



CAZALY

RESOURCES LIMITED

ABN 23 101 049 334

AND CONTROLLED ENTITIES

Consolidated Half Year Financial Report

31 December 2016

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

CONSOLIDATED HALF YEAR FINANCIAL REPORT

31 December 2016

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CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

**COMPANY DIRECTORY
HALF YEAR ENDED 31 DECEMBER 2016**

MANAGING DIRECTOR

Nathan McMahon

MANAGING DIRECTOR

Clive Jones

NON-EXECUTIVE DIRECTOR

Terry Gardiner

COMPANY SECRETARY

Mike Robbins

PRINCIPAL & REGISTERED OFFICE

Level 2, 38 Richardson Street,
West Perth, WA, 6005

Telephone: (08) 9322 6283

Facsimile: (08) 9322 6398

AUDITORS

Bentleys

London House

Level 3, 216 St Georges Terrace

PERTH WA 6000

SHARE REGISTRAR

Advanced Share Registry Services

110 Stirling Highway

NEDLANDS WA 6009

Telephone: (08) 9389 8033

Facsimile: (08) 9389 7871

STOCK EXCHANGE LISTING

Australian Securities Exchange

(Home Exchange: Perth, Western Australia)

Code: CAZ

BANKERS

National Australia Bank

50 St Georges Terrace

PERTH WA 6000

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

DIRECTORS' REPORT HALF YEAR ENDED 31 DECEMBER 2016

Your directors submit the financial report of Cazaly Resources Limited ('Cazaly' or 'the Company') and its controlled entities ('the Group') for the half-year ended 31 December 2016.

DIRECTORS

The names of Directors who held office during or since the end of the half year:

Nathan Bruce McMahon
Clive Bruce Jones
Kent Michael Hunter (resigned 1/12/16)
Terry James Gardiner (appointed 1/12/16)

COMPANY SECRETARY

Mike Robbins

REVIEW OF OPERATIONS

Projects

The Company continued the assessment of regional datasets and planned its initial work for the Mount Venn gold project whilst working towards the granting of the key licences over the project. Exploration Licence 38/3111 was subsequently granted and access permits issued to the Company allowing commencement of initial works, including drilling, which commenced in mid-January. Maiden drilling results were released to the market on 27 February 2017.

Work also continued on assessing lithium ore from Lepidolite Hill, part of the company's Goldfields Lithium Alliance with Lithium Australia Limited (ASX: LIT). Extraction of lithium using LIT's proprietary Sileach™ process exceeded 95% in the leach circuit, validating both the overall extraction and accelerated rate of extraction of lithium achieved in the laboratory test work program and demonstrated the production of battery grade lithium carbonate. The results point towards potential processing at low cost and bodes well for the potential economic extraction of lithium from the alliance projects.

The Company was granted two licences, one in Queensland (Mount Tabor) and one in New South Wales (Bungonia), containing known cobalt mineralisation. Cobalt supply is becoming constrained and, as a key battery metal along with lithium and graphite, with a predicted increase in demand, pure cobalt projects will become increasingly in demand. Negotiations to access the licence areas to commence field work is underway.

The Company also has several other projects including the Parker Range Iron Ore project (a 4Mtpa development ready project, WA), the Halls Creek project (20% Cazaly, copper-zinc deposit, WA), McKenzie Springs (nickel, graphite, WA) and Brzkov & Horni (80% Cazaly, uranium, Czech Republic). It also retains some exposure to a royalty from the Georges Reward project (MetalsX Limited) and a potential royalty stream from the West Kalgoorlie project.

Corporate

Shares

On 22 August 2016, the Company issued the following fully paid ordinary shares in the capital of the Company:

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DIRECTORS' REPORT HALF YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

- 2,500,000 shares issued to the vendors of Yamarna West Pty Ltd;
- 1,538,462 shares issued as consideration for the Widgiemooltha project; and
- 175,000 shares issued to a consultant;

Options

The Company issued a total of 11,853,847 quoted options exercisable at \$0.11 on or before 21 August 2018 as per the terms and conditions set out in the cleansing prospectus lodged with the ASX on 17 August 2016.

During the period, Cazaly also issued the following unquoted options:

- 2,500,000 options exercisable at \$0.144 on or before 22 August 2019 as part consideration to the vendors of Yamarna West Pty Ltd;
- 2,500,000 options exercisable at \$0.216 on or before 22 August 2020 as part consideration to the vendors of Yamarna West Pty Ltd;
- 175,000 options exercisable at \$0.15 on or before 22 August 2018 issued to a consultant in lieu of services provided; and
- 1,450,000 options exercisable at \$0.18 on or before 22 August 2019 issued to employees under the Cazaly employee incentive scheme.

At the annual general meeting held on 24 November 2016, the shareholders approved the issue of a total of 5,000,000 unquoted options to the Directors, exercisable at \$0.20 on or before 30 November 2018.

Convertible Notes

In December 2015, two directors, Mr Nathan McMahon and Mr Clive Jones, advanced a total of \$200,000 in debt funds by way of a convertible note to the Company. The principal terms of the convertible note were designed to mirror the terms of the placement completed in December 2015. As such, the convertible notes carried no coupon rate, were unsecured and would be convertible at \$0.03 with a free attaching option on the basis of one option for every two shares converted. The convertible notes were converted on 22 August 2016 after shareholder approval was obtained on 12 August 2016.

Royalties

During the period, the Company received a total amount of \$139,035, in cash, from MetalsX Ltd (ASX: MLX) pursuant to a royalty based on \$1/tonne mined and milled from Georges Reward. Total royalty received to date is \$175,199.

RESULTS OF OPERATIONS

The operating loss after income tax of the Group for the half-year ended 31 December 2016 was \$537,333 (31 December 2015: \$696,193).

FINANCIAL POSITION

The Group had a working capital surplus, being current assets less current liabilities of \$783,216 at 31 December 2016 (30 June 2016: surplus of \$1,244,141).

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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DIRECTORS' REPORT HALF YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

SUBSEQUENT EVENTS

Since 31 December 2016, there has not been any matter or circumstance that has arisen which has significantly affected, or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

LEAD AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 17 of the half-year ended 31 December 2016.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

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



Nathan McMahon
Managing Director

Perth
Dated: 15 March 2017

Competent Persons Statement

The information that relates to exploration targets, exploration results, resource reporting and drilling data of Cazaly operated projects is based on information compiled by Mr Clive Jones and Mr Don Horn who are Members of The Australasian Institute of Mining and Metallurgy and/or The Australian Institute of Geoscientists and are employees of the Company. Mr Jones and Mr Horn have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jones and Mr Horn consent to the inclusion in their names in the matters based on their information in the form and context in which it appears.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME HALF YEAR ENDED 31 DECEMBER 2016

		31 December 2016 \$	31 December 2015 \$
Revenue	2	273,965	144,757
Other Income	2	14,181	126,315
Employee benefits expense		(150,824)	(275,722)
Depreciation & amortisation expense		(4,651)	(7,561)
Administration expenses		(60,890)	(37,257)
Advertising & Promotional expenses		(30,049)	(2,900)
Compliance & Regulatory expenses		(151,331)	(81,273)
Consultancy costs		(13,969)	(50,474)
Occupancy costs		(30,035)	(142,171)
Write off of exploration expenditure		(210,478)	(369,907)
Equity based payments		(106,536)	-
Diminution in fair value of financial assets through profit and loss		(66,716)	-
Profit/(Loss) before income tax		(537,333)	(696,193)
Income tax benefit		-	-
Profit/(Loss) for the period		(537,333)	(696,193)
Profit/(Loss) attributable to:			
- Members of the controlling entity		(537,333)	(696,144)
- Non-controlling interest		-	(49)
		(537,333)	(696,193)
Other comprehensive income		-	-
Total comprehensive loss for the period		(537,333)	(696,193)
Net loss and total comprehensive income for the period attributable to:			
- Members of the controlling entity		(537,333)	(696,144)
- Non-controlling interest		-	(49)
		(537,333)	(696,193)
Basic earnings / (loss) per share (cents per share)		(0.32)	(0.53)

The accompanying notes form part of this financial report.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	31 December 2016 \$	30 June 2016 \$
CURRENT ASSETS			
Cash and cash equivalents		726,339	1,585,592
Trade and other receivables		256,173	205,254
TOTAL CURRENT ASSETS		982,512	1,790,846
NON-CURRENT ASSETS			
Trade and other receivables		25,270	25,270
Financial assets		197,351	264,530
Property, plant and equipment		26,419	31,071
Exploration, evaluation and development		19,673,561	18,952,083
TOTAL NON-CURRENT ASSETS		19,922,601	19,272,954
TOTAL ASSETS		20,905,113	21,063,800
CURRENT LIABILITIES			
Trade and other payables		122,082	278,923
Short-term provisions		77,214	67,782
Convertible notes	4	-	200,000
TOTAL CURRENT LIABILITIES		199,296	546,705
TOTAL LIABILITIES		199,296	546,705
NET ASSETS		20,705,817	20,517,095
EQUITY			
Issued Capital	3	26,995,255	26,487,504
Reserves		218,304	115,744
Accumulated profits/(losses)		(6,493,031)	(6,071,442)
Controlling entity interest		20,720,528	20,531,806
Non-controlling interest		(14,711)	(14,711)
TOTAL EQUITY		20,705,817	20,517,095

The accompanying notes form part of this financial report.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT
HALF YEAR ENDED 31 DECEMBER 2016**

	31 December 2016 \$	31 December 2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from tenant recoupments	12,052	99,122
Receipts from royalty payments	139,095	-
Payments to suppliers and employees	(454,197)	(565,281)
Interest and bill discounts received	3,952	2,205
Payments for exploration and evaluation	<u>(585,336)</u>	<u>(434,918)</u>
Net cash used in operating activities	<u>(884,434)</u>	<u>(898,872)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from deposit bond	-	122,592
Proceeds from sale of equity investment	-	-
Proceeds from disposal of investments	-	154,966
Proceeds on sale of exploration assets	<u>14,181</u>	<u>60,000</u>
Net cash provided by investing activities	<u>14,181</u>	<u>337,558</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	11,000	204,950
Payments for costs of issue of shares	-	(2,700)
Proceeds from convertible note	<u>-</u>	<u>200,000</u>
Net cash provided by financing activities	<u>11,000</u>	<u>402,250</u>
Net (decrease) in cash held	(859,253)	(159,064)
Cash at beginning of period	<u>1,585,592</u>	<u>620,947</u>
Cash at end of reporting period	<u>726,339</u>	<u>461,883</u>

The accompanying notes form part of this financial report.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY HALF YEAR ENDED 31 DECEMBER 2016

	Issued Capital \$	Accumulated Profits/(Losses) \$	Option Reserve \$	Non- Controlling Interest \$	Total \$
Balance at 1 July 2016	26,487,504	(6,071,442)	115,744	(14,711)	20,517,095
Net loss and total comprehensive income for the period attributable to members	-	(537,333)	-	-	(537,333)
Shares issued	507,751	-	-	-	507,751
Issue costs	-	-	-	-	-
Options issued	-	-	218,304	-	218,304
Options expired	-	115,744	(115,744)	-	-
Balance at 31 December 2016	26,995,255	(6,493,031)	218,304	(14,711)	20,705,817
Balance at 1 July 2015	24,889,282	(4,355,599)	119,642	(13,242)	20,640,083
Net loss and total comprehensive income for the period attributable to members	-	(696,144)	-	(49)	(696,193)
Shares issued	204,950	-	-	-	204,950
Issue costs	(2,700)	-	-	-	(2,700)
Options issued	-	-	-	-	-
Options expired	-	3,890	(3,890)	-	-
Balance at 31 December 2015	25,091,532	(5,047,853)	115,752	(13,291)	20,146,140

The accompanying notes form part of these financial statements.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS HALF YEAR ENDED 31 DECEMBER 2016

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Corporate information

The interim financial report of Cazaly Resources Limited ('Cazaly' or the 'Company') for the half year ended 31 December 2016 was authorised for issue in accordance with a resolution of the Directors on 15 March 2017.

Cazaly is a company limited by shares incorporated and domiciled in Australia whose shares (CAZ) are publicly traded on the Australian Securities Exchange. The principal activity of Cazaly Resources Limited is the exploration and development of mineral resources.

(b) Statement of compliance

The interim consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standard AASB 134: *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS34: *Interim Financial Reporting*.

The condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by Cazaly and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

(c) Basis of preparation

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the impact of the standards and interpretations below in note 1(e). These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The financial statements are for the consolidated entity consisting of Cazaly Resources Ltd and its subsidiaries (the 'Group').

The financial report has also been prepared on an historical cost basis, except for available for sale investments which have been measured at fair value through profit and loss. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian Dollars, which is the Company's functional currency.

(d) Going concern

The half-year financial report for the period ended 31 December 2016 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the half-year ended 31 December 2016 the Group recorded a net loss after tax of \$537,333 (2015: \$696,193) and had a net working capital surplus of \$783,216 (30 June 2016: \$1,244,141).

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) HALF YEAR ENDED 31 DECEMBER 2016

The Group will require further funding during the 2017 calendar year in order to meet day to day obligations as they fall due and to progress its exploration projects. Based on the Group's cash flow forecast, the Board of Directors is aware of the Group's need to access additional working capital funds in the next 12 months to enable the Group to continue its normal business activities and to ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

Based on above, the Directors consider the going concern basis of preparation to be appropriate for this half-year report.

In the event that the Group is not successful in raising funds from the issue of new equity, containing operating and exploration expenditures and the receipt of royalty payments from previous tenement sale agreements, there exists material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as going concern.

(e) New and revised standards and interpretations that are first effective in the current reporting period

The Group has adopted all of the new, revised and amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position in this financial report.

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

(f) Significant accounting judgements and key estimates

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing this half-year 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 for the year ended 30 June 2016.

Capitalised exploration costs carried forward

The future recoverability of capitalised exploration costs carried forward has been reviewed by the directors. They are dependent on a number of factors, including whether the Group decides to exploit the related lease/licence 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, sovereign risk, future technological changes, availability of funds, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration expenditure is determined not to be recoverable in the future, results and net assets will be reduced in the period in which this determination is made.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) HALF YEAR ENDED 31 DECEMBER 2016

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable resources. To the extent it is determined in the future that this capitalised expenditure should be written off, results and net assets will be reduced in the period in which this determination is made.

(g) Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Managing Director of Cazaly.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) HALF YEAR ENDED 31 DECEMBER 2016

2. INCOME AND EXPENSES

	31 December 2016 \$	31 December 2015 \$
The following revenue and expense items are relevant in explaining the income statement for the half-year:		
Revenue		
Interest received	3,952	2,205
Recoupment of office costs on-charged	26,867	142,552
Royalty Revenue	175,199	-
Other	67,947	-
	<u>273,965</u>	<u>144,757</u>
Other Income		
Sale of tenement	14,181	50,000
Gain on sale of shares	-	17,111
Contingent payment received	-	-
Gain on revaluation of assets held for trading	-	59,204
	<u>14,181</u>	<u>126,315</u>

3. ISSUED CAPITAL

Number of fully paid ordinary shares	171,271,608	160,116,480
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	31 Dec 2016 Number	31 Dec 2016 \$	30 June 2016 Number	30 June 2016 \$
(a) Movements in ordinary shares				
Balance at the beginning of the year/period	160,116,480	26,487,504	130,477,121	24,889,282
Issue of shares at \$0.03 each (i)	-	-	6,831,667	204,950
Issue of shares at \$0.065 each (ii)	-	-	22,307,692	1,450,000
Convertible note conversion (iii)	6,666,666	200,000	-	-
Issue of shares at \$0.071 each (iv)	2,500,000	177,500	-	-
Issue of shares at \$0.065 each (v)	1,538,462	100,000	-	-
Issue of shares at \$0.11 each (vi)	175,000	19,251	-	-
Conversion of options at \$0.04 each (vii)	275,000	11,000	500,000	20,000
Less: transaction costs	-	-	-	(76,728)
Balance at the end of the period	<u>171,271,608</u>	<u>26,995,255</u>	<u>160,116,480</u>	<u>26,487,504</u>

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) HALF YEAR ENDED 31 DECEMBER 2016

- (i) Placement shares issued on 5 January 2016
- (ii) Placement shares issued on 27 May 2016. Approved by shareholders at a general meeting on 12 August 2016.
- (iii) Shares issued on conversion of two convertible notes provided by Directors. Approved by shareholders at a general meeting on 12 August 2016.
- (iv) Shares issued to the vendors of Yamarna West Pty Ltd. Approved by shareholders at the annual general meeting on 24 November 2016.
- (v) Shares issued to the vendors of the Widgiemooltha project. Approved by shareholders at the annual general meeting on 24 November 2016.
- (vi) Shares issued to a consultant in lieu of services provided.
- (vii) Shares issued on the conversion of \$0.04 options (expiry date 5 January 2018).

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

At shareholders meetings each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Movements in Options over ordinary shares

Exercise Period	Exercise Price	Number on issue at 30 June 2016	Issued during the half year	Exercised/ Expired/ Cancelled	Number on issue at 31 December 2016
<u>Quoted</u>					
On or before 21 August 2018	\$0.11	-	11,853,847	-	11,853,847
<u>Unquoted</u>					
On or before 31 July 2016	\$0.107	100,000	-	(100,000)	-
On or before 26 November 2016	\$0.180	3,500,000	-	(3,500,000)	-
On or before 5 January 2018 (i)	\$0.040	2,915,834	3,333,334	(275,000)	5,974,168
On or before 22 August 2018 (ii)	\$0.150	-	175,000	-	175,000
On or before 30 November 2018 (iii)	\$0.200	-	5,000,000	-	5,000,000
On or before 22 August 2019 (iv)	\$0.180	-	1,450,000	-	1,450,000
On or before 22 August 2019 (v)	\$0.144	-	2,500,000	-	2,500,000
On or before 22 August 2020 (v)	\$0.216	-	2,500,000	-	2,500,000
Total unquoted options		6,515,834	14,958,334	(3,875,000)	17,599,168

- (i) Issued on conversion of two convertible notes provided by Directors. Approved by shareholders at a general meeting on 12 August 2016.
- (ii) Issued to a consultant in lieu of services provided.
- (iii) Issued to Directors. Approved by shareholders at the annual general meeting on 24 November 2016.
- (iv) Issued to employees of the Company under the Cazaly EIS.
- (v) Issued to the vendors of Yamarna West Pty Ltd. Approved by shareholders at the annual general meeting on 24 November 2016.

Unquoted options are issued to vendors, directors, employees and consultants. The unquoted options may be subject to performance criteria, and are issued to directors, employees and consultants to increase goal congruence between executives, directors and shareholders. Unquoted options carry no dividend or voting rights.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
HALF YEAR ENDED 31 DECEMBER 2016Summary of Options Granted During the Half Year

Allottee	No. of options issued	Fair value at grant date \$	Estimated volatility	Expiry date	Exercise price	Risk free interest rate
Employees and consultants	1,450,000	\$0.03473	75%	22/08/2019	\$0.180	1.75%
Employees and consultants	175,000	\$0.02970	75%	22/08/2018	\$0.150	1.75%
Directors	5,000,000	\$0.01020	75%	28/11/2018	\$0.200	1.75%
Vendors of Yamarna West	2,500,000	\$0.02260	75%	22/08/2019	\$0.144	1.75%
Vendors of Yamarna West	2,500,000	\$0.02211	75%	22/08/2020	\$0.216	1.75%

4. CONVERTIBLE NOTES

In December 2015, two directors, Mr Nathan McMahon and Mr Clive Jones, advanced a total of \$200,000 in debt funds by way of a convertible note to the Company. The principal terms of the convertible note were designed to mirror the terms of the placement completed in December 2015. As such, the convertible notes carried no coupon rate, were unsecured and would convertible at \$0.03 with a free attaching option on the basis of one option for every two shares converted. The convertible notes were converted on 22 August 2016 after shareholder approval was obtained on 12 August 2016.

5. SUBSEQUENT EVENTS

Since 31 December 2016, no event has arisen that would be likely to materially affect the operations of the Group, or the state of affairs of the Group not otherwise disclosed in the Group's financial report.

6. OPERATING SEGMENTS

The Company operates in one geographical area being Australia and one industry, being exploration, for the half year ended 31 December 2016 which was the same as reported in the financial report for the year ended 30 June 2016. The Chief Operating Decision Makers are the Board of Directors and the management of the Group. There is currently only one operating segment identified, being exploration activities based in Australia based on internal reports reviewed by the Chief Operating Decision Makers in assessing performance and allocation of resources.

The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the financial statements.

7. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual reporting date.

8. FINANCIAL INSTRUMENTS

The Group's financial instruments consist of trade and other receivable and trade and other payables. These financial instruments are measured at amortised cost, less any provision for non-recovery. The carrying amount of the financial assets and liabilities approximate their fair value.

The Group's held for trading financial assets are level-1 financial instruments and valued using the quoted bid prices from the Australian Securities Exchange as at the reporting date.

CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

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**DIRECTORS' DECLARATION
HALF YEAR ENDED 31 DECEMBER 2016**

In the opinion of the directors:

- (a) the financial statements and notes 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 its performance for the half-year ended on that date; and
 - (ii) complying with 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 directors, made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Board.



Nathan McMahon
Managing Director

PERTH
Dated 15 March 2017

**Bentleys Audit & Corporate
(WA) Pty Ltd**

London House

Level 3,

216 St Georges Terrace

Perth WA 6000

PO Box 7775

Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500

F +61 8 9226 4300

bentleys.com.au

To the Board of Directors

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

As lead audit director for the review of the financial statements of Cazaly Resources Limited for the half year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours faithfully



BENTLEYS
Chartered Accountants



MARK DELAURENTIS CA
Director

Dated at Perth this 15th day of March 2017

Independent Auditor's Review Report

To the Members of Cazaly Resources Limited

We have reviewed the accompanying half-year financial report of Cazaly Resources Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit or 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, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the half-year.

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 control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and 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 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 2016 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 the Consolidated Entity, 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.

Independent Auditor's Review Report

To the Members of Cazaly Resources Limited (Continued)



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 half-year financial report of Cazaly Resources Limited and Controlled Entities 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 2016 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.

Emphasis of Matter – Going Concern

Without qualifying our conclusion, we draw attention to Note 1(d) in the half-year financial report which indicates that the Consolidated Entity incurred a loss of \$537,333. This condition, along with other matters as set forth in Note 1(d), indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report.

BENTLEYS
Chartered Accountants

MARK DELAURENTIS CA
Director

Dated at Perth this 15th day of March 2017