



ABN 36 155 396 893

INTERIM FINANCIAL REPORT

**FOR HALF-YEAR ENDED
31 DECEMBER 2014**

CORPORATE DIRECTORY

DIRECTORS

Brandon Munro (Managing Director)
Philip Werrett (Chairman)
Peter Pawlowitsch
Michael Leech

COMPANY SECRETARY

Ian Hobson

REGISTERED AND PRINCIPAL OFFICE

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SHARE REGISTRY

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AUDITORS

BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

AUSTRALIAN SECURITIES EXCHANGE

Kunene Resources Limited shares (KNE) and options (KNEO) are listed on the Australian Securities Exchange.

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity 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 the Directors who held office during or since the end of the half-year and until the date of this report are noted below. Directors were in office for this entire period unless otherwise stated:

Brandon Munro (Managing Director)
Philip Werrett (Non-Executive Chairman)
Peter Pawlowitsch (Non-Executive Director)
Michael Leech (Non-Executive Director)

REVIEW OF OPERATIONS

The net loss for the half-year attributable to members of Kunene Resources Limited was \$269,440 (2013: loss of \$512,405).

Highlights

- Kaoko Project, Namibia
 - Drilling re-commenced in October 2014
 - Four diamond boreholes completed for a total of 1,066m
 - Chalcopyrite (copper sulphide) mineralisation identified in all boreholes
 - Confirmation of the same style of mineralisation identified in two targets 3km apart
 - Mineralisation away from Okanihova outcrop confirms regional scale potential of lineament
 - Borehole logging confirms prospectivity of Okanihova lineament:
 - Logging shows that pyrrhotite and chalcopyrite are cogenetic
 - Large number of remanent magnetic anomalies along 16km strike of Okanihova lineament and similar remanent magnetic anomalies in other structural and geochemical settings to be tested
 - Remanent magnetism shown to be caused by pyrrhotite, implying prospectivity for chalcopyrite elsewhere on Okanihova lineament
- Alcoutim Project, Portugal
 - Secured 576 km² exploration licence in Iberian Pyrite Belt
 - Prospective for copper-zinc-lead-tin-gold
 - Entered into Joint Venture agreement with private funding partner to fund exploration

Exploration activities summary

Kaoko Project, Namibia

Drilling at Okanihova, Kaoko Project, Namibia

During the half drilling was undertaken at the Company's Okanihova copper target to test Induced Polarisation (IP) anomalies identified at Okanihova SW1 target and Okanihova outcrop. The program was four diamond holes for a total of 1,066m.

Core logging, splitting and sample preparation has been completed and assays are still pending.

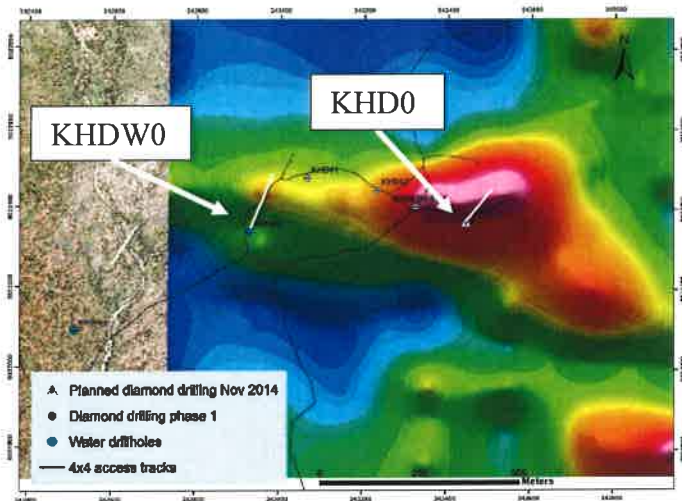


Figure 1 - Okanihova outcrop target: chargeability at 850m depth slice (approx. 150m below surface)

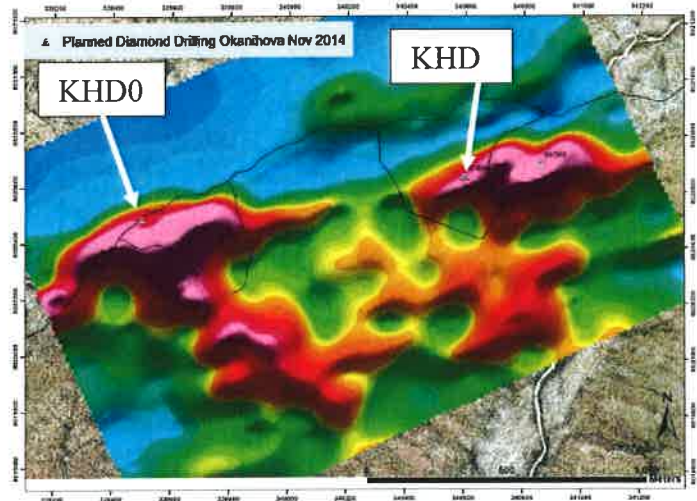


Figure 2 - Okanihova SW1 boreholes (shown on chargeability 950 depth slice (approx. 50m below surface))

Diamond borehole KHDW01

Diamond borehole KHDW01 is a water borehole drilled in late 2013 to a depth of 89m. It was extended to 343m to improve the water supply and to provide geological information on the remanent magnetic anomaly to the west of Okanihova outcrop. The borehole also passed through the outer zone of the IP anomaly near Okanihova outcrop (see Figure 1). Moderate visible sulphides were observed in the core (predominantly pyrrhotite with some chalcopyrite and pyrite).

Diamond borehole KHD05

Diamond borehole KHD05 was drilled to a depth of 222m to test a chargeability anomaly that correlates with weak copper in soil results, but no remanent magnetic anomaly (see Figure 2). Moderate visible sulphides were observed in the core (predominantly pyrite with minor chalcopyrite and no pyrrhotite), indicating that pyrite was the cause of the chargeability anomaly.

Diamond borehole KHD06

Diamond borehole KHD06 was drilled to a depth of 252m to test a chargeability anomaly that correlates with both copper in soil results and a remanent magnetic anomaly (See Figure 2). Moderate visible sulphides were observed in the core (predominantly pyrrhotite with minor chalcopyrite and pyrite), indicating that pyrite was the predominant cause of the chargeability anomaly and pyrrhotite was the cause of the remanent magnetic anomaly.

Diamond borehole KHD07

Diamond borehole KHD07 was drilled to a depth of 341m to test an intense IP anomaly to the east of Okanihova outcrop (see Figure 1) which correlated with a remanent magnetic anomaly. Several percent of visible sulphides were observed in the core in multiple zones. Zone 1 (from 70m to 82m) was predominantly pyrite with minor chalcopyrite. Zone 2 (from 92m to 104m) comprised similar chalcopyrite, pyrite and pyrrhotite. Zone 3 (from 104m to 112m) was predominantly pyrite with minor chalcopyrite and pyrrhotite. Zone 4 (from 112m to 121m) was predominantly pyrrhotite and pyrite with minor chalcopyrite. It was concluded that pyrrhotite was the cause of the remanent magnetic anomaly and the combination of the three sulphide minerals the cause of the intense IP anomaly.

Drill Hole Collar Coordinates are documented below.

Hole ID	Azi True	Dip	X GPS	Y GPS	Z GPS	EOH m
KHDW01	35	-70	342929	8022342	1048	342.72
KHD05	225	-60	339500	8020490	960	221.73
KHD06	225	-60	340605	8020648	997	251.76
KHD07	45	-60	343476	8022383	1087	341.06
Coord: WGS 84: Zone 33S						

Confirmation of sulphides causing remanent magnetism

Data from boreholes KHDW01, KHD06 and KHD07 has shown that the remanent magnetic anomaly to the west of Okanihova outcrop is caused by pyrrhotite and not magnetite. This is a significant development as pyrrhotite (an iron sulphide) and chalcopyrite (a copper sulphide) have been observed from drill core to be cogenetic (ie formed in the same hydrothermal mineralisation process).

The Okanihova lineament is defined by a number of large remanent magnetic anomalies over a strike length of 16 km, the majority of which is under recent alluvial cover (see Figure 3). The lineament also is a geochemical anomaly in numerous elements including copper. Given the geophysical similarities and the geological model, the remanent magnetism anomalies throughout the Okanihova lineament are likely to be caused by pyrrhotite, underlining the prospectivity of this untested regional tectonic structure.

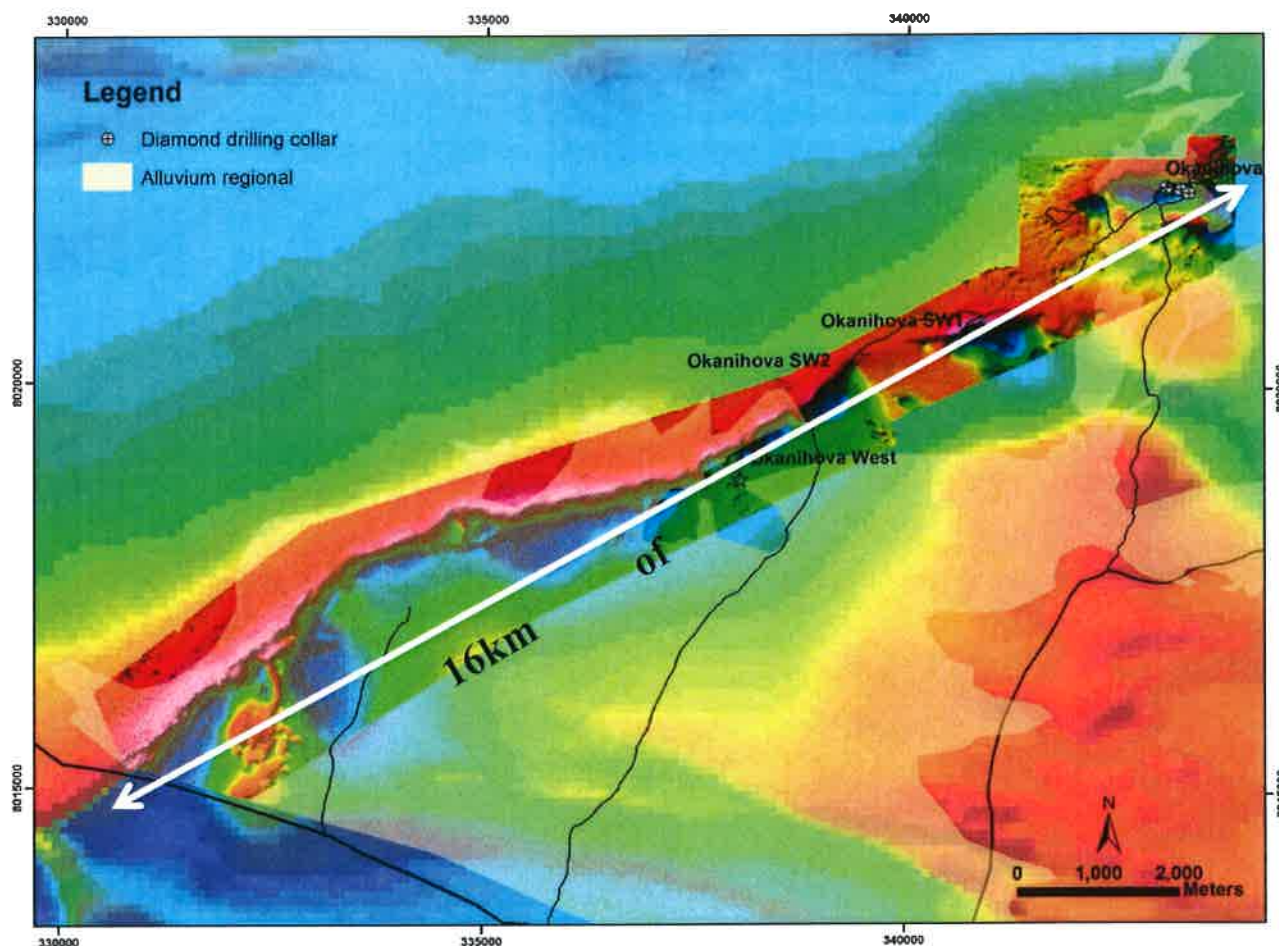


Figure 3: Okanihova lineament (ground magnetics on airborne magnetics) showing alluvium

Regional soil sampling program

The regional soil sampling program has been completed with 39,900 (as at 1 March 2015) soil samples covering the whole 3,500 km² of the licence package. The regional sampling extended onto adjoining licence areas for a better understanding of regional-scale mineralisation processes.

All soil samples were analysed in Windhoek by Niton XRF. A number of copper, lead, zinc and barium soil anomalies were identified and require a combination of further infill sampling and mapping. A systematic sample set of approximately 4,800 samples, covering the whole license block, was sent for multi-element ICP and fire assay for Au. This data-set will then be subjected to a variety of cutting-edge geochemical and statistical analyses by First Quantum Minerals.

To complement the soil sampling data in the covered areas, work is underway to conduct a regional ground water analysis for trace elements and specific isotopes in a selection of approximately 20 water boreholes over the whole licence package.

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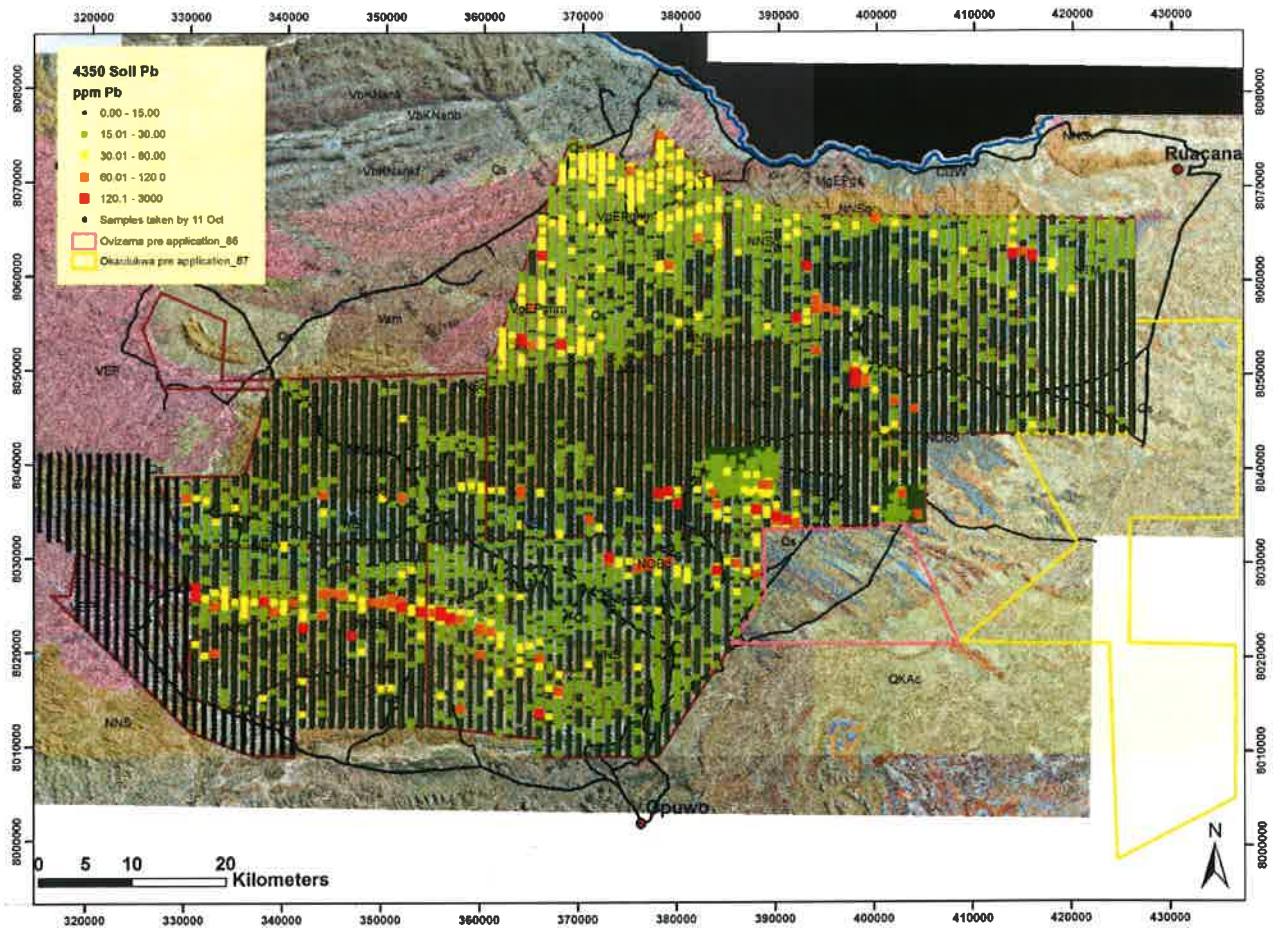


Figure 4: Regional soil grid (lead in soil, pXRF) over licence package showing progress by 12 October 2014: Regional soil samples are taken at 1 km line spacing while sample spacing alternates per line at 100 m and 500 m respectively. First infill grids at Ovingondo and RCC1 at 200 m line spacing and 50 m sample spacing.

The geological mapping program has progressed with completion of the mapping and geochemical sampling along the known extent of the Dolomite Ore Formation (copper-cobalt horizon known as DOF). This aspect of the program is being conducted in the form of an MSc thesis under supervision of Professor Murray Hitzman of Colorado School of Mines.

Kunene Resources geologists have completed a mapping project on an area where the DOF horizon was predicted by remote sensing (See Figure 5). As predicted, extensive stratabound copper mineralization has been found, however hosted in sandstones (therefore named the Sandstone Ore Formation, or SOF). Mapping and sampling of SOF is ongoing.

Detailed mapping of the central part of the Okanihova project has been completed and was used in conjunction with ground magnetics and the ground based IP surveys to position drill holes for the phase 1 drilling campaign that commenced in October.

DIRECTORS' REPORT

The mapping program continues with First Quantum geologists currently focusing on regional stratigraphic sections to better understand basin structures and morphology and allow for correlation with the stratigraphy of the Central African Copperbelt. First Quantum structural geologists and geophysical experts are conducting interpretations of a number of identified features.

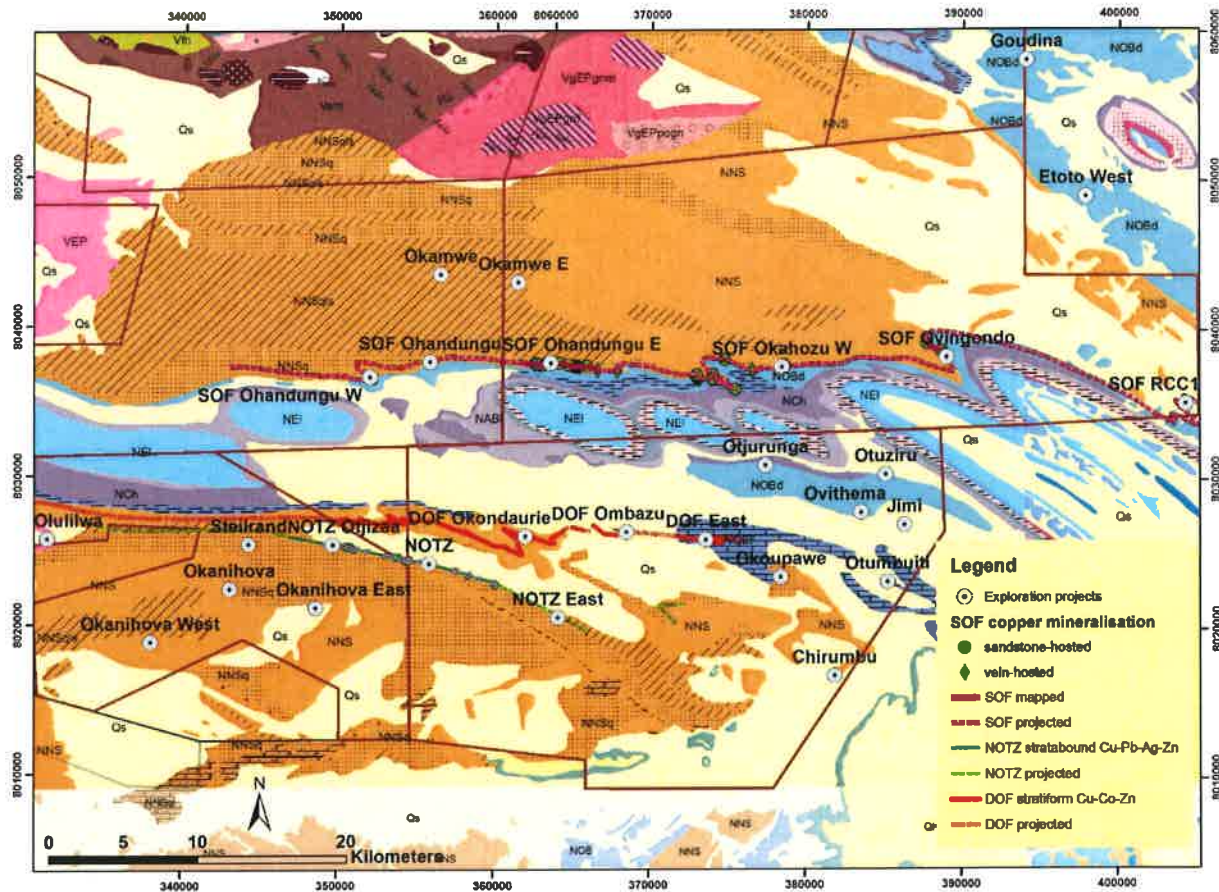


Figure 5: Horizons with stratabound copper mineralisations: (1) SOF = newly discovered sandstone-hosted Cu-mineralisation, (2) DOF = dolomite/shale-hosted Cu-Co-Zn-mineralisation, (3) NOTZ = carbonate-hosted Cu-Pb-Ag-Zn-mineralisation

Alcoutim exploration licence in Iberian Pyrite Belt, Portugal

The Company, through its wholly owned subsidiary Bolt Resources (Pty) Ltd, applied for the Alcoutim exploration concession in Portugal in 2013. The licence was granted on 23 September 2014 for a period of 3 years, extendable by a further two periods of 1 year each.

The Alcoutim Project is a 576 km² exploration licence in southern Portugal covering part of the Iberian Pyrite Belt (see Figure 6 below). The Iberian Pyrite Belt is one of the largest Volcanogenic Massive Sulphide (VMS) provinces in the world with over 250 copper deposits. Its deposits comprise polymetallic Cu-Zn-Pb-sulphide ore of chalcopyrite, sphalerite and galena, with significant tin, silver and gold credits.

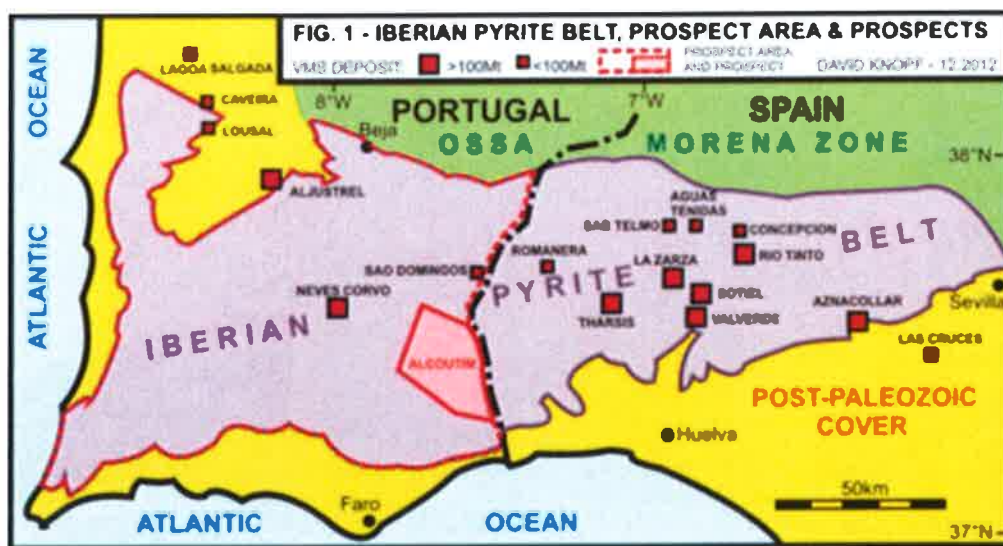


Figure 6: Alcoutim Project shown relative to world class deposits in the Iberian Pyrite Belt

The Alcoutim Project is located in the southern zone of the IPB along the Neves-Corvo-trend which hosts the Neves-Corvo deposit. Previous exploration by Billiton, Rio Tinto and Somincor has documented folded flysch units overlying the prospective stratigraphy. Thus, the work program will need to locate deposits under the younger cover rocks. Systematic review of the historic data has confirmed the potential of the Alcoutim Project to host large Cu (Pb-Zn-Sn-Au) VMS deposits.

Positive geological attributes of the licence include the following:

- ✓ Prospective Lithology: The Volcano-Sedimentary Sequence, regionally hosting all VMS deposits, is locally outcropping near Alcoutim and was intersected in boreholes on the license area.
- ✓ Right Position & Structure: Alcoutim is situated on the Neves-Corvo-trend on the Rosario-Neves antiform.
- ✓ Several historic Cu-, Mn- and Sb-mines on the licence area.

The Alcoutim license contains in its southern part a large-scale regional magnetic anomaly of 12 km x 6 km likely reflecting massive mafic magmatic rocks which are known in other portions of the belt to be associated with massive sulphide mineralisation. This untested target is directly situated along the Neves-Corvo-trend, 60 km SE of Neves Corvo.

Approximately 10,000 m of diamond drilling was historically completed on the northern part of the Alcoutim licence area, for which most of the drill core is available for inspection. However, none of the historical drilling concepts were designed to test mineralisation associated with the magnetic anomaly referred to above.

DIRECTORS' REPORT

Portugal is a European Union member state with a strong rule of law, excellent infrastructure and a long history of mining. In recent years Portugal has introduced progressive laws and policies designed to stimulate the economy through encouraging mining activity.

Funding for Alcoutim Project

In October 2014 KNE signed a Joint Venture Agreement with a private funding partner (the “**Funding Partner**”) by which the Funding Partner will fund the Alcoutim Project. The Joint Venture Agreement became unconditional in November 2014. The Funding Partner is a member of a diversified Southern African mining and services group with substantial drilling, mining and mineral processing capability. In light of the group’s substantial drilling business, it is envisaged that a substantial component of the funding under the project will be undertaken by providing in-kind drilling services.

Under the agreement, the Funding Partner will fund the Alcoutim Project on the following terms:

- (a) The Funding Partner is committed to funding a minimum of €267,500, an amount sufficient to meet the first year’s expenditure obligations and related costs;
- (b) In return for funding a total of €1.2 million, the Funding partner receives 51% of the Alcoutim Project. Should the Funding Partner decide not to fund the full €1.2 million, the project will revert to being 100% owned by KNE;
- (c) The Funding Partner has the option to fund a further €1.2 million (for a total of €2.4 million) which will take its ownership of the Alcoutim Project to 80%.

KNE will be responsible for oversight of the project, with appropriate in-country resources to be appointed by the joint venture.

Pursuant to a consulting agreement with consulting Geologist Mr David Knopf, the Company issued Mr Knopf 403,500 KNE shares on 7 October 2014 in recognition of the role played by Mr Knopf in securing the Alcoutim licence.

Currans Well and Sandstone, Western Australia

Licenses were relinquished after the end of the quarter.

Competent persons statement

The comments regarding the geology, prospectivity and exploration results, in this document, have been made by Simon Coxhell, (Member Australasian Institute of Mining and Metallurgy), who is a consultant of Kunene Resources Ltd. Mr Coxhell has sufficient experience, relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as Competent Persons as defined in the 2012 Edition of the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code). Mr Coxhell consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DIRECTORS' REPORT

CORPORATE

During the half-year the Company issued 403,500 ordinary fully paid shares as consideration for consulting fees relating to the granting of the Alcoutim Project exploration licence in southern Portugal.

CHANGES IN STATE OF AFFAIRS

During the half-year ended 31 December 2014 there was no significant change in the entity's state of affairs other than that referred to in the half-year financial statements or notes thereto.

MATTERS SUBSEQUENT TO THE REPORTING PERIOD

There are no matters or circumstances which have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial periods, other than as disclosed in Note 12 to the financial statements.

AUDITOR'S DECLARATION OF INDEPENDENCE

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 in relation to the review for the half-year ended 31 December 2014 is included within this financial report.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'B Munro', enclosed within a hand-drawn oval.

Brandon Munro
Director

Perth, 12 March 2015

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

	Consolidated	
	31 December 2014	31 December 2013
	\$	\$
Continuing operations		
Revenue	38,302	15,589
Exploration and evaluation expenditure	(4,199)	(7,636)
Depreciation	(9,012)	(3,233)
Directors' fees and benefits expense	(137,000)	(176,803)
Share based payments	-	(71,130)
Other expenses	(157,682)	(273,107)
Loss before income tax expense	(269,591)	(516,320)
Income tax expense	-	-
Loss after income tax	(269,591)	(516,320)
Attributable to:		
Members of Kunene Resources Limited	(269,440)	(512,405)
Non-controlling interests	(151)	(3,915)
	(269,591)	(516,320)
Other comprehensive income/loss		
<i>Items that may be reclassified to profit or loss</i>		
Exchange differences on translation of foreign operations	197,417	(33,026)
Total comprehensive loss for the period	(72,174)	(549,346)
Attributable to:		
Members of Kunene Resources Limited	(70,494)	(545,223)
Non-controlling interests	(1,680)	(4,123)
	(72,174)	(549,346)
	Cents	Cents
Basic Loss per share for the half-year attributable to members of Kunene Resources Limited	(0.70)	(1.77)
Diluted Loss per share for the half-year attributable to members of Kunene Resources Limited	(0.70)	(1.77)

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

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		1,017,011	1,272,212
Trade and other receivables		31,596	97,372
Total Current Assets		1,048,607	1,369,584
Non-Current Assets			
Trade and other receivables		20,000	20,000
Available for sale financial assets	2	40,000	40,000
Plant and equipment		67,213	75,053
Mining Tenements & Exploration	3	3,943,051	3,724,489
Total Non-Current Assets		4,070,264	3,859,542
Total Assets		5,118,871	5,229,126
LIABILITIES			
Current Liabilities			
Trade and other payables		104,520	115,778
Other liabilities		304,671	346,020
Total Current Liabilities		409,191	461,798
Total Liabilities		409,191	461,798
Net Assets		4,709,680	4,767,328
EQUITY			
Contributed equity	4	6,268,964	6,254,438
Reserves		1,366,374	1,168,957
Accumulated losses		(2,768,558)	(2,499,118)
Total Equity attributable to the members of Kunene Resources Limited		4,866,780	4,924,277
Non-controlling interests		(157,100)	(156,949)
Total Equity		4,709,680	4,767,328

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

Consolidated	Issued Capital \$	Accumulated Losses \$	Reserves \$	Non- controlling Interests \$	Total \$
Balance at 1 July 2013	2,874,438	(817,022)	988,850	-	3,046,266
Loss attributable to members of Kunene Resources Limited	-	(512,405)	-	-	(512,405)
Loss attributable to non-controlling interests	-	-	-	(3,915)	(3,915)
Exchange differences on translation of foreign operations	-	-	(33,026)	-	(33,026)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	(512,405)	(33,026)	(3,915)	(549,346)
Transactions with owners in their capacity as owners:					
Non-controlling interests on acquisition of subsidiary	-	-	-	(141,688)	(141,688)
Securities issued during the period	2,380,000	-	-	-	2,380,000
Cost of share based payments	-	-	422,373	-	422,373
Balance at 31 December 2013	5,254,438	(1,329,427)	1,378,197	(145,603)	5,157,605
Balance at 1 July 2014	6,254,438	(2,499,118)	1,168,957	(156,949)	4,767,328
Loss attributable to members of Kunene Resources Limited	-	(269,440)	-	-	(269,440)
Loss attributable to non-controlling interests	-	-	-	(151)	(151)
Exchange differences on translation of foreign operations	-	-	197,417	-	197,417
Other comprehensive income	-	-	-	-	-
Total comprehensive loss for the period	-	(269,440)	197,417	(151)	(72,174)
Transactions with owners in their capacity as owners:					
Securities issued during the period	14,526	-	-	-	14,526
Balance at 31 December 2014	6,268,964	(2,768,558)	1,366,374	(157,100)	4,709,680

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2014**

	Consolidated	
	31 December 2014	31 December 2013
	\$	\$
	Inflows/ (Outflows)	Inflows/ (Outflows)
Cash flows from operating activities		
Payments to suppliers and employees	(240,056)	(385,717)
Interest received	9,521	17,586
Net cash (used in) operating activities	(230,535)	(368,131)
Cash flows from investing activities		
Expenditure on mining interests	13,824	(651,615)
Payment for plant and equipment	-	(1,928)
Receipts from farm in funding	1,138,983	-
Payments for farm in exploration	(1,180,332)	-
Net cash (used in) investing activities	(27,525)	(653,543)
Cash flows from financing activities		
Net cash provided by financing activities	-	-
Net (decrease) in cash held	(258,060)	(1,021,674)
Cash at beginning of the half-year	1,272,212	1,788,585
Effect of exchange rate changes on cash	2,859	3,869
Cash at end of the half-year	1,017,011	770,780

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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

1. BASIS OF PREPARATION

These general purpose interim financial statements for the half-year reporting period ended 31 December 2014 has been prepared in accordance with Australian Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated entity is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report does not include full disclosures of the type normally included in an annual report. It is recommended that this financial report to be read in conjunction with the annual financial report for the year ended 30 June 2014 and any public announcements made by Kunene Resources Limited during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies have been consistently applied with those of the previous financial year and corresponding interim reporting period, except in relation to the matters disclosed below.

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2015 annual report as a consequence of these amendments.

There were no new standards issued since 30 June 2014 that have been applied by the Company. The 30 June 2014 annual report disclosed that the Company anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2014.

(a) Significant Estimates and Judgements

The Company, through its wholly owned subsidiary Bolt Resources Pty Ltd ("Bolt") was granted the Alcoutim Project exploration licence in southern Portugal. On 3 October 2014 the Company signed a joint venture agreement with Gecko Mineral Processing (Proprietary) Limited ("Gecko"), by which Gecko will fund the Alcoutim Project.

On the effective date of 24 November 2014 the joint venture agreement became unconditional and the Company was required to forthwith transfer 51% of the issued share capital of Bolt to Gecko. Gecko was to appoint one director to the Board of Bolt for each full 15% of the issued share capital it holds in Bolt.

The transfer of 51% of the shares in Bolt to Gecko was executed on 30 January 2015 and Gecko are yet to appoint their directors to the Board of Bolt. As at 31 December 2014, the Company maintained control of Bolt.

(b) Going Concern Basis

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

For the half-year ended 31 December 2014 the Group incurred a net loss after tax of \$269,591 (2013: \$516,320), net cash outflow from operating activities of \$230,535 (2013: \$368,131) and net cash outflow from investing activities of \$27,525 (2013: \$653,543).

The ability of the consolidated entity to actively explore and continue as a going concern, and to meet its debts and commitments as they fall due, is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the company's tenements, and/or sale of non-core assets.

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

1. BASIS OF PREPARATION (CONTINUED)

(b) Going Concern Basis (Continued)

The Directors are confident that the Group will be successful in raising further capital and, accordingly, have prepared the financial statements on a going concern basis. At this time, the Directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2014. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

2. AVAILABLE FOR SALE FINANCIAL ASSETS

	31 December 2014 \$	30 June 2014 \$
Investment in African Mining Capital Pty Ltd (unlisted entity)	40,000	40,000

In October 2012 Kunene Resources Limited signed the original binding Heads of Agreement with African Mining Capital Pty Ltd ("AMC") to enter into a joint venture to earn and acquire 76% of the Kaoko Project, Namibia. As part of the agreement, the Group subscribed to \$200,000 in shares of AMC (3,636,364 shares, being approximately 3% of the share capital of AMC). The carrying value of the investment has been written down to approximate its fair value.

3. DEFERRED EXPLORATION EXPENDITURE

Costs carried forward in respect of areas of interest in the following phases:

	31 December 2014 \$	30 June 2014 \$
Exploration and evaluation phase – at cost	3,943,051	3,724,489
Movement		
Balance at the beginning of the period	3,724,489	371,000
Exploration asset acquired	-	3,744,599
Expenditure incurred	29,374	199,733
Expenditure written off	(4,199)	(404,233)
Foreign exchange movement	193,387	(186,610)
Total deferred exploration expenditure	3,943,051	3,724,489

Ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful development and commercial exploitation or, alternatively, sale of the relevant areas of interest, at amounts at least equal to book value.

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

4. CONTRIBUTED EQUITY

	31 December 2014 \$	30 June 2014 \$
Share capital		
Ordinary shares – fully paid	5,268,964	5,254,438
Other equity securities		
Convertible notes – conversion rights	1,000,000	1,000,000
	6,268,964	6,254,438

a) Movement in ordinary shares on issue

	Number	\$
<i>Ordinary shares – fully paid</i>		
Balance at the beginning of the period	38,500,000	5,254,438
Issued as consideration for consulting fees relating to exploration licence	403,500	14,526
Balance at the end of the period	38,903,500	5,268,964

b) Convertible notes

Under the earn-in agreement with First Quantum Minerals Limited and its subsidiary FQM Exploration Holdings Ltd (“FQME”) the Company had issued 1,000,000 convertible notes for \$1,000,000 to FQME, repayable by 31 August 2015. The Company has the option to repay the convertible notes by the issue of 5 shares for each convertible note (5,000,000 shares to be issued at 20 cents each).

In consideration for the advance of the funds pursuant to the convertible notes, the Company issued 5,000,000 options expiring 7 August 2015, exercisable at 25 cents each to FQME. The convertible notes and the attached options have been valued together as conversion rights to shares and included as other equity securities.

5. SHARE BASED PAYMENTS

During the half-year period, the following securities were issued as share based payments:

	Value per Share	Number	Value \$
Ordinary fully paid shares issued as consideration for consulting fees relating to the granting of the Alcoutim Project exploration licence in southern Portugal.	\$0.036	403,500	14,526
			14,526

The shares issued were valued at the market price of the shares on the day of granting.

6. RELATED PARTIES

Transactions with related parties are consistent with those disclosed in the 30 June 2014 annual report.

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

7. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are used by the Board (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by the Board based on the phase of operation within the mining industry and from a geographical perspective. For management purposes, the Group has organised its operations on the basis of stage of development as follows:

- Development assets; and
- Exploration and evaluation assets, which includes assets that are associated with the determination and assessment of the existence of commercial economic reserves.

The Board as a whole will regularly review the identified segments in order to allocate resources to the segment and to assess its performance.

During the half-year ended 31 December 2014, the Group had no development assets.

During the half-year, in addition to exploration on the Kaoko Project, Namibia, the Group was granted an exploration licence in Portugal. The Board considers that it has operated in three segments, being mineral exploration within Australia, Namibia and Portugal.

Where applicable, corporate costs, finance costs, interest revenue and foreign currency gains and losses are not allocated to segments as they are not considered part of the core operations of the segments and are managed on a Group basis.

The consolidated entity is domiciled in Australia. Segment revenues are allocated based on the country in which the project is located.

	Exploration Australia \$	Exploration Namibia \$	Exploration Portugal \$	Non- Segment \$	Consolidated \$
31 December 2014					
Revenue	30,270	-	-	8,032	38,302
Segment result (Loss)	26,071	(3,021)	(243)	(292,398)	(269,591)
Total segment assets	680	4,278,397	100,876	738,918	5,118,871
Total segment liabilities	(153)	(362,065)	(3,752)	(43,221)	(409,191)
31 December 2013					
Revenue	-	302	-	15,287	15,589
Segment result (Loss)	(5,575)	(79,429)	-	(431,316)	(516,320)
30 June 2014					
Total segment assets	17,135	4,245,007	-	966,984	5,229,126
Total segment liabilities	(1,632)	(417,193)	-	(42,973)	(461,798)

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

8. DIVIDENDS

There have been no dividends declared or recommended and no distributions made to shareholders or other persons during the period.

9. COMMITMENTS

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

10. CONTINGENT LIABILITIES

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

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Recurring fair value measurements

The following financial instruments are subject to recurring fair value measurements:

	31 December 2014 \$	30 June 2014 \$
Available for Sale Financial Assets - Level 3		
Investment in African Mining Capital Pty Ltd (unlisted entity)	40,000	40,000

As at 31 December 2014 Available for Sale Financial Assets included a level 3 investment, being an unlisted equity investment in Africa Mining Capital Pty Ltd with a fair value of \$40,000 (30 June 2014: \$40,000).

At 31 December 2014, the consolidated entity held no significant financial assets or liabilities classified as level 1 or level 2 fair value measurements. There were no transfers between level 1, level 2 or level 3 in the period.

AASB 13 requires that, subsequent to initial recognition, all fair value financial instruments are disclosed by reference to their measurement hierarchy levels:

- Level 1 fair value measurements that are derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements that are derived from inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 fair value measurements that are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data;

The fair values of the Level 3 investments are individually determined based on the present value of net cash inflows from future profits and subsequent disposal of the securities. These net cash inflows are discounted to their present value using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the asset. This methodology is unchanged from the comparative period.

Unobservable data inputs are earnings growth factors and the risk adjusted discount rate. Earnings growth factors are estimated based on market information for similar types of companies while the risk adjusted discount rate is modelled such as to reflect the time value of money and the risks specific to the individual assets.

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

11. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT')

Fair values of financial instruments not measured at fair value

Due to their short-term nature, the carrying amount of current receivables and current trade and other payables is assumed to approximate their fair value.

12. EVENTS SUBSEQUENT TO REPORTING DATE

There are no matters or circumstances which have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial periods, other than as follows.

On 30 January 2015, in accordance with the joint venture agreement with Gecko Mineral Processing (Proprietary) Limited ("Gecko") to fund the Alcoutim Project in southern Portugal, the Company transferred 51% of the issued share capital in its wholly owned subsidiary Bolt Resources Pty Ltd to Gecko. Bolt Resources Pty Ltd holds the Alcoutim Project exploration licence.

DIRECTORS' DECLARATION

In the opinion of the directors of Kunene Resources Limited ('the company'):

1. The financial statements and notes thereto of the consolidated entity, as set out within this financial report, are in accordance with the Corporations Act 2001 including:
 - a. complying with Accounting Standard AASB 134: Interim Financial Reporting, 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.
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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to be 'BM', enclosed within an oval shape.

Brandon Munro
Director

Perth, 12 March 2015

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF KUNENE RESOURCES LIMITED

As lead auditor for the review of Kunene Resources Limited 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 the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Kunene Resources Limited and the entities it controlled during the period.



Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 12 March 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Kunene Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Kunene Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the 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 consolidated entity'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 Kunene Resources Limited, 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Kunene Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.



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 Kunene Resources Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 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 *Corporations Regulations 2001*

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern, and to meet its debts and commitments as they fall due, is dependent upon the future successful raising of necessary funding through equity, successful exploration and subsequent exploitation of the company's tenements, and/or sale of non-core assets. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, appearing to read 'J Prue', is written over a faint, light blue BDO logo.

Jarrad Prue
Director

Perth, 12 March 2015