

Mount Magnet South NL

ABN 93 096 635 246

Interim Financial Report

for the half-year ended 31 December 2014

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CORPORATE DIRECTORY

BOARD

Directors

Alec Pismiris (Chairman)

David Leavy

Michael Fennell

Company Secretary

Shaun Menezes

Principal & Registered Office

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West Perth, Western Australia 6005

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Auditors

HLB Mann Judd

Level 4, 130 Stirling Street

Perth WA 6000

Share Registrar

Security Transfer Registrars

770 Canning Highway

Applecross, Western Australia 6153

Telephone: +61 8 9315 2333

Securities Exchange Listing

Australian Securities Exchange

Code: MUM

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity, comprising Mount Magnet South NL (the "Company") and its controlled entities (collectively the "Group") for the half-year ended 31 December 2014. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names of directors who held office during or since the end of the interim period and until the date of this report are noted below. Directors were in office for the entire period unless otherwise stated.

| | |
|-----------------|----------------------------|
| Alec Pismiris | (Chairman) |
| Mark Pitt | Resigned 22 December 2014 |
| Patrick Flint | Resigned 22 December 2014 |
| David Leavy | Appointed 22 December 2014 |
| Michael Fennell | Appointed 22 December 2014 |

REVIEW OF OPERATIONS

Kirkalocka Gold Project (KGP)

Activities at the KGP during the half year focussed on:

- Continuing focus on maintaining the KGP asset and ensuring compliance with all licence and regulatory requirements whilst minimising expenditure where appropriate.
- Care and maintenance activities were reduced in December, with regular daily site inspections being carried out by the local station owner.
- Receipt of the R&D tax incentive return for the program for the minimisation of dust generation from the Kirkalocka Tailings Storage Facility was made during the quarter.
- The site clean-up of scrap steel and miscellaneous items continues subject to the availability of scrap merchants and contractors within the area. This work will progress in line as and when possible.

The Company has recently been approached by several parties interested in purchasing the KGP and its associated plant infrastructure. These parties are currently conducting their due diligence and the Company will update shareholders should any genuine and material offer be made.

Concurrently, as a result of the recent improvement in the Australian dollar gold price, reduction in the price of fuel, labour and mining contractor rates, the Company is reassessing the viability of developing the KGP. The Company is actively seeking to identify potential funding sources for the development of the KGP.

DIRECTORS' REPORT

Jumbulyer Joint Venture [Australian Mines Limited (ASX: AUZ)]

Australian Mines Limited completed the review and report of the Sub-Audio Magnetism (SAM) survey that was conducted over a prospective 4km² area of the Jumbulyer project in late September 2014. During the December Quarter, Australian Mines provided notice that they were withdrawing from the Jumbulyer Farm-in and Joint Venture Agreement to focus on another project. The AUZ joint venture ceased on 5 January 2015.

Results

The consolidated loss for the half-year after tax was \$395,832 (2013: profit \$159,056).

Corporate

During the half-year the Company completed a share placement to raise \$210,000 before costs. The placement to sophisticated investors and a director of the Company comprised of the issue of 140,000,000 ordinary shares at an issue price of \$0.0015, with one attaching option exercisable at \$0.006 with a 31 December 2018 expiry issued for no additional consideration for every two new shares subscribed.

The Company raised a further \$618,021 before costs on completion of a fully underwritten non-renounceable rights issue. Under the offer the Company issued 412,013,877 Shares at an issue price of \$0.001 and 206,006,939 attaching options exercisable at \$0.006 with a 31 December 2018 expiry at an issue price of \$0.001.

A comprehensive review of the Company tenements has resulted in the identification of several areas of low prospectivity within the overall tenement package areas which were voluntarily surrendered during the December quarter thereby reducing ongoing tenement holding costs. In addition, cost reduction activities have continued in an effort to reduce the Company's operating, site care and maintenance costs, staffing costs and general overheads.

During the quarter the Company increased its efforts to identify new project opportunities. The Company is focused on potential acquisitions that are drill-ready exploration projects through to advanced projects with existing resources and upside potential. There is no geographical constraint, however projects located in areas of unacceptable political risk will not be considered. All deal structures will be contemplated, from joint venture farm-in through to direct project equity or corporate acquisition.

Several opportunities have been presented to the Company and are currently under review.

Receipt of 2013/2014 R&D Claim

Following the completion and submission of the required documentation for FY 2014, the Company received a cash refund of \$105,732 during the December 2014 quarter under the Federal Government's Research and Development (R&D) Tax Incentive Scheme. Under the Scheme, the Company was entitled to a cash refund of 45 cents per dollar spent on eligible R&D expenditure. The Company's claim predominantly related to costs incurred in relation to studies associated with the Kirkalocka Gold Project.

DIRECTORS' REPORT

Convertible Notes

The Company had 10m notes, convertible to 10m shares (at 10 cents each), on issue with a principal value of \$1 million due for redemption initially in June 2013 and subsequently rolled over on a monthly basis. At the end of September 2013, the Company and the note holder agreed on new terms for this \$1 million liability subject to shareholder approval. Following receipt of the required shareholder approval, in December 2013 the Company issued 66,666,667 notes, convertible to 66,666,667 shares (at 1.5 cents each) on or before 31 July 2015.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on the next page and forms part of this Directors' Report for the half-year ended 31 December 2014.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s306(3) of the Corporations Act 2001.



Alec Pismiris
Chairman
Perth
10 March 2015

The information in this report that relates to the Kirkalocka Gold Project was first reported by the Company in compliance with JORC 2012 in a market release dated 14 March 2013 (with further reporting on 24 September 2013). The Company confirms that it is not aware of any new information or data that materially affects the information included in the market announcement dated 14 March 2013 and that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

The information in this report that relates to the Wydgee Hills Iron Project was first reported by the Company in compliance with JORC 2012 in a market release dated 7 November 2013. The Company confirms that it is not aware of any new information or data that materially affects the information included in the market announcement dated 7 November 2013.

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Mount Magnet South NL for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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



**Perth, Western Australia
10 March 2015**

**W M Clark
Partner**

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

| | | Consolidated | |
|--|------|---------------------------|---------------------------|
| | Note | 31 December 2014 \$ | 31 December 2013 \$ |
| Other income | | 8,644 | 8,258 |
| Employee benefits expense | | (135,554) | (334,527) |
| Depreciation and amortisation expense | | (8,018) | (9,224) |
| Finance costs | | (56,972) | (112,012) |
| Exploration written off | 2 | - | (572,150) |
| Other expenses | | (309,664) | (261,432) |
| Loss before income tax expense | | (501,564) | (1,281,087) |
| Income tax benefit (R&D tax incentive) | | 105,732 | 1,440,143 |
| Net (loss)/ profit for the period | | (395,832) | 159,056 |
| Other comprehensive income | | - | - |
| Total comprehensive (loss) /income for the period | | (395,832) | 159,056 |
| Basic (loss)/ earnings per share (cents per share) | | (0.06) | 0.03 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

| | | Consolidated | |
|--------------------------------------|------|---------------------------|--------------------|
| | Note | 31 December 2014 \$ | 30 June 2014 \$ |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 715,008 | 396,321 |
| Trade and other receivables | | 43,843 | 23,243 |
| Inventory | | 3,469 | 40,163 |
| Total current assets | | 762,320 | 459,727 |
| Non-current assets | | | |
| Receivables | | - | 21,108 |
| Property, plant & equipment | | 3,064,500 | 3,069,036 |
| Deferred exploration expenditure | 2 | 4,661,774 | 4,200,000 |
| Total non-current assets | | 7,726,274 | 7,290,144 |
| Total assets | | 8,488,594 | 7,749,871 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | 539,244 | 207,085 |
| Provisions | | 40,888 | 49,832 |
| Borrowings | 3 | 983,112 | - |
| Total current liabilities | | 1,563,244 | 256,917 |
| Non-current liabilities | | | |
| Borrowings | 3 | - | 925,562 |
| Provisions | | 4,500,000 | 4,500,000 |
| Total non-current liabilities | | 4,500,000 | 5,425,562 |
| Total liabilities | | 6,063,244 | 5,682,479 |
| Net assets | | 2,425,350 | 2,067,392 |
| Equity | | | |
| Issued capital | 4 | 34,603,957 | 34,056,174 |
| Option premium reserve | 5 | 206,007 | - |
| Convertible notes reserve | 6 | 332,622 | 332,622 |
| Equity benefits reserve | 7 | 2,765,649 | 2,765,649 |
| Accumulated losses | | (35,482,885) | (35,087,053) |
| Total equity | | 2,425,350 | 2,067,392 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

| | Consolidated | |
|--|---------------------|---------------------|
| | 31 December 2014 | 31 December 2013 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Payments to suppliers and employees | (236,773) | (648,067) |
| Payment for exploration activities | (370,855) | (1,023,802) |
| Interest received | 1,885 | 8,258 |
| Office Bond refund | - | 17,370 |
| Rehabilitation bond refund | - | 1,499,000 |
| Research & development tax incentive | 105,732 | 1,440,143 |
| Net cash provided by / (used in) operating activities | (500,011) | 1,292,902 |
| Cash flows from investing activities | | |
| Proceeds from sale of assets | 6,759 | - |
| Payments for property, plant & equipment | (3,482) | (19,150) |
| Net cash provided by / (used in) investing activities | 3,277 | (19,150) |
| Cash flows from financing activities | | |
| Gross proceeds from issue of shares and options | 828,021 | - |
| Costs of share issue | (12,600) | - |
| Repayment of convertible notes | - | (500,000) |
| Net cash provided by / (used in) financing activities | 815,421 | (500,000) |
| Net increase in cash and cash equivalents | 318,687 | 773,752 |
| Cash and cash equivalents: beginning of the period | 396,321 | 515,075 |
| Cash and cash equivalents: end of the period | 715,008 | 1,288,827 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

| Consolidated | Issued Capital \$ | Option Premium Reserve \$ | Convertible Notes Reserve \$ | Accumulated Losses \$ | Equity Benefits Reserve \$ | Total Equity \$ |
|--|-------------------------|------------------------------------|---------------------------------------|-----------------------------|-------------------------------------|-----------------------|
| Balance at 1 July 2014 | 34,056,174 | - | 332,622 | (35,087,053) | 2,765,649 | 2,067,392 |
| Total comprehensive loss | - | - | - | (395,832) | - | (395,832) |
| Equity issued during the half-year net of costs | 547,783 | 206,007 | - | - | - | 753,790 |
| Balance at 31 December 2014 | 34,603,957 | 206,007 | 332,622 | (35,482,885) | 2,765,649 | 2,425,350 |

| Consolidated | Issued Capital \$ | Option Premium Reserve \$ | Convertible Notes Reserve \$ | Accumulated Losses \$ | Equity Benefits Reserve \$ | Total Equity \$ |
|--|-------------------------|------------------------------------|---------------------------------------|-----------------------------|-------------------------------------|-----------------------|
| Balance at 1 July 2013 | 34,056,174 | - | 227,206 | (23,130,076) | 2,765,649 | 13,918,953 |
| Equity portion on convertible note | - | - | 105,416 | - | - | 105,415 |
| Total comprehensive income | - | - | - | 159,056 | - | 159,056 |
| Balance at 31 December 2013 | 34,056,174 | - | 332,622 | (22,971,020) | 2,765,649 | 14,183,424 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

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

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2014 and any public announcements made by Mount Magnet South NL during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX listing rules.

Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group incurred a loss for the half-year (before tax) of \$501,564 and experienced net operating and investing cash outflows of \$496,734 before an R&D Tax Incentive of \$105,732. As at 31 December 2014 the Group had net working capital deficit of \$800,924.

The directors believe that it is appropriate to prepare the financial statements on a going concern basis as they believe the Group has the capacity to obtain additional funds through issues of equity, attract farm-in partners to some of the Company's mineral properties and also further reduce expenditure.

The ability of the Group to continue as a going concern is dependent on the ability to source additional funds from debt and/or equity markets to meet working capital requirements and for future exploration and development activity.

The Directors have reviewed the Group's overall position and outlook in respect of the matters identified above and are of the opinion that the use of the going concern basis is appropriate in the circumstances.

Should the Group be unable to source additional funds from debt and/or equity markets, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Adoption of New and Revised Accounting Standards

In the half-year ended 31 December 2014, the directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for annual reporting periods beginning on or after 1 July 2014.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised standards and interpretations on the Group and, therefore, no change is necessary to Group accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2014. As a result of this review the directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group and, therefore, no change necessary to Group accounting policies.

Basis of preparation

The accounting policies adopted are consistent with those of the previous financial year and the corresponding interim reporting period.

The interim report has been prepared on an historical cost basis. Cost is based on the fair value of the consideration given in exchange for assets. The Group is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

Significant Accounting Judgements and Key Estimates

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

In preparing this interim report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

2. DEFERRED EXPLORATION EXPENDITURE

| Costs carried forward in respect of areas of interest in the following phases: | Half-Year Ended 31 December 2014 \$ | Year Ended 30 June 2014 \$ |
|--|--|-------------------------------------|
| Exploration and evaluation phase | | |
| Balance at the beginning of the period | 4,200,000 | 7,633,684 |
| Expenditure incurred | 461,774 | 1,278,009 |
| Provision for rehabilitation and restoration | - | 1,074,200 |
| Exploration written off | - | (5,785,893) |
| Total deferred exploration expenditure | 4,661,774 | 4,200,000 |

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phase are dependent on the successful development and commercial exploitation or sale of the respective areas.

3. BORROWINGS (CURRENT AND NON-CURRENT)

Convertible Notes

| | \$ | \$ |
|---------------------------------------|----------------|----------------|
| Classified as current liabilities | 958,192 | - |
| Classified as non-current liabilities | - | 925,562 |
| Total Convertible Notes | 958,192 | 925,562 |
| Other (current) | 24,920 | - |
| Total Borrowings | 983,112 | 925,562 |
| Summary of Balance | | |
| Convertible notes – face value | 1,000,000 | 1,000,000 |
| Amount classified as equity | (105,416) | (105,416) |
| Unwinding of interest | 63,608 | 30,978 |
| Carrying amount of liability | 958,192 | 925,562 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

4. ISSUED CAPITAL

| Ordinary shares | Number | \$ |
|----------------------------|----------------------|-------------------|
| At 1 July 2014 | 538,020,816 | 34,056,174 |
| Placement – Tranche 1 | 80,000,000 | 120,000 |
| Placement – Tranche 2 | 60,000,000 | 90,000 |
| Rights Issue | 412,013,877 | 412,014 |
| Capital raising costs | | (74,231) |
| At 31 December 2014 | 1,090,034,693 | 34,603,957 |

Options

At 31 December 2014 the Company had on issue 276,006,939 options exercisable at \$0.006 expiring on 31 December 2018.

5. OPTION PREMIUM RESERVE

| Listed options | Number | \$ |
|----------------------------|--------------------|----------------|
| At 1 July 2014 | - | - |
| Rights Issue | 206,006,939 | 206,007 |
| At 31 December 2014 | 206,006,939 | 206,007 |

Terms and conditions

Options are exercisable at \$0.006 with a 31 December 2018 expiry.

6. CONVERTIBLE NOTES RESERVE

| Movements in convertible notes reserve | Half-Year Ended 31 December 2014 \$ | Year Ended 30 June 2014 \$ |
|--|--|-------------------------------------|
| Balance at 1 July | 332,622 | 227,206 |
| Equity portion of convertible notes | - | 105,416 |
| Balance at period end | 332,622 | 332,622 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

7. EQUITY BENEFITS RESERVE

| | Half-Year Ended 31 December 2014 \$ | Year Ended 30 June 2013 \$ |
|--|---|-------------------------------------|
| Movements in equity benefits reserve – performance rights and options | | |
| Opening Balance at 1 July 2014 | 2,765,649 | 2,765,649 |
| Balance at period end | 2,765,649 | 2,765,649 |

8. SEGMENT INFORMATION

Operating segment by business activity

The Group predominately operates in the mineral exploration sector of Western Australia. The directors have reviewed the Group's operating segments in accordance with "management approach" guidelines and have identified the Group as being a single operating segment.

9. SUBSEQUENT EVENTS

There are no matters or circumstances that have arisen since 31 December 2014 that have or may significantly affect the operations, results, or state of affairs of the Group in future financial periods.

10. COMMITMENTS AND CONTINGENCIES

There have been no material changes to commitments and contingencies since the last annual reporting date, and as disclosed in the Group's annual financial report for the year ended 30 June 2014.

DIRECTORS' DECLARATION FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

In the opinion of the directors of Mount Magnet South NL ('the Company'):

1. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
 - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year then ended; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.



Alec Pismiris
Perth
10 March 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Mount Magnet South NL

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Mount Magnet South NL ("the company") which comprises the condensed consolidated statement of financial position as at 31 December 2014, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 to the financial report which indicates that the ability of the Group to continue as a going concern is dependent on the ability to source additional funds from debt and/or equity markets to meet working capital requirements and for future exploration and development activity. Should the Group be unable to source additional funds from debt and/or equity markets, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.



HLB Mann Judd
Chartered Accountants



W M Clark
Partner

Perth, Western Australia
10 March 2015