2,492,769	2,508,368
Fair value reserve ⁽²⁾	15,000	30,000
Convertible note reserve ⁽³⁾	-	614,153
	<u>2,507,769</u>	<u>3,152,521</u>

⁽¹⁾The share based payment reserve is used to record the fair value of options issued to Directors, employees and consultants under various share based payment schemes and options issued for the acquisition of assets. Costs relating to options expired during the period have been reversed from the reserve to accumulated losses.

⁽²⁾The fair value reserve is used to record changes in the fair value of available for sale investments until the investments are derecognised or impaired. During the period, an available for sale financial asset was impaired and the reserve was transferred to the statement of profit or loss and other comprehensive income

⁽³⁾The convertible note reserve was used to record the face value of convertible notes issued that are accounted for as equity instruments. On 7 September 2016, the Company issued shares for the conversion of the convertible note and related charges.

9. Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements the Company is required to perform exploration work to meet the minimum expenditure requirements specified by various State Governments within Australia. These obligations may be reset when application for a mining lease is made and at other times.

The Group has a minimum expenditure commitment on tenure under its control.

The Company can apply for exemption from compliance with the minimum exploration expenditure requirements. Due to the nature and scale of the Company's exploration activities the Company is unable to estimate its likely tenement holdings and therefore minimum expenditure requirements more than 1 year ahead.

The commitment for minimum exploration expenditure payable as at 31 December 2016, payable within one year, is \$1,608,974. These commitments include projects that are subject to a Farm-in and Joint Venture agreement that provides the third party an option to fund significant exploration expenditure on the Group's exploration projects. This would significantly reduce the Group's commitment for minimum exploration expenditure. These obligations are not provided for in the financial report.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

10. Financial instruments

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their fair value hierarchy for financial instruments at fair value. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 December 2016 \$	30 June 2016 \$
Financial assets carried at fair value		
Equity securities – listed on ASX at quoted prices (level 1 fair value hierarchy)	82,500	97,500
Financial assets carried at amortised costs		
Cash and cash equivalents	2,136,166	1,892,094
Trade and other receivables	73,673	57,509
Advanced contributions from Farm-in partner	268,412	535,433
Financial liabilities carried at amortised costs		
Trade and other payables	(401,326)	(155,387)
Advanced cash call	(245,368)	(510,561)

11. Subsequent events

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

DIRECTORS' DECLARATION

In the opinion of the directors of Hammer Metals Limited ("the Company"):

- a) the condensed consolidated financial statements and notes set out on pages 6 to 15, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the six month period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



A Hewlett
Executive Director

Perth

Dated 13 March 2017



Independent auditor's review report to the members of Hammer Metals Limited

Report on the financial report

We have reviewed the accompanying interim financial report of Hammer Metals Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, condensed consolidated statement of profit and loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 11 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibility of the Directors for the interim financial report

The directors of the company are responsible for the preparation of the interim 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 interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim 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 interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Hammer Metals Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim 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.

Independence

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



Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG.

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta'.

R Gambitta
Partner

Perth

13 March 2017