

Exterra Resources Limited

ABN 26 138 222 705

Annual Financial Report

for the year ended 30 June 2017

Corporate Information

ABN 26 138 222 705

Directors

John Davis (Executive Chairman)
Geoff Laing (Executive Director)
Justin Brown (Non-Executive Director)

Company Secretary

Dennis Wilkins

Registered Office

Suite 2, 11 Ventnor Avenue
WEST PERTH WA 6005

Principal Place of Business

Suite 2, Churchill Court
331-335 Hay Street
SUBIACO WA 6008
Telephone: +61 8 6315 1411
Facsimile: +61 8 9389 2199

Solicitors

House Legal
86 First Avenue
MT LAWLEY WA 6050

Share Register

Security Transfer Australia Pty Ltd
770 Canning Highway
APPLECROSS WA 6153

Auditors

Rothsay Chartered Accountants
Level 1, Lincoln House
4 Ventnor Avenue
WEST PERTH WA 6005

Internet Address

www.terraresources.com.au

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Review of Operations

Exterra Resources Limited is an Australian Securities Exchange (ASX: EXC) listed junior resource company focused on exploring and developing its gold and lithium projects in Western Australia. During the year ended 30 June 2017 the Company continued its project development and exploration activities with a focus on the development of the Second Fortune underground gold mine at the Linden Project.

1.0 PROJECT DEVELOPMENT

1.1 LINDEN GOLD PROJECT, Western Australia (100% EXC)

The Company's major focus during the year was on both the development of surface infrastructure on the back of securing final regulatory approvals and the completion of the underground feasibility study:

- A Feasibility Study was completed on the Second Fortune Gold Project, including the proposed underground mining operation, ore sorting plant and toll treatment of sorted products and including all surface infrastructure (camp, power plant etc).
- An optical ore sorting plant and associated infrastructure (crusher, screen, washing plant) has been installed at the Second Fortune Mine Site and is fully operational, processing low grade dumps.
- The construction of evaporation ponds required to de-water the underground workings was completed and the requisite approvals and licence to operate the ponds and dewatering system were acquired.
- Exterra has entered into a farm in and joint venture agreement with Bar Twenty over the Bar Twenty Project.

1.1.1 Second Fortune Feasibility Study

The Feasibility Study (FS) concluded that the Second Fortune Gold Mine is financially and technically viable based on developing a mine below the existing open pit and generating a sorted concentrate for toll treating. The development strategy including a hybrid owner/contractor mining operation and limited onsite processing results in a robust free cash position with modest funding requirements.

The FS forecasts life-of-mine (LOM) production of 392kt grading 5.8g/t Au for approximately 73koz of gold. When sorted, forecast LOM production of pre-concentrates for haulage and treatment will amount to 198kt grading at 11.4g/t for approximately 71koz of gold. Readers should refer to the Company's ASX release of 25 May 2017 for further details.

1.1.2 Second Fortune Ore Sorting

Exterra has installed an optical and near infra-red sorting circuit to recover mineralised quartz from the barren host material. Gold is associated with quartz mineralisation almost exclusively in the Second Fortune ore body making it highly amenable to the sorting technology. The plant is currently being operated on mullock material generated when the Second Fortune Mine was operated in the 1980's. Early indications of the circuit performance are very positive with sorted concentrate upgrades of 2 to 3 times the feed grade concentration. Ongoing technical work includes fine-tuning the sorting settings to achieve planned recoveries. The technology provides some significant flexibility with respect to yield and recovery and it is anticipated that the circuit will deliver outcomes in line with design expectations.

The installed process plant, which is 100% owned by Exterra, has significantly greater capacity than that required for the planned underground mining operation. Exterra continues to evaluate a number of opportunities that will utilise the spare capacity and provide production flexibility.

1.1.3 Surface infrastructure development and approvals

The evaporation cells have been completed and the Licence to Operate acquired. The dewatering system is being commissioned and the pit dewatering at an advanced stage as a result of the water drawdown required for the various site construction activities.

Site offices for the owner's team and mining contractors are being refurbished and reverse osmosis plants being installed. The site is now equipped for the ramp up phase of the project.

1.1.4 Bar Twenty Transaction

Exterra announced on the 4 July 2017 that a Farm-in and Joint Venture Agreement (JV Agreement) had been executed, with Bar Twenty Pty Ltd, over the Bar Twenty Gold Project (Bar Twenty) which is located approximately 20km WNW of the Second Fortune Gold Mine at Linden. The Bar Twenty project development will be run in parallel with the Second Fortune Mine development and has the potential to generate a secondary source of ore to add to the planned production from the Second Fortune Mine.

The Agreement with Bar Twenty Pty Ltd includes a farm-in stage followed by a joint venture. Key terms of the agreement include:

- Exterra has the right to explore and develop Bar Twenty;
- Exterra can earn a 75% joint venture interest by producing 5,000 ounces of gold from Bar Twenty;
- On commencement of the joint venture, Exterra and Bar Twenty Pty Ltd must contribute to all ongoing expenditure on a 75/25 pro rata basis. Bar Twenty Pty Ltd may elect to:
- have its joint venture contributions carried by Exterra to a maximum of \$1,000,000, and repaid from 50% of Bar Twenty Pty Ltd's entitlement to gold produced from Bar Twenty (secured against the tenements); or,
- Convert its JV interest to a right to receive a 2.5% NSR Royalty.

1.2 ZELICA GOLD PROJECT, Western Australia (100% EXC)

The Zelica gold project is located 20km to the NW of Linden, contains 30,000 ozs* in Indicated and Inferred Resources and represents a potential production centre to support the Linden Project development. Exterra is currently assessing the on-site ore stockpiles and carrying out optimisation studies on the in-situ gold Resources as potential sources of ore supply.

Review of Operations continued

2.0 EXPLORATION ACTIVITIES

2.1 LINDEN GOLD PROJECT, Western Australia (100% EXC)

A Reverse Circulation (RC) drilling programme was completed at Linden Star and Second Fortune Extended following up on previously reported drill results including **1m @ 97.4 g/t Au, 5m @ 4.02 g/t Au and 2m @ 4.10 g/t Au at Linden Star and 2m @ 5.74 g/t Au and 2m @ 3.68 g/t Au at Second Fortune Extended.**

14 Holes for 888m were completed at Linden Star, located 500m to the SW of Second Fortune, and 2 holes for 161m at Second Fortune Extended, located 350m to the south of Second Fortune. Historic costeaning, shallow drilling and sampling of old workings and mullock dumps at Linden Star had demonstrated that gold bearing quartz structures are present along a strike length of over approximately 500m. The vein system is adjacent to one of the major bounding structures of the Laverton Tectonic Zone in an area of magnetite destruction interpreted to represent hydrothermal alteration.

The programme at Linden Star and Second Fortune Extended has confirmed the potential to outline near surface high grade gold resources to add further ounces to the Second Fortune mine development. (Refer Exterra Quarterly Activities Report March 2017).

2.1.1 Linden Star Drilling Results

The three holes drilled into the northern part of Linden Star targeted potential down dip extensions of a vein identified in 6 holes drilled by Exterra in 2010 and 2011. These earlier Exterra holes intersected the vein with results including:

- LNRC075 – 12m @ 0.5g/t from 21m including 1m @ 1.5g/t from 29m
- LNRC076 – 5m @ 1.8g/t from 13m including 2m @ 4.1g/t from 14m - plus **1m @ 97.4g/t from 23m**
- LNRC106 – 8m @ 2.7g/t from 14m including 5m @ 4.0g/t from 15m
- LNRC108 – 7m @ 0.6g/t from 8m including 1m @ 2.7g/t from 13m - plus 6m @ 0.3g/t from 19m

The new holes confirmed the presence of a north-north-west striking, steeply dipping gold-mineralised vein within a broader anomalous halo. New results include:

- EXRC095 – 10m @ 2.0g/t from 57m including **2m @ 8.0g/t from 64m**
- EXRC096 – 6m @ 1.1g/t from 32m including **2m @ 2.3g/t from 32m**
- EXRC097 – 12m @ 0.7g/t from 45m including **4m @ 1.8g/t from 52m**

At Linden Star south, new drilling targeted an area of historic workings and dumps, costeaning and shallow drilling. Results reported for the historic drilling in WAMEX reports from 1984 and 1987 include:

- LRC17 – 9m @ 7.6g/t from 25m
- LB104 – 3m @ 6.4g/t from 5m
- LRC15 – 1m @ 4.4g/t from 17m
- LRC21 – 1m @ 3.9g/t from 29m

Some of the new results confirm the presence high grade gold-mineralised veins, including:

- EXRC098 – 4m @ 7.1g/t from 13m including **2m @ 13.5g/t from 14m**
- EXRC102 – 2m @ 1.2g/t from 31m

Geological logging and assays indicate more structural complexity in this area and further work is required to follow up these significant intersections.

2.1.2 Second Fortune Stope Definition

Thirteen Reverse Circulation (RC) drill holes were completed at Second Fortune late in 2016 specifically designed to test and refine the northern (6 holes) and southern (7 holes) upper main vein position and stoping limits in preparation for mining.

Significant results included:

- EXRC082 – 1.0m @ 7.0g/t from 33m
- EXRC084 – 0.5m @ 12.4g/t from 39m
- EXRC088 – 1.5m @ 8.7g/t from 39m
- EXRC090 – 1.0m @ 16.8g/t from 70m
- EXRC092 – 0.5m @ 9.6g/t from 49m

2.1.3 Planning for further near-mine exploration

Exterra is currently focussed on compilation of a comprehensive and detailed geological, structural, geophysical and mineralization maps of the Second Fortune and Linden area to assist in refinement of existing drill targets and generation of new targets for planned 2018 exploration programmes.

Review of Operations continued

2.2 GRASS FLAT GOLD PROJECT, Western Australia (100% EXC)

Consists of 5 granted Prospecting Licences and 2 granted Exploration Licenses and 1 Prospecting Licence application and 1 Exploration Licence application covering 293 square kilometres, located in the Marda-Diemals Greenstone Belt, north east of the Diemals Mining Centre, 150 km north of Southern Cross in WA. (Refer Exterra Quarterly Activities Report March 2017). A review of historic exploration results highlighted the potential for near surface **high-grade Gold, Volcanogenic Massive Sulphide (VMS) Cu-Pb-Zn-Ag-Au and Hematite Iron Ore potential** within the project area. Access to the project area is excellent as ore from the recently mined and centrally located, Halley's East gold deposit was hauled via Menzies to processing facilities in Coolgardie and Kanowna.

2.2.1 Potential for near surface high-grade gold deposits.

Exterra lodged a Prospecting Licence application for the Halley's East mine tenement which includes the historic Halley's East high-grade gold deposit and currently retains the surrounding tenements. The Halley's East gold deposit produced approximately 19000 ounces of gold between 2013 and 2015 from a series of milling campaigns at Coolgardie and Kanowna. Previous exploration work surrounding the Halley's East gold deposit on tenements held by Exterra has identified at least 6 separate prospects where either bedrock or regolith-hosted gold mineralisation has been intercepted by drilling. Some of the better intercepts from this drilling are quoted below:

- 14m at 12.2g/t Au from 56m.
- 14m at 3.69g/t Au from 25m.
- 8m at 5.87g/t Au from 4m.
- 8m at 3.54g/t Au from 12m.

All of the above intercepts occur outside of the immediate Halley's East mine area and Exterra is currently compiling all mine data to assess the potential for extending any un-mined mineralisation. Previous workers have identified a strong northeast trending structural control linking many of the anomalous prospects and a small high-grade resource has historically been estimated at the Phil prospect. Exterra is currently compiling a comprehensive database of all historic drilling before evaluating each of these prospects for further drilling.

2.2.2 Potential for large, low-grade open pitable gold deposits.

Previous explorers successfully discovered banded iron formation (BIF) hosted gold mineralisation located 3km south of the Halley's East gold deposit. A single line of shallow percussion drilling undertaken over the BIF outcrop achieved the following intercepts from consecutive holes:

- 24m at 1.07 g/t Au from surface to end of hole (EOH).
- 21m at 0.89 g/t Au from surface to EOH.
- 24m at 0.43 g/t Au from surface to EOH.
- 24m at 0.34 g/t Au from surface to EOH.
- 8m at 1.47 g/t Au from surface to 8m.

The width of mineralised BIF at this location is approximately 60 metres which suggests the potential for a bulk tonnage low-grade resource. No metallurgical test work has been undertaken here, however Exterra is considering the potential for a large heap leach-type operation if further work warrants it.

Importantly, the host BIF unit immediately north of the above prospect, plunges beneath a thin veneer of recent alluvial cover and previous exploration efforts have been ineffective. Aeromagnetic data shows that this covered BIF is highly prospective with numerous cross-cutting structures, zones of magnetite destruction, stratigraphic kinks and dislocations, all of which are excellent targets for future drilling campaigns.

2.3 MOOLYELLA LITHIUM PROJECT, Western Australia, (EL 45/4766 100%)

The Moolyella Project is located 23 km ENE of Marble Bar and consists EL 45/4766 covering 3 sq km, holding a substantial position in a highly mineralised Li, Sn, Ta district in the Pilbara region of WA.

During January 2017 Exterra completed a further phase of field work following air photo interpretation which indicated targets in areas not previously explored, particularly on ELA45/4766. 39 "Points of Interest" were recorded which formed the basis of the field work to locate and sample where appropriate. 18 sites were deemed suitable for sampling with pegmatite outcrop being recorded.

Field reconnaissance confirmed the presence of extensive pegmatite outcrop on ELA45/4766 (100% Exterra), which had not previously been reported. The presence of lithium bearing minerals was noted, including Lepidolite. Of the 18 samples collected, 4 located on ELA45/4766 reported Li₂O values of 1.19%, 1.06%, 0.96%, 0.54%.

Review of Operations continued

Competent Persons Statement

Competent Person Statement – Exterra Resources Limited, Second Fortune (Linden) Project

The information in this report that relates to the Second Fortune Main Lode Mineral Resource is extracted from the summary report entitled ‘Second Fortune Feasibility Study’ prepared by Mining Plus Pty Ltd included in the Company’s ASX announcement dated 25 May 2017 and is available to view on the Company’s website. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original announcement and that all material assumptions and technical parameters underpinning the estimates in the original announcement continue to apply and have not materially changed.

The information in this report that relates to the Second Fortune Hanging Wall, Footwall and West Lode Mineral Resources fairly represents information and supporting documentation compiled under the overall supervision and direction of John Davis (Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists), who is a director of and consultant to the Company. Mr Davis has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activities undertaken to qualify as Competent Persons as defined in the 2012 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. **The information was prepared and disclosed under the JORC Code 2004. It has not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was last reported.** Mr Davis consents to the inclusion in the release of the statements based on their information in the form and context in which they appear.

The information in this report that relates to Ore Reserves is extracted from the summary report entitled ‘Second Fortune Feasibility Study’ prepared by Mining Plus Pty Ltd included in the Company’s ASX announcement dated 25 May 2017 and is available to view on the Company’s website. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original announcement and that all material assumptions and technical parameters underpinning the estimates in the original announcement continue to apply and have not materially changed.

The information in this report that relates to production targets and forecast financial information derived from the production target is extracted from the summary report entitled ‘Second Fortune Feasibility Study’ prepared by Mining Plus Pty Ltd included in the Company’s ASX announcement dated 25 May 2017 and is available to view on the Company’s website. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement.

The information in this report that relates to Exploration Results is based on, and fairly represents, information and supporting documentation prepared by John Davis (Member of the Australasian Institute of Mining and Metallurgy and the AIG), who is a director of and consultant to the Company. Mr Davis has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activities undertaken to qualify as Competent Persons as defined in the 2012 Edition of the ‘Australasian Resources and Ore Reserves’. Mr Davis consents to the inclusion in the release of the statements based on their information in the form and context in which they appear.

Competent Person Statement – Exterra Resources Limited, Zelica Project

The information in this report that relates to Mineral Resources for the Zelica Project is based on and fairly represents information and supporting documentation compiled under the overall supervision and direction of John Davis (Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists). Mr Davis has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activities undertaken to qualify as Competent Persons as defined in the 2012 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. **The information was prepared and disclosed under the JORC Code 2004. It has not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was last reported.** Mr Davis consents to the inclusion in the release of the statements based on their information in the form and context in which they appear.

Information in this report that relates to the Zelica Mineral Resources is based on information compiled by Don Maclean (Member of the Australian Institute of Geoscientists). Mr Maclean is a principal consultant for Ravensgate Mining Industry Consultants Pty Ltd. Mr Maclean has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activities undertaken to qualify as a Competent Person as defined in the 2004 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Mr Maclean consents to the inclusion in the report of the statements based on his information in the form and context in which they appear.

Competent Person Statement – Exterra Resources Limited, Malcolm Project

The information in this report that relates to Mineral Resources for the Malcolm Project is based on and fairly represents information and supporting documentation compiled under the overall supervision and direction of John Davis (Member of the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists). Mr Davis has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activities undertaken to qualify as Competent Persons as defined in the 2012 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. **The information was prepared and disclosed under the JORC Code 2004. It has not been updated since to comply with JORC Code 2012 on the basis that the information has not materially changed since it was last reported.** Mr Davis consents to the inclusion in the release of the statements based on their information in the form and context in which they appear.

Forward Looking Statements

Certain statements made during or in connection with this communication, including, without limitation, those concerning the economic outlook for the mining industry, expectations regarding gold prices, exploration costs and other operating results, growth prospects and the outlook of Exterra Resources’ operations contain or comprise certain forward looking statements regarding Exterra Resources’ exploration operations, economic performance and financial condition. Although Exterra Resources believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Accordingly, results could differ materially from those set out in the forward looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes that could result from future acquisitions of new exploration properties, the risks and hazards inherent in the mining business (including industrial accidents, environmental hazards or geologically related conditions), changes in the regulatory environment and other government actions, risks inherent in the ownership, exploration and operation of or investment in mining properties in foreign countries, fluctuations in gold prices and exchange rates and business and operations risks management, as well as generally those additional factors set forth in our periodic filings with ASX. Exterra Resources undertakes no obligation to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after today’s date or to reflect the occurrence of unanticipated events.

Directors' Report

Your directors submit their report for the year ended 30 June 2017.

DIRECTORS

The names and details of the Company's directors in office during the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

John Davis, (Executive Chairman from 22 August 2016, Managing Director from the beginning of the financial year until 22 August 2016, member of the Audit Committee, non-independent director)

John Davis is a Geologist with more than 30 years' experience in mineral exploration and development in Australia and Southern Africa, including gold, base metals and rare metals. He has extensive experience in the gold sector, from regional exploration, resource development to production, including as Exploration Manager/Chief Geologist for Metana Minerals NL. He was founding managing director of Jabiru Metals Ltd, where he played a key role in the discovery of the Jaguar base metal deposit, and a Technical Director of Monarch Gold Mining Co Ltd.

Geoff Laing, (Executive Director, appointed 22 August 2016, non-independent director)

Geoff Laing is a Chemical Engineer with over 20 years' experience in the mining sector across a variety of commodities, including gold, in Australia, Southern Africa and South America. Geoff has experience in project funding and mine development through to production. Previously, as Managing Director and GM Corporate and Project Development for Exco Resources Ltd, Geoff was instrumental in the successful development and divestment of the Cloncurry Copper Project in North Queensland and the highly successful White Dam Gold Mine in South Australia.

Justin Brown, (Non-Executive Director, Chairman of the Audit Committee and member of the Remuneration committee, non-independent director)

Justin Brown is a geologist with extensive experience in minerals exploration in Australia, New Zealand and Africa. He has a strong technical background with experience in mineral exploration and mining from grass roots target generation through to resource mining and mine production. Justin's successful career in the mining industry includes a position managing exploration for a large multinational company in the Leonora, Edjudina and Marvel Loch regions of Western Australia. Justin has in recent years expanded his corporate involvement in the industry and is currently executive director of ASX listed company Montezuma Mining Company Limited since May 2006.

Peter Cole was an independent, non-executive director from the beginning of the financial year until his resignation on 4 October 2016.

COMPANY SECRETARY

Dennis Wilkins,

Mr Wilkins is the founder and principal of DWCorporate Pty Ltd a leading privately held corporate advisory firm servicing the natural resources industry. Since 1994 he has been a director of, and involved in the executive management of, several publicly listed resource companies with operations in Australia, PNG, Scandinavia and Africa. From 1995 to 2001 he was the Finance Director of Lynas Corporation Ltd during the period when the Mt Weld Rare Earths project was acquired by the group. He was also founding director and advisor to Atlas Iron Limited at the time of Atlas' initial public offering in 2006.

Since July 2001 Mr Wilkins has been running DWCorporate Pty Ltd where he advises on the formation of, and capital raising for, emerging companies in the Australian resources sector. Mr Wilkins is currently a non-executive director of Key Petroleum Ltd since 5 July 2006, and an alternate director of Middle Island Resources Ltd since 1 May 2010. Within the last three years, Mr Wilkins has been a former director of ASX listed companies Duketon Mining Ltd (resigned 18 November 2014), A1 Consolidated Gold Ltd (resigned 11 May 2015) and Shaw River Manganese Ltd (resigned 18 December 2015).

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the directors in the shares and options of Exterra Resources Limited were:

	Ordinary Shares	Options over Ordinary Shares
John Davis	500,000	6,500,000
Geoff Laing	375,000	10,805,994
Justin Brown	5,500,002	3,750,000

Directors' Report continued

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were the acquisition of mining tenements, and the exploration of these tenements with the objective of identifying economic mineral deposits.

DIVIDENDS

No dividends were paid or declared during the year. No recommendation for payment of dividends has been made.

OPERATING AND FINANCIAL REVIEW

Operations Review

Refer to the Review of Operations contained at page 3 of this Annual Financial Report.

Finance Review

Exterra Resources Limited began the year with cash assets of \$1,574,517. During the year, placements to sophisticated and institutional investors were completed of a total of 95,000,000 ordinary shares, raising gross funds of \$4,945,000 (excluding \$580,000 received prior to 1 July 2016 in advance of a share issue completed on 1 July 2017). A further \$299,917 was raised on the issue of 9,726,190 ordinary shares upon exercise of unlisted options.

During the year, total exploration expenditure incurred by the Company amounted to \$752,711 (2016: \$1,032,132). In line with the Company's accounting policies, all exploration expenditure, other than acquisition costs, are written off as they are incurred. Mine development expenditure of \$4,428,063 (2016: N/A) was incurred during the year and capitalised to the Statement of Financial Position. Other income of \$20,000 (2016: \$25,957 from receipt of research and development tax incentive) was received during the year as a gain on the sale of plant and equipment. During the 2016 financial year the Company also had fair value gains on financial assets of \$58,139. Net administration expenditure incurred amounted to \$818,727 (2016: \$183,713). This has resulted in an operating loss after income tax for the year ended 30 June 2017 of \$1,551,438 (2016: \$1,131,749).

At 30 June 2017 cash assets available totalled \$1,430,427.

Operating Results for the Year

Summarised operating results are as follows:

	2017	
	Revenues	Results
	\$	\$
Revenues and loss from ordinary activities before income tax expense	56,642	(1,551,438)

Shareholder Returns

	2017	2016
Basic loss per share (cents)	(0.5)	(0.6)

Risk Management

The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that activities are aligned with the risks and opportunities identified by the board.

The Company believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Board approval of a strategic plan, which encompasses strategy statements designed to meet stakeholders' needs and manage business risk.
- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed in this Annual Financial Report, no significant changes in the state of affairs of the Company occurred during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances, besides those disclosed at note 21, have arisen since the end of the year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

Directors' Report continued

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

On 11 August 2017, the Company registered with the Australian Securities and Investments Commission the Scheme Booklet in relation to the proposed scheme of arrangement under which Anova Metals Limited ("Anova") is to acquire all of the fully paid ordinary shares in Exterra Resources Limited ("Scheme"). The Company anticipates the completion of the Scheme during the coming financial year with the activities outlined in section 6.3 (pages 52 & 53) of the Scheme Booklet to comprise the likely operations and results for that period.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is subject to significant environmental regulation in respect to its exploration activities.

The Company aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and is in compliance with all environmental legislation. The directors of the Company are not aware of any breach of environmental legislation for the year under review.

The directors have considered the National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the directors have determined that the NGER Act will have no effect on the Company for the current, nor subsequent, financial year. The directors will reassess this position as and when the need arises.

REMUNERATION REPORT

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

Principles used to determine the nature and amount of remuneration

Remuneration Policy

The remuneration policy of Exterra Resources Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives. The board of Exterra Resources Limited believes the remuneration policy to be appropriate and effective to run and manage the Company.

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives (if any), was developed by the board. The board reviews executive packages annually by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The board may exercise discretion in relation to approving incentives, bonuses and options. The policy is designed to attract executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The directors and executives (if any) receive a superannuation guarantee contribution required by the government, which was 9.5% for the 2017 financial year. Some individuals may choose to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting (currently \$300,000). Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee option plan.

Performance based remuneration

The Company currently has no performance based remuneration component built into key management personnel remuneration packages

Company performance, shareholder wealth and key management personnel remuneration

No relationship exists between shareholder wealth, key management personnel remuneration and Company performance.

Use of remuneration consultants

The Group did not employ the services of any remuneration consultants during the financial year ended 30 June 2017.

Voting and comments made at the Company's 2016 Annual General Meeting

The Company received approximately 98% of "yes" votes on its remuneration report for the 2016 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices other than from the board and the company secretary.

Details of remuneration

Details of the remuneration of the directors and the key management personnel of the Company are set out in the following table.

The key management personnel of Exterra Resources Limited include only the directors as per page 7.

Directors' Report continued

Key management personnel of Exterra Resources Limited

	Short-Term		Post-Employment		Share-based Payments	Total
	Salary & Fees	Non-Monetary	Superannuation	Retirement benefits		
	\$	\$	\$	\$	\$	\$
Directors						
John Davis						
2017	126,000	3,640	-	-	36,900	166,540
2016	80,000	986	-	-	-	80,986
Geoff Laing (appointed 22 August 2016)						
2017	243,300	3,121	-	-	61,731	308,152
Justin Brown						
2017	30,000	3,640	2,850	-	18,450	54,940
2016	-	986	-	-	-	986
Peter Cole (resigned 4 October 2016)						
2017	7,829	957	-	-	-	8,786
2016	-	986	-	-	-	986
Total key management personnel compensation						
2017	407,129	11,358	2,850	-	117,081	538,418
2016	80,000	2,958	-	-	-	82,958

Service agreements

John Davis, Executive Chairman (for the period commencing 22 August 2016):

Pursuant to a Consultancy Services Agreement, which commenced on 1 August 2016 for a twelve-month period, Sammy Pty Ltd, a business controlled by Mr Davis, has provided Mr Davis' services as an Executive Chairman of Exterra Resources Limited at an agreed rate of \$15,000 per month (plus GST) for 3 days per week. The amounts paid were at arms' length and are included as part of Mr Davis' compensation.

The agreement may be terminated by either party providing one month's notice, subject to immediate termination for serious misconduct and other standard exclusions. There are no provisions for retirement or termination payments other than fees accrued for work completed.

John Davis, Managing Director (for the period 1 July 2016 to 22 August 2016 and the financial year ended 30 June 2016):

Pursuant to a Service Agreement, which commenced on 24 May 2011 and terminated on 15 November 2013, the Directors arranged for John Davis to provide his services as Managing Director of Exterra Resources Limited. John Davis was paid an annual salary of \$250,000 during this period.

Since 15 November 2013, Sammy Pty Ltd, a business controlled by John Davis, has provided Mr Davis' services as Managing Director of Exterra Resources Limited on a consulting basis at an agreed rate of \$7,200 per month (plus GST) for 3 days per week. Effective from 1 February 2015 the rate was amended to \$5,000 per month (plus GST) for 3 days per week. Effective from 1 May 2016 the rate was amended to \$15,000 per month (plus GST) for 5 days per week. The amounts paid were at arms' length and are included as part of Mr Davis' compensation.

Geoff Laing, Executive Director (for the period commencing 22 August 2016):

Pursuant to a Consultancy Services Agreement, which commenced on 1 August 2016 for a twelve-month period, Nexus Bonom Pty Ltd, a business of which Mr Laing is a director and shareholder, has provided Mr Laing's services as an Executive Director of Exterra Resources Limited at an agreed rate of \$10,200 per month (plus GST) for 2 days per week. Any extra time worked with the approval of Exterra Resources Limited is charged at \$1,200 per day (plus GST). The amounts paid were at arms' length and are included as part of Mr Laing's compensation.

The agreement may be terminated by either party providing one month's notice, subject to immediate termination for serious misconduct and other standard exclusions. There are no provisions for retirement or termination payments other than fees accrued for work completed.

Share-based compensation

Options are issued to key management personnel as part of their remuneration. The options are not issued based on performance criteria, but are issued to key management personnel of Exterra Resources Limited to increase goal congruence between key management personnel and shareholders. The Company does not have a formal policy in relation to the key management personnel limiting their exposure to risk in relation to the securities, but the Board actively discourages key personnel management from obtaining mortgages in securities held in the Company.

The following options over ordinary shares of the Company were granted to or vesting with key management personnel during the year:

Directors' Report continued

	Grant Date	Granted Number	Vesting Date	Expiry Date	Exercise Price (cents)	Value per Option at Grant Date (cents)	Exercised Number	% of Remuneration
Directors								
John Davis	01/12/2016	1,500,000	01/12/2016	28/11/2021	10.0	2.5	-	22.2
Geoff Laing	27/10/2016	5,356,122	(1)	29/07/2019	6.0	3.1	-	11.8
Geoff Laing	27/10/2016	5,356,122	(2)	29/07/2019	8.0	2.6	-	8.2
Justin Brown	01/12/2016	750,000	01/12/2016	28/11/2021	10.0	2.5	-	33.6

(1) These options will vest upon first commercial gold production at Second Fortune Gold Mine.

(2) These options will vest upon production of 15,000 ounces of gold at Second Fortune Gold Mine.

In respect of share options granted, the (theoretical) fair value is recognised over the vesting period as an employee benefit expense with a corresponding increase in equity. The theoretical fair value of the options is calculated at the date of grant taking into account the terms and conditions upon which the options were granted, the effects of non-transferability, exercise restrictions and behavioural considerations. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

There were no ordinary shares issued upon exercise of remuneration options to directors or other key management personnel of Exterra Resources Limited during the year.

Equity instruments held by key management personnel

Share holdings

The numbers of shares in the Company held during the financial year by each director of Exterra Resources Limited and other key management personnel of the Company, including their personally related parties, and any nominally held, are set out below. There were no shares granted during the reporting period as compensation.

2017

	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Directors of Exterra Resources Limited				
Ordinary shares				
John Davis	500,000	-	-	500,000
Geoff Laing	-	-	375,000 ⁽¹⁾	375,000
Justin Brown ⁽²⁾	5,500,002	-	-	5,500,002
Peter Cole	3,000,000	-	(3,000,000) ⁽³⁾	-

(1) Number of shares held on date of appointment, 22 August 2016.

(2) In addition to the shares shown above, an ASX listed Company of which Mr Brown is Executive Director held 14,000,000 shares at 30 June 2017 (2016: 14,000,000).

(3) Number of shares held on date of resignation, 4 October 2016.

Directors' Report continued

Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Exterra Resources Limited and other key management personnel of the Company, including their personally related parties, are set out below:

2017	Balance at start of the year	Granted as compensation	Exercised	Other changes	Balance at end of the year	Vested and exercisable	Unvested
Directors of Exterra Resources Limited							
John Davis	5,000,000	1,500,000	-	-	6,500,000	6,500,000	-
Geoff Laing	-	10,712,244	-	93,750 ⁽¹⁾	10,805,994	93,750	10,712,244
Justin Brown	3,000,000	750,000	-	-	3,750,000	3,750,000	-
Peter Cole	1,000,000	-	-	(1,000,000) ⁽²⁾	-	-	-

(1) Number of options held on date of appointment, 22 August 2016.

(2) Number of options held on date of resignation, 4 October 2016.

Loans to key management personnel

There were no loans to key management personnel during the year.

Other transactions with key management personnel

Nexus Bonom Pty Ltd, a business of which Mr Laing is a director and shareholder, provided engineering consulting services to Exterra Resources Limited during the year totalling \$70,364 (2016: N/A) in addition to the fees included as part of Mr Laing's remuneration. The amounts paid were on arm's length commercial terms and were included in capitalised mine development. At 30 June 2017 there was \$30,195 owing to Nexus Bonom Pty Ltd.

End of audited Remuneration Report

DIRECTORS' MEETINGS

During the year the Company held five meetings of directors. The attendance of directors at meetings of the board and committees were:

	Directors' Meetings		Audit	Committee Meetings		Remuneration
	A	B		B	A	B
John Davis	5	5	1	1	-	-
Geoff Laing	3	3	N/A	N/A	-	-
Justin Brown	4	5	1	1	-	-
Peter Cole	1	2	-	1	-	-

Notes

A – Number of meetings attended.

B – Number of meetings held during the time the director held office during the year.

SHARES UNDER OPTION

Unissued ordinary shares of Exterra Resources Limited under option at the date of this report are as follows:

Grant dates	Expiry date	Exercise price (cents)	Number of options
19 June 2015	19 June 2020	2.15	9,000,000
1 July 2016	1 July 2019	6.00	9,375,000
4 July 2016	4 July 2018	6.00	5,000,000
26 August 2016	26 August 2019	10.00	2,500,000
26 August 2016	26 August 2019	12.50	2,500,000
27 October 2016, 1 December 2016	29 July 2019	6.00	17,853,737
27 October 2016, 1 December 2016	29 July 2019	8.00	17,853,737
1 December 2016	1 December 2019	10.00	1,000,000
1 December 2016	28 November 2021	10.00	2,750,000
Total number of options outstanding at the date of this report			67,832,474

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Directors' Report continued

INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Exterra Resources Limited paid a premium of \$12,000 to insure the directors and secretary of the Company.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Rothsay Chartered Accountants, or associated entities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 14.

Signed in accordance with a resolution of the directors.



John Davis

Executive Chairman

Perth, 14 September 2017



Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
P.O. Box 8716, Perth Business Centre WA 6849
Phone (08) 9486 7094 www.rothsayresources.com.au

The Directors
Exterra Resources Limited
Suite 2, 11 Ventnor Ave
West Perth WA 6005

Dear Sirs

In accordance with Section 307C of the Corporations Act 2001 (the "Act") I hereby declare that to the best of my knowledge and belief there have been:

- i) no contraventions of the auditor independence requirements of the Act in relation to the audit of the 30 June 2017 financial statements; and
- ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Rolf Garda (Lead auditor)

Rothsay

Dated 14 September 2017



Chartered Accountants

Statement of Comprehensive Income

YEAR ENDED 30 JUNE 2017

	Notes	The Company	
		2017	2016
		\$	\$
REVENUE	4(a)	36,642	9,511
Other income	4(b)	20,000	84,096
EXPENDITURE			
Administration and corporate expenses		(531,434)	(172,042)
Depreciation expense		(18,551)	(17,257)
Employee benefits expense		(48,685)	(3,925)
Exploration expenses		(752,711)	(1,032,132)
Finance costs	5	(18,460)	-
Share-based payments expense	24	(238,239)	-
LOSS BEFORE INCOME TAX		(1,551,438)	(1,131,749)
INCOME TAX EXPENSE	6	-	-
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR ATTRIBUTABLE TO OWNERS OF EXTERRA RESOURCES LIMITED		(1,551,438)	(1,131,749)
Basic and diluted loss per share for loss attributable to the ordinary equity holders of the Company (cents per share)	23	(0.5)	(0.6)

The above Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

Statement of Financial Position

AT 30 JUNE 2017

	Notes	The Company	
		2017	2016
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents	7	1,430,427	1,574,517
Trade and other receivables	8	178,047	25,808
TOTAL CURRENT ASSETS		1,608,474	1,600,325
NON-CURRENT ASSETS			
Plant and equipment	9	233,867	226,924
Capitalised exploration and evaluation expenditure	10	1,475,000	3,785,000
Capitalised mine development	11	6,738,063	-
TOTAL NON-CURRENT ASSETS		8,446,930	4,011,924
TOTAL ASSETS		10,055,404	5,612,249
CURRENT LIABILITIES			
Trade and other payables	12	656,528	311,618
TOTAL CURRENT LIABILITIES		656,528	311,618
NON-CURRENT LIABILITIES			
Provisions	13	337,789	-
TOTAL NON-CURRENT LIABILITIES		337,789	-
TOTAL LIABILITIES		994,317	311,618
NET ASSETS		9,061,087	5,300,631
EQUITY			
Contributed equity	14	19,894,684	15,065,529
Reserves	15(a)	915,589	432,850
Accumulated losses	15(b)	(11,749,186)	(10,197,748)
TOTAL EQUITY		9,061,087	5,300,631

The above Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

Statement of Changes in Equity

YEAR ENDED 30 JUNE 2017

	Notes	Contributed Equity \$	Share-based Payments Reserve \$	Accumulated Losses \$	Total \$
The Company					
BALANCE AT 1 JULY 2015		13,317,529	393,350	(9,065,999)	4,644,880
Loss for the year	15(b)	-	-	(1,131,749)	(1,131,749)
TOTAL COMPREHENSIVE EXPENSE		-	-	(1,131,749)	(1,131,749)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year		1,830,000	-	-	1,830,000
Transaction costs		(82,000)	-	-	(82,000)
Supplier share-based payments		-	39,500	-	39,500
BALANCE AT 30 JUNE 2016		15,065,529	432,850	(10,197,748)	5,300,631
Loss for the year	15(b)	-	-	(1,551,438)	(1,551,438)
TOTAL COMPREHENSIVE EXPENSE		-	-	(1,551,438)	(1,551,438)
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS					
Shares issued during the year	14	5,349,905	-	-	5,349,905
Transaction costs	14	(520,750)	244,500	-	(276,250)
Employee and supplier share-based payments	15(a)	-	238,239	-	238,239
BALANCE AT 30 JUNE 2017		19,894,684	915,589	(11,749,186)	9,061,087

The above Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Statement of Cash Flows

YEAR ENDED 30 JUNE 2017

	Notes	The Company	
		2017	2016
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(355,215)	(170,198)
Payments for exploration expenditure		(951,537)	(755,291)
Interest received		39,565	6,349
Proceeds on sale of financial assets at fair value through profit or loss		-	337,480
Research and development tax incentive grant received		-	25,957
Payments for purchases of financial assets at fair value through profit or loss		-	(62,500)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	22	(1,267,187)	(618,203)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on sale of plant and equipment		20,000	-
Payments for plant and equipment		(25,494)	-
Payments for mine development		(3,945,064)	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(3,950,558)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of ordinary shares		5,349,905	1,830,000
Payments of share issue transaction costs		(276,250)	(42,500)
NET CASH INFLOW FROM FINANCING ACTIVITIES		5,073,655	1,787,500
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(144,090)	1,169,297
Cash and cash equivalents at the beginning of the year		1,574,517	405,220
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	7	1,430,427	1,574,517

The above Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

Notes to the Financial Statements

30 JUNE 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These financial statements are for Exterra Resources Limited as an individual entity. The financial statements are presented in the Australian currency. Exterra Resources Limited is a company limited by shares, domiciled and incorporated in Australia. The financial statements were authorised for issue by the directors on 14 September 2017. The directors have the power to amend and reissue the financial statements.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Exterra Resources Limited is a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The financial statements of Exterra Resources Limited also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Company

The Company has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Company during the financial year.

The Company has also adopted the following new accounting policies for events and transactions that occurred during the year:

- Capitalised mine development, refer to note 1(k); and
- Provisions for rehabilitation, refer to note 1(n).

(iii) Early adoption of standards

The Company has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2016.

(iv) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(b) Segment reporting

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 full Board of Directors.

(c) Revenue recognition

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

(d) Government grants

The Research and Development Tax Incentive Grant received from the Australian Taxation Office is recognised in profit or loss in the period in which it becomes receivable, with the amount included in other income.

(e) Income tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associated operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the Financial Statements continued

30 JUNE 2017

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

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(f) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(g) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(h) Investments and other financial assets

Classification

The Company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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. Loans and receivables are included in trade and other receivables in the statement of financial position. Loans and receivables are carried at amortised cost using the effective interest method.

(i) Plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the statement of comprehensive income during the reporting period in which they are incurred.

Depreciation of plant and equipment is calculated using the reducing balance method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term. The rates vary between 5% and 40% per annum.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(f)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is Company policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

Notes to the Financial Statements continued

30 JUNE 2017

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

(j) Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through the sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

(k) Capitalised mine development

Once technical feasibility and commercial viability of extraction of mineral resources in a particular area of interest become demonstrable, the capitalised tenement acquisition costs attributable to that area of interest are reclassified as mine development.

Capitalised mine development represents the costs incurred in preparing mines for production and includes plant and equipment under construction, stripping and waste removal costs incurred before production commences. These costs are capitalised to the extent that they are expected to be recouped through the successful exploitation of the related mining leases. Once production commences, these costs will be amortised using the units of production method based on the estimated economically recoverable reserves to which they relate or are written off if the mine property is abandoned.

Amortisation of capitalised mine development will commence at the point when production from geological area of interest commences.

(l) Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured, non-interest bearing and are paid on normal commercial terms.

(m) Employee benefits

(i) Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Share-based payments

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions'), refer to note 24.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an internal valuation using a Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of options that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

(n) Provision for rehabilitation

The Company records the present value of the estimated cost to rehabilitate operating locations in the period in which the obligation arises. The nature of rehabilitation activities includes the dismantling and removing of structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas.

Typically, the obligation arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recorded, the present value of the estimated cost of eventual rehabilitation is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in the present value of that eventual rehabilitation cost based on a discount rate appropriate to the market assessments and the risks inherent in the liability. Additional disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred. The unwinding of the effect of discounting the provision is recorded as a finance cost in the statement of comprehensive income. The capitalised carrying amount is depreciated over the useful life of the related asset.

Notes to the Financial Statements continued

30 JUNE 2017

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

Costs incurred that relate to an existing condition caused by past operations, and do not have future economic benefit, are expensed as incurred.

(o) Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(p) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below. New standards and interpretations not mentioned are considered unlikely to impact on the financial reporting of the Company.

AASB 9 Financial Instruments (applicable for annual reporting periods commencing on or after 1 January 2018).

AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

The final version of AASB 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a timelier basis.

Amendments to AASB 9 (December 2009 & 2010 editions) (AASB 2013-9) issued in December 2013 included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The main changes are described below.

- a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
- b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Notes to the Financial Statements continued

30 JUNE 2017

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

d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

- The change attributable to changes in credit risk are presented in other comprehensive income (OCI)
- The remaining change is presented in profit or loss

AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.

AASB 2014-7 incorporates the consequential amendments arising from the issuance of AASB 9 in December 2014.

AASB 2014-8 limits the application of the existing versions of AASB 9 (AASB 9 (December 2009) and AASB 9 (December 2010)) from 1 February 2015 and applies to annual reporting periods beginning on or after 1 January 2015.

Based on the financial assets and liabilities currently held, the Company does not anticipate any impact on the financial statements upon adoption of this standard. The Company does not presently engage in hedge accounting.

AASB 15 Revenue from Contracts with Customers (applicable for annual reporting periods commencing on or after 1 January 2017).

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations (IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue-Barter Transactions Involving Advertising Services*). The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- a) Step 1: Identify the contract(s) with a customer
- b) Step 2: Identify the performance obligations in the contract
- c) Step 3: Determine the transaction price
- d) Step 4: Allocate the transaction price to the performance obligations in the contract
- e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Early application of this standard is permitted. AASB 2014-5 incorporates the consequential amendments to a number of Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.

There will be no impact on the Company's financial position or performance.

AASB 16 Leases (applicable for annual reporting periods commencing on or after 1 January 2019).

The key features of AASB 16 are as follows:

Lessee accounting

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonable certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

IFRS 16 contains disclosure requirements for lessees.

Lessor accounting

- AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
- AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted, provided the new revenue standard, AASB 15 *Revenue from Contracts with Customers*, has been applied, or is applied at the same date as AASB 16.

The effect of this amendment on the Company's financial statements has yet to be determined.

None of the other amendments or Interpretations are expected to affect the accounting policies of the Company.

Notes to the Financial Statements continued

30 JUNE 2017

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

(s) Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are:

Taxation

Balances disclosed in the financial statements and the notes thereto related to taxation are based on the best estimates of the directors. These estimates take into account both the financial performance and position of the Company as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office.

Environmental issues

Balances disclosed in the financial statements and notes thereto are not adjusted for any pending or enacted environmental legislation and the directors understanding thereof. At the current stage of the Company's development and its current environmental impact, the directors believe such treatment is reasonable and appropriate.

Share-based payments

Share-based payment transactions, in the form of options to acquire ordinary shares, are valued using the Black-Scholes option or other recognised pricing model. Models use assumptions and estimates as inputs.

The Directors do not consider the resultant value as determined by, say, the Black-Scholes European Option Pricing Model is in anyway representative of the market value of the share options issued, however, in the absence of reliable measure of the goods or services received, AASB 2 *Share Based Payments* prescribes the measurement of the fair value of the equity instruments granted. The Black-Scholes European Option Pricing Model is an industry accepted method of valuing equity instruments. Other recognised models may be used.

Provision for rehabilitation

The Company assesses its mine rehabilitation provision half-yearly in accordance with accounting policy note 1(n). Significant judgement is required in determining the provision primarily relating to the estimation of the discount rate and settlement date used in the present value calculations. Any changes in these inputs, or changes to the assessments made by the Department of Mines and Petroleum, will impact the value of the provision.

Notes to the Financial Statements continued

30 JUNE 2017

2. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company.

Risk management is carried out by the full Board of Directors as the Company believes that it is crucial for all board members to be involved in this process. The Executive's, with the assistance of senior management as required, have responsibility for identifying, assessing, treating and monitoring risks and reporting to the board on risk management.

(a) Market risk

(i) Foreign exchange risk

As all operations are currently within Australia the Company is not exposed to foreign exchange risk.

(ii) Price risk

Given the current level of operations, the Company is not currently exposed to commodity price risk. The Company has no current exposure to equity securities price risk.

(iii) Interest rate risk

The Company is exposed to movements in market interest rates on cash and cash equivalents. The Company policy is to monitor the interest rate yield curve out to six months to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The entire balance of cash and cash equivalents for the Company \$1,430,427 (2016: \$1,574,517) is subject to interest rate risk. The proportional mix of floating interest rates and fixed rates to a maximum of six months fluctuate during the year depending on current working capital requirements. The weighted average interest rate received on cash and cash equivalents by the Company was 1.4% (2016: 1.9%).

Sensitivity analysis

At 30 June 2017, if interest rates had changed by +/- 100 basis points from the weighted average rate for the year with all other variables held constant, post-tax loss for the Company would have been \$26,234 lower/higher (2016: \$4,967 lower/higher) as a result of lower/higher interest income from cash and cash equivalents.

(b) Credit risk

The Company has no significant concentrations of credit risk. The maximum exposure to credit risk at balance date is the carrying amount (net of provision for impairment) of those assets as disclosed in the statement of financial position and notes to the financial statements.

As the Company does not presently have any debtors, lending, significant stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(c) Liquidity risk

The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Company. Due to the nature of the Company's activities, being mineral exploration, the Company does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Company's current and future funding requirements, with a view to initiating appropriate capital raisings as required.

The financial liabilities of the Company are confined to trade and other payables as disclosed in the Statement of financial position. All trade and other payables are non-interest bearing and due within 12 months of the reporting date.

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. All financial assets and financial liabilities of the Company at the balance date are recorded at amounts approximating their carrying amount.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Company is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

Notes to the Financial Statements continued

30 JUNE 2017

The Company

2017	2016
\$	\$

3. SEGMENT INFORMATION

For management purposes, the Company has identified only one reportable segment being exploration and development activities undertaken in Australia. This segment includes activities associated with the determination and assessment of the existence of commercial economic reserves, and mine development activities once technical feasibility and commercial viability has been established, from the Company's mineral assets in this geographic location.

Segment performance is evaluated based on the operating profit and loss and cash flows and is measured in accordance with the Company's accounting policies.

Exploration segment

Segment revenue and other income	-	-
Reconciliation of segment revenue and other income to total revenue before tax:		
Interest revenue	36,642	9,511
Other income	20,000	84,096
Total revenue and other income	56,642	93,607
Segment results	(752,711)	(1,032,132)
Reconciliation of segment result to net loss before tax:		
Depreciation	(18,551)	(17,257)
Finance costs	(18,460)	-
Other corporate and administration	(761,716)	(82,360)
Net loss before tax	(1,551,438)	(1,131,749)
Segment operating assets	8,622,271	4,033,058
Reconciliation of segment operating assets to total assets:		
Other corporate and administration assets	1,433,133	1,579,191
Total assets	10,055,404	5,612,249
Segment operating liabilities	740,485	283,642
Reconciliation of segment operating liabilities to total liabilities:		
Other corporate and administration liabilities	253,832	27,976
Total liabilities	994,317	311,618

4. REVENUE AND OTHER INCOME

(a) Revenue from continuing operations

Other revenue

Interest	36,642	9,511
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(b) Other income

Net gain on disposal of plant and equipment	20,000	-
Research and development tax incentive grant	-	25,957
Net fair value gains on financial assets at fair value through profit or loss	-	58,139
	20,000	84,096

5. EXPENSES

Loss before income tax includes the following specific expenses:

Defined contribution superannuation expense	50,998	5,411
Finance costs		
Provisions: unwinding of discount (note 13)	18,460	-

Notes to the Financial Statements continued

30 JUNE 2017

	The Company	
	2017	2016
	\$	\$
6. INCOME TAX		
(a) Income tax expense		
Current tax	-	-
Deferred tax	-	-
	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Loss from continuing operations before income tax expense	(1,551,438)	(1,131,749)
Prima facie tax benefit at the Australian tax rate of 27.5% (2016: 28.5%)	(426,645)	(322,548)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	65,516	-
Research and development incentive grant	-	(7,398)
Legal fees	50,123	-
Finance costs: unwinding of discount on provisions	5,077	-
	(305,929)	(329,946)
Movements in unrecognised temporary differences	1,844	16,145
Tax effect of current year tax losses for which no deferred tax asset has been recognised	307,773	313,801
Income tax expense	-	-
(c) Unrecognised temporary differences		
Deferred Tax Assets at 27.5% (2016: 28.5%)		
<i>On Income Tax Account</i>		
Accruals	33,549	24,508
Capital raising costs	67,788	-
Carry forward tax losses	2,549,650	2,330,888
	2,650,987	2,355,396

Deferred Tax Liabilities at 27.5% (2016: 28.5%)

Capitalised tenement acquisition and mine development costs	260,664	353,196
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Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

The Company's ability to use losses in the future is subject to the Company satisfying the relevant tax authority's criteria for using these losses.

During 2017 the government enacted a change in the income tax rate for small business entities from 28.5% to 27.5%. Exterra Resources Limited satisfies the criteria to be a small business entity.

7. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand	896,027	664,517
Short-term deposits	534,400	910,000
Cash and cash equivalents as shown in the statement of financial position and the statement of cash flows	1,430,427	1,574,517

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

Cash at bank and in hand at 30 June 2016 included \$580,000 held in trust by the Company, being funds received in advance of an issue of ordinary shares. The shares were issued on 1 July 2017 at which time the funds were no longer restricted and became available for use by the Company.

Notes to the Financial Statements continued

30 JUNE 2017

The Company

2017
\$

2016
\$

8. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Government taxes receivable	109,923	20,914
Sundry receivables	68,124	4,894
	178,047	25,808

Sundry receivables are not past due nor impaired, and based on history are expected to be fully recoverable.

9. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

Plant and equipment

Cost	417,363	391,868
Accumulated depreciation	(183,496)	(164,944)
Net book amount	233,867	226,924

Plant and equipment

Opening net book amount	226,924	244,181
Additions	25,494	-
Depreciation charge	(18,551)	(17,257)
Closing net book amount	233,867	226,924

10. NON-CURRENT ASSETS - CAPITALISED EXPLORATION AND EVALUATION EXPENDITURE

Tenement acquisition costs carried forward in respect of mining areas of interest

Opening net book amount	3,785,000	3,785,000
Reclassification to capitalised mine development ⁽¹⁾	(2,310,000)	-
Closing net book amount	1,475,000	3,785,000

- (1) Once technical feasibility and commercial viability of extraction of mineral resources in a particular area of interest become demonstrable, the capitalised tenement acquisition costs attributable to that area of interest is first tested for impairment and then reclassified to capitalised mine development. During the year, capitalised tenement acquisition costs were reclassified to capitalised mine development following the Company's decision to commence mining at the Second Fortune Mine.

11. NON-CURRENT ASSETS - CAPITALISED MINE DEVELOPMENT

Development costs carried forward in respect of mining areas of interest

Opening net book amount	-	-
Capitalised mine development	4,428,063	-
Reclassification from capitalised exploration and evaluation expenditure	2,310,000	-
Closing net book amount	6,738,063	-

Capitalised mine development represents the costs incurred in preparing mines for production and includes plant and equipment under construction, stripping and waste removal costs incurred before production commences. These costs are capitalised to the extent that they are expected to be recouped through the successful exploitation of the related mining leases.

12. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

Trade payables	516,551	224,500
Other payables and accruals	139,977	87,118
	656,528	311,618

Notes to the Financial Statements continued

30 JUNE 2017

The Company

2017
\$

2016
\$

13. NON-CURRENT LIABILITIES - PROVISIONS

Mine rehabilitation

Carrying amount at start of year

Increase in provision

Unwinding of discount

Carrying amount at end of year

-	-
319,329	-
18,460	-
337,789	-

The Company records the present value of the estimated cost to rehabilitate operating locations in the period in which the obligation arises. The nature of rehabilitation activities includes the dismantling and removing of structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation and revegetation of affected areas. The provision includes rehabilitation costs associated with the Second Fortune Mine based on the latest estimated future costs assessed by the Government of Western Australia Department of Mines and Petroleum, and is determined on a discounted basis.

14. CONTRIBUTED EQUITY

(a) Share capital

Notes	2017		2016	
	Number of shares	\$	Number of shares	\$
Ordinary shares fully paid	14(b), 14(d) 345,188,706	19,894,684	237,462,516	15,065,529
Total contributed equity		19,894,684		15,065,529

(b) Movements in ordinary share capital

Beginning of the financial period	237,462,516	15,065,529	181,152,994	13,317,529
Issued during the year:				
- Issued for cash at 1.25 cents per share	-	-	20,000,000	250,000
- Issued for cash at 2.1 cents per share	-	-	23,809,522	500,000
- Issued for cash at 2.15 cents per share upon exercise of options	3,000,000	64,500	-	-
- Issued for cash at 3.5 cents per share upon exercise of options	9,726,190	340,405	-	-
- Issued for cash at 4.0 cents per share ⁽¹⁾	37,500,000	920,000	12,500,000	1,080,000
- Issued for cash at 7.0 cents per share	57,500,000	4,025,000	-	-
Transaction costs	-	(520,750)	-	(82,000)
End of the financial period	345,188,706	19,894,684	237,462,516	15,065,529

- (1) 12,500,000 shares were issued on 28 April 2016. Funds were also received in advance of a separate share placement, with those shares issued on 1 July 2017.

Notes to the Financial Statements continued

30 JUNE 2017

14. CONTRIBUTED EQUITY (cont'd)

(c) Movements in options on issue

	Number of options	
	2017	2016
Beginning of the year	32,029,761	12,500,000
(Exercised/expired)/issued, exercisable at 3.5 cents, on or before 21 April 2017	(11,904,761)	11,904,761
(Exercised)/issued, exercisable at 3.5 cents, on or before 15 June 2017	(3,000,000)	3,000,000
(Expired)/issued, exercisable at 6.0 cents, on or before 15 June 2017	(5,125,000)	5,125,000
Issued, exercisable at 6.0 cents, on or before 4 July 2018	5,000,000	-
Issued, exercisable at 6.0 cents, on or before 1 July 2019	9,375,000	-
Issued, exercisable at 6.0 cents, on or before 29 July 2019	17,853,737	-
Issued, exercisable at 8.0 cents, on or before 29 July 2019	17,853,737	-
Issued, exercisable at 10.0 cents, on or before 26 August 2019	2,500,000	-
Issued, exercisable at 10.0 cents, on or before 1 December 2019	1,000,000	-
Issued, exercisable at 10.0 cents, on or before 28 November 2021	2,750,000	-
Issued, exercisable at 12.5 cents, on or before 26 August 2019	2,500,000	-
Exercised at 2.15 cents, expiring 19 June 2020	(3,000,000)	-
Expired on 20 May 2016, exercisable at 20 cents	-	(500,000)
End of the year	67,832,474	32,029,761

(d) Ordinary shares

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(e) Capital risk management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Company's activities, being mineral exploration, the Company does not have ready access to credit facilities, with the primary source of funding being equity raisings. Therefore, the focus of the Company's capital risk management is the current working capital position against the requirements of the Company to meet exploration programmes and corporate overheads. The Company's strategy is to ensure appropriate liquidity is maintained to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required. The working capital position of the Company at 30 June 2017 and 30 June 2016 is as follows:

	The Company	
	2017	2016
	\$	\$
Cash and cash equivalents	1,430,427	1,574,517
Trade and other receivables	178,047	25,808
Trade and other payables	(656,528)	(311,618)
Working capital position	951,946	1,288,707

15. RESERVES AND ACCUMULATED LOSSES

(a) Reserves

Share-based payments reserve

Balance at beginning of financial year	432,850	393,350
Employee and consultant share-based payments	146,081	-
Supplier options	336,658	39,500
Balance at end of financial year	915,589	432,850

Notes to the Financial Statements continued

30 JUNE 2017

The Company

2017 2016
\$ \$

15. RESERVES AND ACCUMULATED LOSSES (cont'd)

(b) Accumulated losses

Balance at beginning of financial year	(10,197,748)	(9,065,999)
Net loss for the year	(1,551,438)	(1,131,749)
Balance at end of financial year	(11,749,186)	(10,197,748)

(c) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued.

16. DIVIDENDS

No dividends were paid during the financial year. No recommendation for payment of dividends has been made.

17. RELATED PARTY TRANSACTIONS

(a) Key management personnel compensation

Short-term benefits	418,487	82,958
Post-employment benefits	2,850	-
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	117,081	-
	538,418	82,958

Detailed remuneration disclosures are provided in the remuneration report on pages 9 to 12.

(b) Loans to related parties

There were no loans to related parties, including key management personnel, during the year.

(c) Transactions and balances with other related parties

Nexus Bonom Pty Ltd, a business of which Mr Laing is a director and shareholder, provided engineering consulting services to Exterra Resources Limited during the year totalling \$70,364 (2016: N/A) in addition to the fees included as part of Mr Laing's remuneration. The amounts paid were on arm's length commercial terms and were included in capitalised mine development. At 30 June 2017 there was \$30,195 owing to Nexus Bonom Pty Ltd.

18. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the Company, its related practices and non-related audit firms:

Audit services

Rothsay Chartered Accountants - audit and review of financial reports	42,500	16,500
Total remuneration for audit services	42,500	16,500

19. CONTINGENCIES

There are no material contingent liabilities or contingent assets of the Company at balance date.

Notes to the Financial Statements continued

30 JUNE 2017

The Company

2017	2016
\$	\$

20. COMMITMENTS

(a) Exploration commitments

The Company has certain commitments to meet minimum expenditure requirements on the mining exploration assets it has an interest in. Outstanding exploration commitments are as follows:

within one year	631,660	473,100
later than one year but not later than five years	2,236,080	1,764,400
later than five years	2,988,300	3,464,400
	5,856,040	5,701,900

(b) Lease commitments: Group as lessee

Operating leases (non-cancellable):

Minimum lease payments

within one year

26,174	-
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Aggregate lease expenditure contracted for at reporting date but not recognised as liabilities

26,174	-
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The property lease is a non-cancellable lease with a twelve-month term, with rent payable monthly in advance. The lease includes standard conditions customary for commercial property leases.

21. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Anova Scheme of Arrangement

On 11 August 2017 the Company registered with the Australian Securities and Investments Commission the Scheme Booklet in relation to the proposed scheme of arrangement under which Anova Metals Limited ("Anova") is to acquire all of the fully paid ordinary shares in Exterra Resources Limited.

Anova Loan Facility Agreement

On 5 June 2017 the Company entered into a Loan Facility Agreement ("Agreement") with Anova to enable the Company to continue to progress the development of the Linden Gold Project whilst the merger of the companies was facilitated by the scheme of arrangement. A summary of the terms and conditions of the Agreement are as follows:

- The maximum amount to be loaned is \$2,000,000;
- Interest of 8% per annum is accrued daily and capitalised to the principal outstanding on the last day of each month and on the repayment or conversion date;
- The loan is to be repaid 18 months after the first funding date;
- On repayment the principal outstanding is to be converted into fully paid ordinary shares of Exterra Resources Limited at the lower of (a) \$0.07, or (b) a 20% discount to the 30 day volume weighted average price up to the last trading day immediately prior to the repayment date; and
- The loan is secured over the mining properties forming part of the Linden Gold Project.

The Agreement contains warranties and other clauses consistent with standard agreements of this nature. There are also provisions to allow for Exterra Resources Limited to obtain shareholder approval to ensure compliance with the ASX Listing Rules or other statutory requirements.

In accordance with the terms of the Agreement, the Company drew down \$500,000 on 31 July 2017, and the remaining balance of \$1,500,000 was drawn on 29 August 2017.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

Notes to the Financial Statements continued

30 JUNE 2017

The Company

2017
\$

2016
\$

22. CASH FLOW INFORMATION

Reconciliation of net loss after income tax to net cash outflow from operating activities

Net loss for the year (1,551,438) (1,131,749)

Non-Cash Items

Depreciation of plant and equipment 18,551 17,257

Unwinding of discount on provisions 18,460 -

Net gain on sale of plant and equipment (20,000) -

Share-based payments charged to profit or loss 238,239 -

Change in operating assets and liabilities

Decrease in trade and other receivables 22,883 80,531

Decrease in financial assets at fair value through profit or loss - 162,000

Increase in trade and other payables 6,118 253,758

Net cash outflow from operating activities (1,267,187) (618,203)

23. LOSS PER SHARE

(a) Reconciliation of earnings used in calculating loss per share

Loss attributable to the owners of the Company used in calculating basic and diluted loss per share

(1,551,438) (1,131,749)

Number of shares

2017 2016

(b) Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basic and diluted loss per share

318,401,355 202,711,347

(c) Information on the classification of options

As the Company has made a loss for the year ended 30 June 2017, all options on issue are considered antidilutive and have not been included in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

24. SHARE-BASED PAYMENTS

(a) Employees and Contractors Options

The Company provides benefits to employees (including directors) and contractors of the Company in the form of share-based payment transactions, whereby employees render services in exchange for options to acquire ordinary shares. The exercise prices of the options granted and outstanding at 30 June 2017 range from 2.15 to 10 cents, with expiry dates ranging from 1 December 2019 to 28 November 2021.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of the Company with full dividend and voting rights.

Fair value of options granted

The weighted average fair value of the options granted during the financial year was 2.7 cents (2016: N/A). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2017	2016
Weighted average exercise price (cents)	7.8	-
Weighted average life of the option (years)	3.2	-
Weighted average underlying share price (cents)	6.2	-
Expected share price volatility	70.0%	-
Risk free interest rate	2.0%	-

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

Notes to the Financial Statements continued

30 JUNE 2017

24. SHARE-BASED PAYMENTS (cont'd)

(b) Options issued to suppliers

The Company has previously issued options as part consideration for tenement acquisition and capital raising services. During the current reporting period the Company issued options as part consideration for capital raising services and management and administrative services. The exercise prices of the options granted and outstanding at 30 June 2017 range from 6 to 12.5 cents per option, with expiry dates ranging from 4 July 2018 to 26 August 2019.

Options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share in the capital of the Company with full dividend and voting rights.

Fair value of options granted

The weighted average fair value of the options granted during the year was 2.2 cents (2016: 0.8 cents). The price was calculated by using the Black-Scholes European Option Pricing Model applying the following inputs:

	2017	2016
Weighted average exercise price (cents)	6.5	4.5
Weighted average life of the option (years)	2.6	1.0
Weighted average underlying share price (cents)	5.8	3.6
Expected share price volatility	70.0%	70.0%
Risk free interest rate	1.9%	1.5%

Historical volatility has been used as the basis for determining expected share price volatility as it assumed that this is indicative of future trends, which may not eventuate.

Set out below are summaries of the share-based payment options granted per (a) and (b):

	The Company			
	2017	Weighted average exercise price cents	2016	Weighted average exercise price cents
	Number of options		Number of options	
Outstanding at the beginning of the financial year	17,000,000	2.8	12,500,000	2.9
Granted	49,457,474	7.6	5,000,000	4.5
Forfeited/cancelled	-	-	-	-
Exercised	(6,000,000)	2.8	-	-
Expired	(2,000,000)	6.0	(500,000)	20.0
Outstanding at year-end	58,457,474	6.7	17,000,000	2.8
Exercisable at year-end	22,750,000	6.3	17,000,000	2.8

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.3 years (2016: 3.1), and the exercise prices range from 2.15 to 12.5 cents.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year were as follows:

	The Company	
	2017	2016
	\$	\$
Options granted to employees and contractors (charged to profit or loss)	146,081	-
Options granted to suppliers (charged to profit or loss)	92,158	-
Options granted to suppliers (included as share issue transaction costs)	244,500	39,500
	482,739	39,500

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 34 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
- (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; and
- (c) a statement that the attached financial statements are in compliance with International Financial Reporting Standards has been included in the notes to the financial statements.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



John Davis

Executive Chairman

Perth, 14 September 2017



Level 1, Lincoln House, 4 Ventnor Avenue, West Perth WA 6005
P.O. Box 8716, Perth Business Centre WA 6849
Phone (08) 9486 7094 www.rothsayresources.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF EXTERRA RESOURCES LTD

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Exterra Resources Ltd ("the Company") which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended on that date and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration of the Company.

In our opinion the financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under these standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of this report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the "Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Exploration and evaluation expenditure and Mine development expenditure

The Company has incurred significant exploration and evaluation expenditure and mine development expenditure which has been capitalised. As the carrying value of exploration and evaluation expenditure and mine development expenditure represents a significant asset of the Company we considered it necessary to assess whether facts and circumstances exist to suggest that the carrying amount of these assets may exceed their recoverable amount.



Chartered Accountants



In doing so we carried out the following work in accordance with the guidelines set out in AASB 6 *Exploration for and Evaluation of Mineral Resources*. Our procedures included but were not limited to the following:

- We obtained evidence that the Company has valid rights to explore in the areas represented by the capitalised exploration and evaluation expenditure and mine development expenditure by obtaining searches of a sample of the Company's tenement holdings;
- We enquired of management and reviewed work programs to ensure that further expenditure on exploration and development on the mineral resources in the Company's areas of interest was planned and cross referenced these discussions to ASX announcements and where applicable minutes of directors' meetings;
- We tested a sample of the additions to mine development to supporting documentation to ensure the amounts were capital in nature;
- We obtained an understanding of the key processes associated with management's review of the carrying values of capitalised exploration and evaluation expenditure and mine development expenditure and challenged management's assertion that the carrying amount of the capitalised expenditure was likely to be recovered in full from successful development or sale; and
- We critically assessed and evaluated management's assessment that no indicators of impairment existed.

We have also assessed the appropriateness of the disclosures included in Notes 1, 10 and 11 to the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If based on the work we have performed we conclude there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibility for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with the Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or cease operations, or have no realistic alternative but to do so.



Chartered Accountants



Auditor's Responsibility for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/Home.aspx

We communicate with the directors regarding, amongst other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe those matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion the remuneration report of Exterra Resources Ltd for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Rothsay Auditing

Dated 14 SEPTEMBER 2017

**Rolf Garda, FCA
Partner**



Chartered Accountants