CUDECO LIMITED

A.B.N. 14 000 317 251

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2016

CONTENTS

DIRECTORS' REPORT

The Directors present their report of CuDeco Limited and its consolidated entities ("CuDECO" or the "Company") for the half-year ended 31 December 2016.

Directors

The Directors of CuDeco at any time during or since the end of the half-year and up to the date of this report are:

Current Directors

Peter Hutchison (Interim Chairman appointed 16 February 2017)
Paul Keran
Zhijun Ma
Chiwei Wang (appointed 16 January 2017)
Hongwei Liu
Zhaohui Wu
Mupo Zhu (Alternative to Z. Ma)

Resigning Directors

Dianmin Chen (resigned 21 February 2017)
Noel While (resigned 16 February 2017)

Results

The result for the six months ended 31 December 2016 was a gross loss of $1.6m (2015: Nil) and net loss after tax of $18.3m (2015:$25.2m).

The loss after tax for the period includes non-cash depreciation and amortization of $15.5m (2015:$0.45m) and unrealised foreign exchange loss of $1.2m (2015:$3.7m) relating mainly to the currency movement on the Company's loan facility which is denominated in US dollars ($US). The Company has chosen not to hedge this loan for foreign currency movements as current and future copper sales will also be denominated in $US and provide a natural hedge to the loan.

Review of Operations

During the six months to 31 December 2016 the Company continued to develop the Rocklands Group Copper project ('Rocklands') based in Cloncurry, which has now successfully completed commissioning and is in the ramping up phase of production. The following is review commentary on specific areas of the operation, including significant events up to the date of this report:

Mining Operations & Mine Planning

- Mining operations recommenced on 15 March 2017. Mining had been suspended to allow effective and efficient operation of the newly commissioned processing plant and the Group had adequate ore stockpiles to process.
- The mine plan and schedule were provided to five (5) separate mining contractors for tender, which have now been received and evaluated. Evaluation and recommendations were presented to the CuDeco Board on 2 December 2016 for approval.
- The mine contractor full service model was selected for a Stage 1, 4.25-year mining contract to minimise capital requirements and operating risk.

Processing Plant

The processing plant has completed the commissioning phase for the native copper and copper sulphide concentrate facilities and as of the end of Q2 is now ramping up production and on track to achieve consistent nameplate capacity by June 2017.

A total of 490,514 dry metric tonnes of ore was processed in the six months to 31 December 2016 with a head grade of 1.39% Cu. Total copper metal produced was 6,141 dry metric tonnes – 2,438 dry metric tonnes in Native copper and 3,703 dry metric tonnes of copper metal in sulphide concentrates.

Existing high grade stockpiles were rapidly depleted for processing during the half year ended 31 December 2016. Considerable volumes of oversize ore were identified in high grade primary stockpiles which caused restrictions on crusher throughput. This was overcome by better management of the crusher unit. Existing stockpiles have been depleted by 399,142 wet metric tonnes @1.58% Copper for 6,311 tonnes of Copper metal.

Sales and Marketing
Achieved three shipments totalling 13,000 dry metric tonnes of sulphide copper concentrates and four shipments totalling 2,200 dry metric tonnes of native copper concentrates to our customers during the period.

Exploration
The Company made a strategic decision to scale down its exploration activities to concentrate its efforts and resources towards completing construction and commissioning of the processing plant. The following limited exploration work was carried out during the half year period ended:

- Bedrock RAB drilling on EPM18054 and EPM25426 completed.
- Drill pads constructed and RC drilling completed on EPM18054 and EPM25426, both failing to find any significant mineralisation.
- UTS Geophysics Pty Ltd was engaged to conduct a 231km helicopter-borne time domain electromagnetic geophysical survey over the Rocklands ML and EPMs, a view to identifying further drill targets.

Corporate

During the period the Company: -

- Completed a rights issue announced in May 2016, having raised in total approximately $63.0m (before costs). $53.1m was raised prior to 30 June 2016 with the remaining $10.0m raised in August 2016. It was announced on 15 August 2016 that the sub underwriters to the Company's recent Rights Issue had subscribed for the remaining 12,500,000 ordinary shares at $0.80 per share (representing $10.0m in issue proceeds before costs) pursuant to the underwriting agreement. $2.0m of the issue proceeds were received prior to 30 June 2016 with allotment of shares being undertaken on 16 August 2016.
- Relocated its corporate office from Southport to Brisbane on 19 September 2016 for strategic and logistical reasons.
- Officially opened Rocklands Copper Mine with an event on 28 October 2016.
- Sold 4,000,000 shares at $0.44 per share valued at $1.8m in the Employee Share Plan unit trust on 22 December 2016.

Key personnel changes as follows:

- Chief Financial Officer, David Wrigley, was appointed and commenced on 22 August 2016.
- General Manager, Mark Roberts, tendered his resignation on 17 December 2016 and departed the company on 17 February 2017.

Events Subsequent to Balance Date

- CuDECO Limited announced that it had received notices of resignation as Managing Director from Dr Dianmin Chen effective 21 February 2017 and Noel White as Chairman of the Board effective 16 February 2017.
- Chairman of the Board (Interim), Peter Hutchison, appointed 16 February, 2017.
- New Non-Executive Director, Mr Wang Chiwei, appointed to Board of Directors on 16 January 2017.
- Acting general manager, Joseph Skrypniuk was appointed on 17 February 2017.
- Chief Executive Officer, Mark Gregory was appointed on 21 February 2017.
- Chief Operating Officer, Jiang Gongyang, was appointed and commenced on 1 March 2017
- On 17 February 2017, the company received a directive from the Department of Natural Resources and Mines to suspend operations at its flagship Rocklands Copper Mine, pending the submission of an updated safety and health management system relevant to current operations. This followed a desktop audit on the company's Safety and Health Management System by the department which concluded that it did not support current activities, personnel and process associated with the site and therefore did not meet the requirements of a safety and Health Management System under the Mining and Quarrying Safety and Health Act 1999 (MQSHA). The suspension was lifted on 24 February 2017 and operations recommenced immediately after management successfully updated its safety management systems to align with current operations as required by the MQSHA.
- On 24 February 2017 the Company announced that it had approved and awarded the mining contract. Mining commenced on 15 March 2017.

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Events Subsequent to Balance Date (Continued)

- On 24 March 2017, the company signed a Deed of Remediation ('the Deed') with a major supplier for amounts owing of $31.83m for construction and commissioning of the processing plant. Under the terms of the Deed an extended repayment period has been agreed, ending 31 December 2018. Principal repayments of $12.08m are due within the next 12 months with the remaining principal of $19.75m due by 31 December 2018 in accordance with an agreed payment schedule. Interest is payable at the rate of 6% per annum on the outstanding balance.
- Subsequent to half year end, the Company executed a Convertible Note Subscription Agreement with Gemstone 101 Ltd ('Subscriber') to raise $22.0m through the issuance of 44 million convertible notes at $0.50 each, plus 4.4m free options. The Convertible Note Subscription Agreement was executed on 31 March 2017 and the funds were received by the Company on 21 April 2017.
- Subsequent to half year end, the Company breached the Second Amendment Deed with Minsheng Bank as the US$15m principal repayment due on 31 March 2017 was not met. The Company made the US$15m payment to Minsheng Bank on 21 April 2017 with proceeds received from the Convertible Note Subscription Agreement executed with Gemstone 101 Ltd.

No other matters or circumstances have arisen since the end of the half year which have 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 years.

Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

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

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

Peter Hutchison

Interim Chairman

Dated: 28 April 2017

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

To: the directors of CuDeco 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 review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Adam Twemlow
Partner

Bundall

28 April 2017

CUDECO LIMITED

CONSOLIDATED INTERIM STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the half-year ended 31 December 2016

	Notes	Consolidated Entity Half-Year Ended 31 December 2016 $'000	31 December 2015 $'000
CONTINUING OPERATIONS			
Revenue		**31,657**	-
Costs of sales	7	**(33,263)**	-
Gross profit/(loss)		**(1,606)**	-
Other income		**-**	1
Selling and Distribution costs		**(1,618)**	-
Administrative costs	7	**(11,017)**	(7,085)
Exploration costs		**(600)**	(125)
Impairment loss	11,12	**-**	(17,594)
OPERATING PROFIT/(LOSS)		**(14,841)**	(24,803)
Finance income		**218**	67
Finance costs	7	**(3,726)**	(424)
Net finance costs		**(3,508)**	(357)
PROFIT/(LOSS) BEFORE INCOME TAX		**(18,349)**	(25,160)
Income tax benefit / (expense)		**-**	-
PROFIT/(LOSS) AFTER INCOME TAX		**(18,349)**	(25,160)
OTHER COMPREHENSIVE INCOME			
Total items that will not be reclassified to profit or loss		**-**	**-**
Total items that may be reclassified subsequently to profit or loss		**-**	-
TOTAL COMPREHENSIVE INCOME/(LOSS)		**(18,349)**	(25,160)
		Cents	**Cents**
EARNINGS PER SHARE:			
Basic earnings / (loss) per share	20	**(4.77)**	(8.99)
Diluted earnings / (loss) per share	20	**(4.77)**	(8.99)

The above consolidated interim statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CUDECO LIMITED

CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
As at 31 December 2016

	Notes	31 December 2016 $'000	30 June 2016 $'000
CURRENT ASSETS			
Cash and cash equivalents	8	**3,457**	16,400
Trade and other receivables	9	**12,290**	1,170
Inventories	10	**25,923**	21,730
TOTAL CURRENT ASSETS		**41,670**	39,300
NON CURRENT ASSETS			
Inventories	10	**-**	5,143
Property, plant and equipment	11	**208,929**	213,124
Development expenditure	12	**139,069**	139,247
Exploration and evaluation assets	13	**9,485**	9,386
Other assets	14	**14,482**	14,253
TOTAL NON-CURRENT ASSETS		**371,965**	381,153
TOTAL ASSETS		**413,635**	420,453
CURRENT LIABILITIES			
Trade and other payables	15	**42,549**	39,806
Loans and borrowings	16	**88,029**	89,782
Provisions	17	**801**	547
TOTAL CURRENT LIABILITIES		**131,379**	130,135
NON-CURRENT LIABILITIES			
Provisions	17	**12,790**	12,790
TOTAL NON-CURRENT LIABILITIES		**12,790**	12,790
TOTAL LIABILITIES		**144,169**	142,925
NET ASSETS		**269,466**	277,528
EQUITY			
Contributed Equity	18	**573,380**	561,120
Equity to be issued		**-**	2,000
Reserves		**60,484**	60,457
Accumulated losses		**(364,398)**	(346,049)
TOTAL EQUITY		**269,466**	277,528

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

CUDECO LIMITED

CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2016

	Notes	Issued Capital $'000	Equity to be issued $'000	Accumulated Losses $'000	Option Premium Reserve $'000	Capital Realisation Reserve $'000	Capital Redemption Reserve $'000	**Total Equity $'000**
BALANCE AT 1 JULY 2015		**478,535**	**-**	**(218,851)**	**58,252**	**95**	**432**	**318,463**
Loss for the half year		-	-	(25,160)	-	-	-	**(25,160)**
Other comprehensive income for the period		-	-	-	-	-	-	**-**
Total comprehensive loss for the half year		**-**	**-**	**(25,160)**	**-**	**-**	**-**	**(25,160)**
Share placement	18	30,000	-	-	-	-	-	**30,000**
Conversion of Options	18	1	-	-	-	-	-	**1**
Share based payments	18	-	-	-	925	-	-	**925**
BALANCE AT 31 DECEMBER 2015		**508,536**	**-**	**(244,011)**	**59,177**	**95**	**432**	**324,229**
BALANCE AT 1 JULY 2016		**561,120**	**2,000**	**(346,049)**	**59,930**	**95**	**432**	**277,528**
Loss for the half year		-	-	(18,349)	-	-	-	(18,349)
Other comprehensive income for the period		-	-	-	-	-	-	**-**
Total comprehensive loss for the half year		**-**	**-**	**(18,349)**	**-**	**-**	**-**	**(18,349)**
Rights issue	18	8,000	-	-	-	-	-	**8,000**
Issue of equity –allotment of shares	18	2,000	(2,000)	-	-	-	-	**-**
Reclassification of share issue costs	18	500	-	-	-	-	-	**500**
Sale of shares employee share plan	18	1,760	-	-	-	-	-	**1,760**
Share based payments		-	-	-	27	-	-	**27**
BALANCE AT 31 DECEMBER 2016		**573,380**	**-**	**(364,398)**	**59,957**	**95**	**432**	**269,466**

CUDECO LIMITED

CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2016

	Note	**31 December 2016 $'000**	31 December 2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts in the course of operations		**21,815**	1
Cash payments in the course of operations		**(18,278)**	(4,393)
Interest paid		**(3,127)**	-
Interest received		**121**	57
Net cash flows provided by/(used in) operating activities		**531**	(4,335)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		**(10,532)**	(7,949)
Payments for exploration and evaluation		**(212)**	(105)
Payments for mine development		**(6,264)**	(12,674)
Payment deposits		**(72)**	(4,099)
Net cash flows used in investing activities		**(17,080)**	(24,827)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**8,000**	30,001
Proceeds from sale of shares		**1,760**	-
Payment for share issue costs		**(466)**	-
Proceeds from borrowings		**2,776**	6,333
Repayment of borrowings		**(6,595)**	-
Payment of borrowing costs		**(2,026)**	-
Net cash flows provided by financing activities		**3,449**	36,334
Net increase / (decrease) in cash held		**(13,100)**	7,172
Cash at the beginning of the period		**16,400**	3,574
Effect of exchange rate changes		**157**	-
Cash at the end of the period	8	**3,457**	10,746

The above consolidated interim statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

1. REPORTING ENTITY

CuDeco Limited (the 'Company') is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the half year ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the 'Group').

The consolidated annual financial report of the Company as at and for the year ended 30 June 2016 is available upon request from the Company's registered office at Suite 11A, Level 11, 100 Edward Street, Brisbane, QLD, 4000 or at www.cudeco.com.au.

The interim financial report was authorised for issue by the directors on 28 April 2017

2. BASIS OF PREPARATION

These general purpose financial statements for the half-year reporting period ended 31 December 2016 have been prepared in accordance with the requirements of the *Corporations Act 2001*, and Australian Accounting Standard AASB 134: *Interim Financial Reporting*.

These half-year financial statements do not include all the notes of the type normally included in full annual financial statements and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows as the full financial statements. Accordingly, these half-year financial statements are to be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except as set out below:

a) Changes in accounting policy:

There were no changes to existing accounting policies of the group during the half year ended. New policies were adopted to provide guidance on treatment of new activities consistent with the company moving from the construction phase to production on 1 October 2016. See note (5).

b) Impact of standards issued but not yet applied:

The Company is currently assessing the potential impact of standards issued but not yet effective on the financial statements of the Group.

c) Changes to presentation-classification of expenses:

As at 31 December 2016, the Company changed the classification of its expenses in the income statement from classification by nature to classification by function. The change was necessary to make the accounting information more relevant, comparable to other organisations and to ensure alignment to the Company's operations and industry practice.

3. 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 amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

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

3. ESTIMATES (Continued)

During the half year ended 31 December 2016 management reassessed its estimates in respect of:

- Note 4 – Going concern
- Note 10 – Inventory
- Note 11– Property, plant and equipment
- Note12 – Development expenditure

4. GOING CONCERN

The consolidated interim financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

At 31 December 2016 the Group had cash on hand of $3.5m, net assets of $269.5m and a net current asset deficiency of $89.7m. The Group recorded a loss after tax of $18.3m for the half year ended 31 December 2016 which includes non-cash depreciation and amortisation charges of $15.5m and unrealised foreign exchange losses of $1.2m.

During the half year, the Group raised $8.0m (net of costs) through the rights issue announced on 30 May 2016. In addition, the Group arranged and fully utilized two short term borrowing facilities totaling $2.8m, (refer to Note 16).

The Company completed construction and commissioned the Rocklands processing plant on 1 October 2016. Post commissioning, three shipments totalling 13,000 dry metric tonnes of sulphide copper concentrates and four shipments totalling 2,200 dry metric tonnes of native copper concentrates to customers have been successfully completed. As production increases, the Group plans to increase its monthly shipment quantities.

At 31 December 2016 an amount of $31.8m was included in current liabilities for construction and commissioning costs relating to the construction of the processing plant. Subsequent to half year end, the Company signed a Deed of Remediation ('the Deed') with the supplier for the total amount owing. Under the terms of the Deed an extended repayment period has been agreed which require repayments of approximately $12.08m over the next twelve months with the balance payable by 31 December 2018. Refer to Note 24.

In addition to the construction and commissioning contract liabilities outlined above, the Group has other current trade creditors, payables and accruals of $10.7m, of which approximately $2.3m are generally past due. The Group continues to trade with these existing suppliers, but has no formal agreements to defer the payment of amounts that are past due.

The Company continues in its negotiations with financiers to refinance its current debt and also with copper concentrate buyers wishing to secure available product offtake via prepayment arrangements.

It is noted that during the period the Company breached its facility agreement with China Minsheng Banking Corporation Limited ('Minsheng bank') as its audited accounts were not lodged within 90 days of the financial year ended 30 June 2016. In addition, the principal repayment of US$20m was not paid by the due date of 31 October 2016.

On 21 December 2016 a Second Amendment Deed was executed with Minsheng Bank which revised the contracted principal repayment dates. Principal repayments of US$15m are now due quarterly commencing 31 March 2017 with full repayment due by 31 December 2017. Accordingly, the total facility of $82.9m is classified as a current liability at 31 December 2016.

Subsequent to half year end, the Company breached the Second Amendment Deed with Minsheng Bank as the US$15m principal repayment due on 31 March 2017 was not met.

NOTES TO THE INTERIM FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

4. GOING CONCERN (Continued)

Subsequent to half year end, the Company executed a Convertible Note Subscription Agreement with Gemstone 101 Ltd ('Subscriber') to raise $22.0m through the issuance of 44 million convertible notes at $0.50 each, plus 4.4m free options. The Convertible Note Subscription Agreement was executed on 31 March 2017 and the funds were received by the Company on 21 April 2017. Minsheng Bank approved the execution of this agreement on 24 March 2017 and the funds were used for the principal repayment that was due to Minsheng Bank on 31 March 2017.

The Company made the US$15m payment to Minsheng Bank on 21 April 2017.

The directors have prepared cash flow projections that support the ability of the Group to continue as a going concern, including repayment of debt and creditor obligations. These cash flow projections and the ongoing operation of the Company are critically dependent upon:

- The Group generating significant positive cash flows from production to meet its commitments, including agreed repayment time frames under the Deed of Remediation with a major supplier. This is dependent on a significant increase of production to nameplate capacity of the Rocklands mine processing plant and an acceptable level of recovery being achieved in the short-term; and
- Trade creditors not enforcing payment of overdue balances; and
- The Group successfully renegotiating or refinancing the Minsheng Bank loan facility or alternatively, the Group raising significant additional funding from shareholders or other parties.

These conditions give rise to material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern.

In the event the Group does not continue as a going concern it may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations.

5. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in the consolidated interim financial statements are the same as those applied by the Company in its consolidated financial statements as at and for the year ended 30th June 2016. The following new accounting policies were introduced for the half year ended 31st December 2016:

a) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates, treatment and refinement charges and amounts collected on behalf of third parties.

The Group recognises revenue where the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised for major business activities as follows:

- *Sale of goods* - Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

  Sales of metals, concentrates, ores and by-products are subject to long term contracts and revenue is recognised when effective control of the goods has passed to the buyer. Freight and realisation expenses are included in the distribution and cost of sales expenses respectively and are not deducted in arriving at revenue from the sale of goods.

  As the final value of concentrate sales can only be determined from weights, assays, prices and exchange rates applying after a shipment has arrived at its destination, sales of concentrates are recorded at estimated values pursuant to contract terms, with adjustments being subsequently recognised in the period when final values are determined.

- *Interest income* - is recognised as it accrues using the effective interest method.

b) Receivables

Trade receivables are recognised initially at fair value and subsequently at amortised cost, less provision for doubtful debts. Trade receivables (90%-95% of invoiced value) are due for settlement on the date of recognition. The remaining balance (5%-10% of invoiced value) is due for settlement within 100 days after consensus agreement on quantities, grade and pricing with the customers. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value, and subsequently at amortised cost less provisions for doubtful debts. They are included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly

5. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Receivables (continued)

An allowance account (provision for doubtful debts) is used when there is objective evidence that the Company will not be able to collect all of the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

c) Property plant and equipment

Property, plant and equipment is stated at historical cost less applicable depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Depreciation is calculated so as to write off the cost of each item of property, plant and equipment over its expected economic life to the consolidated entity. Each item's useful life has due regard both to its own physical life limitations and to present assessments of economically recoverable resources of the mine property at which the item is located. Estimates of residual values and remaining useful lives are made on an annual basis. Straight line method is used. Land is not depreciated. The expected useful life of plant and equipment is as follows:

Buildings	5-10 years
Leasehold Building improvements	4-5 years
Plant and Equipment	5-10 years
Motor Vehicles	4-5 years
Computer & IT Equipment	3-5 years

d) Mine Development

Development expenditure incurred by the consolidated entity is accumulated separately for each area of interest in which economically recoverable minerals have been identified to the satisfaction of the Directors. Direct development expenditure, pre-operating start-up costs and an appropriate portion of related overhead expenditures are capitalised as development costs up until the relevant area of interest is ready for use. The cost of acquiring mineral reserves and resources are capitalised on the statement of financial position as incurred.

Mine development costs are amortised over the estimated productive life of the mine on either a unit of production basis or years of operation basis, as appropriate. Amortisation commences when an area of interest is ready for use.

6. SEGMENT REPORTING

The Consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The consolidated entity is managed primarily on a geographic basis, that is, the location of the respective areas of interest (tenements) in Australia. Operating segments are determined on the basis of financial information reported to the Board which is at the consolidated entity level. Accordingly, management currently identifies the consolidated entity as having only one reportable segment, being mining, processing and exploration for copper in Australia. There have been no changes in the operating segments during the half year. Accordingly, all significant operating decisions are based upon analysis of the consolidated entity as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

7. EXPENSES

Profit before income tax for the half year includes the following specific expenses:

	31 December 2016 $'000	31 December 2015 $'000
Depreciation and amortisation:		
Land and buildings	**693**	404
Plant and Equipment	**12,187**	45
Development assets	**2,638**	-
	15,518	449
Employee benefits:		
Salaries and wages staff	**4,838**	1,570
Non-Executive Directors fees	**655**	603
	5,493	2,173
Finance costs:		
Borrowing costs	**1,100**	-
Interest costs	**2,626**	424
	3,726	424
Foreign exchange loss/(gain*)*	**1,224**	3,724
Mineral royalties	**1,618**	-

	31 December 2016 $'000	30 June 2016 $'000

8. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**2,892**	1,042
Deposits at call	**565**	15,358
	3,457	16,400

9. TRADE AND OTHER RECEIVABLES

Trade debtors	**9,723**	-
Accrued interest	**33**	35
Prepayments	**481**	836
GST receivables	**2,040**	163
Other debtors	**13**	136
	12,290	1,170

	31 December 2016 $'000	30 June 2016 $'000
10. INVENTORIES		
Current		
Ore Stockpiles	**13,298**	13,276
Copper in circuit	**2,826**	-
Consumables	**3,210**	3,187
Spare parts	**6,589**	5,267
	25,923	21,730
Non-Current		
Ore Stockpiles	**-**	5,143
	-	5,143

Inventory is carried at the lower of cost or net realisable value. As at 30 June 2016, non-current Ore stockpile inventories includes high grade ore stockpiles that were expected to be processed and realised after 12 months. Based on the current mining and processing program these have been reclassified to current as at 31 December 2016.

11. PROPERTY PLANT AND EQUIPMENT

	31 December 2016 $'000	30 June 2016 $'000
Land and Buildings:		
At cost	**16,675**	15,994
Accumulated depreciation	**(5,983)**	(5,289)
Provision for impairment loss*	**(2,541)**	(2,541)
Total land and buildings	**8,151**	8,164
Plant and equipment:		
At cost	**361,321**	66,771
Accumulated depreciation	**(39,068)**	(26,881)
Provision for impairment loss*	**(123,224)**	(2,785)
Total plant and equipment	**199,028**	37,105
Plant and equipment (work-in-progress)	**1,750**	288,294
Provision for impairment loss*	**-**	(120,439)
	1,750	167,855
Total property, plant and equipment	**208,929**	213,124

*As at 31 December 2016 the Company's Balance Sheet includes provisions for impairment losses of $2,541,000 and $123,224,000 against Land and Buildings and Plant and Equipment assets respectively. These assets are located at and are part of the Rockland project in Cloncurry.

Reconciliation
Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the financial year

	31 December 2016 $'000	30 June 2016 $'000
Land and buildings		
Carrying amount at the beginning of year	**8,164**	9,446
Additions during the year	**-**	33
Transfer of commissioned assets	**680**	-
Depreciation expensed	**(693)**	(1,335)
Carrying amount at the end of the period	**8,151**	8,164

11. PROPERTY PLANT AND EQUIPMENT (Continued)

	31 December 2016 $'000	30 June 2016 $'000
Plant and equipment		
Carrying amount at the beginning of year	**37,105**	10,372
Additions during the year	**8,412**	1,056
Transfer of commissioned assets	**165,698**	31,714
Transfer from Development Assets	**-**	899
Disposals	**-**	(837)
Depreciation expense	**(12,187)**	(6,099)
Carrying amount at the end of the period	**199,028**	37,105
Plant and equipment (work-in-progress)		
Carrying amount at the beginning of year	**167,855**	224,970
Additions during the year	**273**	34,659
Equipment transferred to plant and equipment	**(165,698)**	(31,714)
Equipment transfer to Land and Buildings	**(680)**	-
Equipment transferred to development costs	**-**	(248)
Impairment loss expensed*	**-**	(59,812)
Carrying amount at the end of the period	**1,750**	167,855
Carrying amount at the end of the period	**208,929**	213,124

*During the half year ended 31 December 2016 the Company recognised $ Nil impairment loss expenses (30 June 2016: $59,812,000) (31 December 2015: $10,408,000).

12. DEVELOPMENT EXPENDITURE

	31 December 2016 $'000	30 June 2016 $'000
At cost	**224,218**	221,758
Accumulated depreciation:	**(2,638)**	-
Provision for impairment loss*	**(82,511)**	(82,511)
	139,069	139,247

*As at 31 December 2016 the Company's Balance Sheet includes provisions for impairment losses of $82,511,000 against the Development expenditure asset. The assets is located at and is part of the Rockland project in Cloncurry

Reconciliation
Movement in the carrying amounts for development expenditure between the beginning and the end of the financial year

Costs carried forward in respect of areas of interest in the development phase:

	31 December 2016 $'000	30 June 2016 $'000
Balance at the beginning of the year	**139,247**	90,250
Development costs incurred	**4,351**	29,537
Transferred from property plant and Equipment	**-**	248
Transferred to property plant and Equipment	**-**	(899)
Impairment loss expensed*	**-**	(39,464)
Amortisation expensed	**(2,638)**	-
	139,069	139,247

*During the half year ended 31 December 2016 the Company recognised $ Nil impairment loss expenses (30 June 2016: $39,464,000) (31 December 2015: $7,186,000).

	31 December 2016 $'000	30 June 2016 $'000

13. EXPLORATION AND EVALUATION ASSETS

Costs carried forward in respect of areas of interest in exploration and/or evaluation phase:

	31 December 2016 $'000	30 June 2016 $'000
Balance at the beginning of the year	**9,386**	9,166
Exploration costs incurred	**99**	220
Carrying amount at the end of the period	**9,485**	9,386

The ultimate recoupment of costs carried forward for exploration and evaluation phase is dependent on the successful development and commercial exploitation or sale of the respective areas of interest.

14. OTHER ASSETS

	31 December 2016 $'000	30 June 2016 $'000
Non - current		
Security deposits	**12,861**	12,842
Borrowing costs	**1,621**	1,411
	14,482	14,253

Included in the security deposits is $12,790,000 (30 June 2016 - $12,790,000) for an environmental bond with the state of Queensland against rehabilitation attributable to mining operations for the Rocklands Project.

15. TRADE AND OTHER PAYABLES

	31 December 2016 $'000	30 June 2016 $'000
Current liability		
Trade creditors	**5,636**	2,384
Sundry creditors and accrued expenses	**5,086**	4,325
Amounts payable under the construction contract	**31,827**	33,097
	42,549	39,806

Terms and conditions relating to the above financial instruments:

- Trade and sundry creditors are non-interest bearing and are normally required to be settled on 30 day terms;
- Subsequent to 31 December 2016, the company signed a Deed of Remediation ('the Deed') with a major supplier for amounts owing of $31.83m for construction and commissioning of the processing plant. Under the terms of the Deed an extended repayment period has been agreed which require repayments of approximately $12.0m over the next twelve months with the balance payable by 31 December 2018. Refer to Note 24.

16. LOANS AND BORROWINGS

	31 December 2016 $'000	30 June 2016 $'000
Current liability		
Secured bank loans	**82,920**	87,449
Unsecured loans from Shareholders	**2,000**	2,000
Unsecured short term facility	**2,776**	-
Unsecured Loan	**333**	333
	88,029	89,782

Secured Bank Loans

The Company has a secured bank loan facility with China Minsheng Banking Corporation Limited of US60m used for construction costs of the processing plant. As at 31 December 2016, the facility is fully drawn.

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

16. LOANS AND BORROWINGS (Continued)

The facility is secured by a registered charge over the assets of the Company. The interest rate payable on the facility is the aggregate of LIBOR for three months plus a 3.50% margin plus a 2.00% management fee.

It is noted that during the period the Company breached its facility agreement with Minsheng Bank as its audited accounts were not lodged within 90 days of the financial year ended 30 June 2016. In addition, the principal repayment of US$20m was not paid by the due date of 31 October 2016.

On 21 December 2016 a Second Amendment Deed was executed with Minsheng Bank which revised the contracted principal repayment dates. Principal repayments of US$15m are now due quarterly commencing 31 March 2017.

Subsequent to half year end, the Company breached the Second Amendment Deed with Minsheng Bank as the US$15m principal repayment due on 31 March 2017 was not met. The Company made the US$15m payment to Minsheng Bank on 21 April 2017.

Unsecured Loan from a Shareholder
The Company borrowed $2.0m pursuant to a loan agreement entered into with its major shareholder on 15 September 2015. The loan is unsecured and attracts an interest rate of 11%.

Unsecured Short term loan facility
The Company borrowed US$1.0m on 23 December 2016 from a shareholder and US$1m on 28 December 2016 from another shareholder as pre shipment income of copper concentrate shipments. The facilities are fully drawn and attract interest of 6.5% per annum.

Unsecured Loan
The Group borrowed $333,334 pursuant to a loan agreement entered into with an unrelated Company on 3 August 2015. The loan is unsecured and attracts an interest rate of 4%. The loan is repayable at call.

17. PROVISIONS

	31 December 2016 $'000	30 June 2016 $'000
Current liability		
Annual leave provision	**773**	513
Long service leave provision	**28**	34
	801	547
Non-current liability		
Rehabilitation provision	**12,790**	12,790
	12,790	12,790

18. CONTRIBUTED EQUITY

Share capital	**31 December 2016**		31 December 2015	
	Number	**$'000**	Number	$'000
Balance at 1 July	**375,070,122**	**561,120**	271,214,099	478,535
Rights issue	**10,000,000**	**8,000**	37,500,000	30,000
Share allotment	**2,500,000**	**2,000**	-	-
Shares sold	**4,000,000**	**1,760**	-	-
Reclassification of share issue costs	**-**	**500**	-	-
Option conversion	**-**	**-**	392	1
Balance at 31 December	**391,570,122**	**573,380**	308,714,491	508,536

NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2016

18. CONTRIBUTED EQUITY (Continued)

During the half year ended 31 December 2016:

- The Company completed a rights issue of 10,000,000 shares at $0.80/share raising $8.0m. This was part of the rights issue announced by the company on 30 May 2016.
- The Company allotted 2,500,000 shares at $0.80 per share valued at $2.0m to a subscriber. The funds were received in advance on 30 May 2016 and are part of the rights issue announced by the Company on 30 May 2016.
- The Company sold 4,000,000 shares at $0.44 per share held by the employee share plan unit trust for $1.8m on 22 December 2016.
- The Company reclassified $0.5m of share issue costs to the profit and loss during the period as the intended share capital raising activity to which the costs related did not take place.

19. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favorable than those of available to other parties unless otherwise stated.

a) Transactions with key management personnel

There were no material transactions with key management personnel for the half year period ending 31 December 2016.

b) Transactions with related entities

During the half year period ended 31 December 2016, the Company sold Copper concentrate and Native copper of $31.7m (2015: Nil) to a related entity.

c) Trade receivable with related entity

As at 31 December 2016, the Company has a trade receivable from a related entity of $9.7m. (2016: Nil)

d) Related part loan payable

As at 31 December 2016, the Company has current loans owing to related entities of $3.3m. (2016; $2.0m)

20. EARNING PER SHARE

	31 December 2016 $'000	31 December 2015 $'000
Basic and diluted earnings per share have been calculated using:		
Net loss for the half year	**(18,349)**	(25,160)
	No.	**No.**
Weighted average number of shares used as the denominator:		
- Number for basic loss per share	**384,488,601**	279,977,686
- Number for diluted loss per share	**384,488,601**	279,977,686

21. IMPAIRMENT OF ASSETS

Property plant and equipment and development costs

After consideration of both internal and external factors, the Directors believe that no indicators of impairment existed at 31 December 2016 and have therefore not completed an impairment assessment over the carrying value of the Group's property, plant and equipment and mine development assets at 31 December 2016.

For the year ended 30 June 2016 the Group reviewed the key external and internal indicators for impairment and concluded that impairment indicators existed at 30 June 2016 due to the following (relative to the last valuation period being 31 December 2015): -

- Internal Indicator - Unfavourable impact due to delay in start date of full production.
- External indicator - Unfavourable market changes in Price and FX outlook.

As a result of the indicators a valuation was prepared as at 30 June 2016 to assess recoverable amount against the carrying value of the Rockland Project CGU. In assessing the value of the assets relating to the Rocklands Project, the Company assessed the recoverable amount at 30 June 2016 using a fair value less costs of disposal discounted cash flow model. The key assumptions to which the model is most sensitive include:

- Forecast commodity prices, including copper, gold, silver, cobalt and magnetite
- Ramp up of production timing and appropriate level of recoveries achieved
- Foreign exchange rates
- Mining, processing, administrative and capital costs
- Discount rate of 8%

In determining the value assigned to each key assumption, management used external sources of information and utilised external consultants where possible and personnel within the Group to arrive at the underlying assumptions.

Furthermore, the Group's cash flow forecasts are based on estimates of future commodity prices and exchange rates. The Group has reviewed long term forecast data from multiple externally verifiable sources when determining its forecasts, making adjustments for specific factors relating to the Group.

Production and capital costs are based on the Group's estimate of the forecast grade of its resource and future production levels. This information is obtained from internally maintained budgets, life of mine models and project evaluations performed by the Group in its ordinary course of business.

The Group has applied a discount rate of 8% to the forecast future attributable post-tax cash flows. This discount rate represents an estimate of the rate the market would apply having regard to the time value of money and the risk specific to the project.

The recoverable amount has been determined based on the life of mine of 10 years. This is calculated based on the Group's existing resource statement and its existing mine plan.

Based on the impairment review at 30 June 2016 the recoverable amount for the Rocklands Project was estimated and this resulted in an impairment loss for the financial year of approximately $99 million.

The impairment loss is allocated on a pro-rata basis to the individual assets constituting the project as follows:

	Notes	31 December 2016 $'000	30 June 2016 $'000
Development costs	12	-	39,464
Property, plant and equipment	11	-	59,812
		-	99,276

22. COMMITMENTS

There have been no material changes in commitments since the last annual reporting date, 30 June 2016.

23. CONTINGENCIES

There have been no material changes in contingent liabilities or contingent assets since the last annual reporting date, 30 June 2016 other than the following:

a) A former Company Managing Director has commenced legal action for unpaid entitlements of $5.7m. Management are confident that the named Director was compensated according to his legally binding employment agreement. No provision has been made in the financial statements in respect of this claim as there is uncertainty to the outcome of the case at this stage. In addition, management are confident of successfully defending the claim.

24. EVENTS SUBSQUENT TO BALANCE SHEET DATE

In the period after the balance sheet date of 31 December 2016, the following material events took place.

- CuDeco Limited announced that it had received notices of resignation as Managing Director from Dr Dianmin Chen effective 21 February 2017 and Noel White as Chairman of the Board effective 16 February 2017.
- Chairman of the Board (Interim), Peter Hutchison, appointed 16 February, 2017.
- New Non-Executive Director, Mr Wang Chiwei, appointed to Board of Directors on 16 January 2017.
- Acting general manager, Joseph Skrypniuk was appointed on 17 February 2017.
- Chief Executive Officer, Mark Gregory was appointed on 21 February 2017.
- Chief Operating Officer, Jiang Gongyang, was appointed and commenced on 1 March 2017.
- On 20 February 2017, the company received a directive from the Department of Natural Resources and Mines to suspend operations at its flagship Rocklands Copper Mine, pending the submission of an updated safety and health management system relevant to current operations. This followed a desktop audit on the company's Safety and Health Management System by the department which concluded did not support current activities, personnel and process associated with the site and therefore did not meet the requirements of a safety and Health Management System under the Mining and Quarrying Safety and Health Act 1999 (MQSHA). The suspension was lifted on 24 February 2017 and operation recommenced immediately after management successfully updated its safety management systems to align with current operations as required by the MQSHA.
- On 24 February 2017 the Company announced that it had approved and awarded the mining contract to an independent contractor. Mining commenced on 15 March 2017.
- On 24 March 2017, the company signed a Deed of Remediation ('the Deed') with a major supplier for amounts owing of $31.83m for construction and commissioning of the processing plant. Under the terms of the Deed an extended repayment period has been agreed, ending 31 December 2018. Principal repayments of $12.08m are due within the next 12 months with the remaining principal of $19.75m due by 31 December 2018 in accordance with an agreed payment schedule. Interest is payable at the rate of 6% per annum on the outstanding balance.
- Subsequent to half year end, the Company executed a Convertible Note Subscription Agreement with Gemstone 101 Ltd ('Subscriber') to raise $22.0m through the issuance of 44 million convertible notes at $0.50 each, plus 4.4m free options. The Convertible Note Subscription Agreement was executed on 31 March 2017 and the funds were received by the Company on 21 April 2017.
- Subsequent to half year end, the Company breached the Second Amendment Deed with Minsheng Bank as the US$15m principal repayment due on 31 March 2017 was not met. The Company made the US$15m payment to Minsheng Bank on 21 April 2017 with proceeds received from the Convertible Note Subscription Agreement executed with Gemstone 101 Ltd.

No other matters or circumstances have arisen since the end of the half year which have 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 years.

CUDECO LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of CuDeco Limited ('the Group'):

1. the attached interim financial statements and notes set out on pages 5 to 21, are in accordance with the *Corporations Act 2001*, including:

   (a) giving a true and fair view of the financial position of the Group 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 the *Corporations Regulations 2001*; and

2. there are reasonable grounds to believe that CuDeco Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.

Peter Hutchinson

Interim Chairman

Dated : 28 April 2017

Independent auditor's review report to the members of CuDeco Limited

We have reviewed the accompanying interim financial report of CuDeco Limited, which comprises the consolidated interim statement of financial position as at 31 December 2016, consolidated interim statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated interim statement of cash flows for the half-year ended on that date, notes 1 to 24 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.

Directors' responsibility 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

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 CuDeco Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an 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 CuDeco 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*.

Material uncertainties regarding continuation as a going concern

Without modifying our conclusion, we draw attention to Note 4, Going Concern, in the interim financial report. The conditions disclosed in Note 4 indicate the existence of material uncertainties regarding the Group's ability to continue as a going concern. These material uncertainties include the Group's ability to generate sufficient positive cash flows from production, trade creditors not enforcing payment of overdue balances, and successful renegotiation or refinancing of the Minsheng Bank loan facility or alternatively, the Group raising significant additional funding from shareholders or other parties.

These material uncertainties may cast significant doubt about the Group's ability to continue as a going concern and therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the interim financial report.

KPMG

KPMG

Adam Twemlow
Partner

Bundall

28 April 2017