



**REY RESOURCES LIMITED**

**A.B.N. 84 108 003 890**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE  
SIX MONTHS ENDED 31 DECEMBER 2014**

## **CORPORATE DIRECTORY**

### **Directors**

Non-Executive Chairman – Ms Min Yang  
Managing Director – Mr Kevin Wilson  
Non-Executive Director – Mr Geoff Baker  
Non-Executive Director – Mr Dachun Zhang  
Non-Executive Director – Mr Jin Wei

### **Company Secretary**

Ms Shannon Coates

### **Administration and Registered Office**

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Info@reyresources.com

### **Share Registry**

Boardroom Pty Limited  
Level 7, 207 Kent Street  
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GPO Box 3993  
Sydney NSW 2001

### **Lawyers**

Corrs Chambers Westgarth  
240 St Georges Terrace  
Perth WA 6000

### **Auditor**

KPMG  
235 St Georges Terrace  
Perth WA 6000

### **Securities Exchange**

Australian Securities Exchange Code: REY

## CONTENTS PAGE

	Page
Directors' Report	1 - 5
Auditor's Independence Declaration	6
Condensed Consolidated Statement of Profit or loss and Other Comprehensive Income	7
Condensed Consolidated Statement of Financial Position	8
Condensed Consolidated Statement of Changes in Equity	9
Condensed Consolidated Statement of Cash Flows	10
Notes to the Condensed Consolidated Financial Report	11 – 18
Directors' Declaration	19
Auditor's Review Report	20-21

## **DIRECTORS' REPORT**

The Directors of Rey Resources Limited ("Rey" or "the Company") present their report together with the consolidated interim financial report for the half-year ended 31 December 2014 and the review report thereon.

### **Directors**

The Directors of the Company at any time during or since the end of the half-year are:

#### **Name**

Ms Min Yang – Non-Executive Chairman  
Mr Kevin Wilson – Managing Director  
Mr Geoff Baker – Non-Executive Director  
Mr Dachun Zhang – Non-Executive Director  
Mr Jin Wei – Non-Executive Director

### **Company Secretary**

Ms Shannon Coates

### **Principal Activities**

The principal activities of Rey are exploring for and developing energy resources in Western Australia's Canning Basin and Perth Basin. The Company holds a 25% interest in the Canning Basin petroleum permits EP457 and EP458 (known as the "Fitzroy Blocks"), has entered into a conditional agreement to acquire a 50% interest in EP487 (known as the "Derby Block"), holds a 43.47% interest in the Perth Basin petroleum permit EP437, as well as holding coal exploration licences and applications, and applications for a coal Mining Lease (M04/453) and a Miscellaneous Licence (L04/58) in the Canning Basin.

### **Review and results of operations**

#### **Operating Results**

The net loss of the consolidated entity after income tax amounted to \$5,331,000 for the half-year ended 31 December 2014 (2013: loss \$ 2,169,000).

At 31 December 2014, the Company's cash position was \$933,000. Post the end of the period, the Company raised \$4,000,000 (before costs) via a private placement. At the date of this report, the Company's cash position was \$4,046,000.

#### **Operating Review**

##### **1. Oil and Gas**

###### **1.1 Fitzroy Blocks (EP457 & EP458)**

Rey owns a 25% interest in the Fitzroy Blocks (including 8.3% free carried to production) together with Buru Energy Limited ("Buru") (37.5% and Operator); and Diamond Resources (Fitzroy) Ltd (37.5%), a subsidiary of Mitsubishi Corporation.

During the half year period, Buru as Operator of the Joint Venture (JV) over the Fitzroy Blocks, advanced the planning for drilling of the Senagi-1 well on EP458, which is anticipated to take place in Q3 2015. This is a

## DIRECTORS' REPORT

relatively shallow (~800 metre deep) structural target which is up-dip from a mineral borehole (Camelgooda-1) that encountered a well-developed Ungani Dolomite reservoir equivalent, with significant oil shows. The drilling of the Senagi prospect is subject to Joint Venture, regulatory and Native Title agreements and approvals, and these processes were progressed by the Operator during the half year.

A total of 112.5 line-km of 2D seismic data was acquired at Mt Fenton and elsewhere in EP458 on the Barbwire Terrace during August 2014. This data continued to be processed by the Operator during the half year.

There is also a well commitment in 2015 on EP457 and targets were matured for selection during the period. A seismic program is under consideration for the second half of 2015.

### 1.2 Derby Block (EP487)

As announced on 28 November 2014, the Company's subsidiary Rey Lennard Shelf Pty Ltd ("RLS") has entered into an agreement with Backreef Oil Pty Ltd ("Backreef") to acquire a 50% interest in petroleum exploration licence EP487, the "Derby Block", located in the Canning Basin of Western Australia (the "Agreement") subject to certain terms and conditions.

The Derby Block is a large exploration licence of approximately 5,000 km<sup>2</sup> that was granted to Backreef (50%) and Oil Basins Ltd (ASX: OBL) (50%) in March 2014. It is located to the north of Rey's existing interests in petroleum exploration licences in the Canning Basin.

Backreef and Oil Basins are currently in dispute over Backreef's interest in the Derby Block and certain unpaid cash calls that have occurred between the parties since 2012.

Under the Agreement, RLS will acquire Backreef's 50% interest in the Derby Blocks for either (at RLS's election):

- \$2 million, to be paid on grant of a Production Licence in respect of EP 487; or
- 2% royalty on future production.

The Agreement is subject to certain outstanding conditions precedent, including conclusion to the satisfaction of RLS of ongoing hearings in the State Administrative Tribunal (SAT) of Western Australia where Oil Basins is currently seeking to have Backreef's grant of title in EP487 by the WA Government overturned. This is expected to conclude in March 2015.

RLS will bear the costs of the SAT proceedings and outstanding legal claims on Backreef by Oil Basins in the WA District Court and Magistrates Court in connection with the expenses incurred on management of the Derby Block to date. RLS can terminate the Agreement and be relieved from any obligation to bear the costs of these proceedings at any time on the giving of 14 days' notice to Backreef.

### 1.3 Perth Basin (EP437)

On 29 May 2014, Rey announced that it had executed an agreement with Key Petroleum (Australia) Pty Ltd ("Key") and Caracal Exploration Pty Ltd to farm-in to Exploration Permit EP437 in the North Perth Basin. This permit is located to the north of the large Dongara Field which has been producing oil, condensate and gas since 1971.

Rey (via its wholly owned subsidiary Rey Oil and Gas Perth Pty Ltd) completed its farm-in obligations during the half year to earn 43.47% in EP437 by contributing 86.94% of the costs of the Dunnart-2 well which was

## DIRECTORS' REPORT

drilled in August and September 2014. The Rey cost was capped at \$1.7 million for the Dunnart-2 exploration well which was managed by Key as Operator of the permit and completed within budget.

The beneficial interests in EP437 are as follows:

Key Petroleum Limited (Key Petroleum (Australia) Pty Ltd) (Operator)	43.47%
Rey (Rey Oil and Gas Perth Pty Ltd)	43.47%
Caracal Exploration Pty Limited	13.06%

The Dunnart-2 well spudded on 13 July 2014. The top of the targeted Bookara Sandstone was encountered at 614m depth and the drill was completed in basement at 657m depth (depths cited as below the 'Kelly Block' on the drill rig). Upon completion of formation evaluation operations the DMP granted an approval to suspend the well with 7" production casing, which was run to total depth and cemented to surface with a 'B' section production wellhead installed. Drilling at Dunnart-2 was carried out by the Operator without incident and within the Joint Venture approved budgets for both drilling and suspension of the exploration well.

Oil shows over a 20m interval down into granitic basement were encountered during the well-site evaluation. Live oil shows were encountered in cuttings from the first 2.87m of the primary reservoir in the Bookara Sandstone below the Kockatea Shale and an additional two metres of live oil at 625m.

Two pen hole Drill Stem Tests ("DST") were carried out to confirm reservoir quality and oil recoverability. The results were invalid as in the first test, the tool had become plugged with shale fill from the overlying Kockatea Shale Formation and in the second the DST tool encountered a mechanical failure. Good quality Bookara Sandstone samples were retrieved from the second DST test and were found to fluoresce under fluoroscope (UV light) indicating live oil.

Following the second DST the well was drilled to Total Depth and logged. Oil shows in smaller intervals were observed within the Bookara Formation and additional shows observed including a reservoir quality interval above the basement.

Wireline logging and formation evaluation suggested the existence of reservoir quality sands at the top of the Bookara Sandstones. Formation fluid samples were collected for assaying but these results proved inconclusive with a combination of water, mud filtrate and oil emulsion recovered in the two small sample chambers.

On 2 October 2014, the Operator reported that post-well analysis and interpretation indicated there had possibly been invasion of drilling fluids into the top of the Bookara Sandstones during testing. This circumstance may explain the results of the wireline formation sampling as a mix of mud filtrate, formation water and oil emulsion. Real time operational well-site formation evaluation interpretations indicated that there were oil shows over a 20m interval down into the basement. Data also indicated a minimum of five metres of good quality reservoir sand with porosities in excess of 20% at the top of the Bookara Formation, which is believed to be oil bearing at Dunnart-1.

A flow-back test is proposed to be run in the well in March/April 2015 subject to regulatory and joint venture approvals.

The joint venture acquired missing vintage seismic lines over the northern part of EP437, east of the historical Conolly-1 and Conder-1 wells. Interpretation of this data has identified a number of shallow Bookara leads.

## **DIRECTORS' REPORT**

### **2. Coal**

Rey's thermal coal tenements are located in the Fitzroy Trough of the Canning Basin, north Western Australia and are partly contiguous with the Fitzroy Blocks petroleum tenements. The Canning Basin is well situated to feed the strong Asian demand for Australian export thermal coal for power generation.

#### **2.1 Coal exploration**

No exploration field work was undertaken in the half year, during which Rey continued to evaluate and refine its exploration tenement holding surrendering areas with lower coal prospectivity or deeper coal and making further applications for prospective ground.

During the half year, Rey completed a review and update of its P1-seam thermal coal Resources and Reserves Statement to the 2012 edition of the JORC Code, as reported to the ASX on 28 October 2014, confirming the Company's previously announced Resources and Reserves Statements under the 2004 JORC Code.

#### **2.2 Duchess Paradise Project**

The proposed Duchess Paradise thermal coal mine is located about 175 km by road south east of Derby in Western Australia's Canning Basin. The proposed project comprises a mine with a coal-handling and preparation plant, support infrastructure and an access road connecting to the Great Northern Highway. It has been proposed that coal be transported by road train from the mine site to the port of Derby to be loaded on to barges and transferred to anchored ships. Rey's lease at the Port facility expires in December 2015 and future arrangements are currently being considered.

The project proposal as set out in the Public Environmental Review (PER) is in the process of assessment by the Environmental Protection Authority (EPA) which will make a recommendation on environmental approval to the State and Commonwealth Environment Ministers. During the half year, Rey provided to the EPA responses to submissions and comments raised in connection with the Project PER.

### **3. Corporate**

On 30 June 2014, the Company announced that it was undertaking a capital raising of up to \$3 million (before costs) at 10 cents per share. The first tranche of 10 million shares was issued for 10 cents per share on 10 July 2014 and \$1 million received before 30<sup>th</sup> June 2014; the second tranche of 15 million shares was issued for 10cents per share on 19 August 2014 and \$1.5 million received in August 2014; and the final tranche of 4,854,368 shares was issued for 10.3 cents per share on 9 September 2014 and \$500 thousands was received in September 2014.

On 16 July 2014, the Company announced that it had entered into a Strategic Cooperation Framework Agreement with China National Fuel Corporation (CNFC), a China-based energy company, with the objective of jointly establishing and developing oil and gas opportunities together with associated infrastructure in Western Australia, with an emphasis on the Canning Basin.

On 12 December 2014, the Company announced that it had executed a subscription agreement to undertake a capital raising of up to \$4 million at 8 cents per share through the issue of 50 million new ordinary shares. As announced on 27 January 2015, the placement used the Company's existing capacity under Listing Rule 7.1 and was made to Hong Kong registered sophisticated investors qualifying under s708 of the Corporations Act 2001 (Cth).

## DIRECTORS' REPORT

As part of an ongoing capital management strategy, on 17 December 2013, the Company announced an on market buyback for up to 10% of its issued capital over a period of 12 months. A total of 200,000 shares were acquired under the buyback scheme during the half year. A total of 1,452,151 shares were bought back and cancelled over the twelve months since the scheme was initiated. On 3 December 2014, the Company announced that the buyback scheme was extended for a further twelve months to 17 December 2015.

At the date of this report, a further 800,000 shares had been bought back since 31 December 2015.

### Further information

Further details of operations during the six months ended 31 December 2014 are reported in the Quarterly Activity Reports released to the ASX and also available on the Company's website.

### Lead Auditor's independence declaration

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6 and forms part of the Directors' report for the half-year ended 31 December 2014.

This report has been made in accordance with a resolution of Directors.



Ms Min Yang  
Chairman

13 March 2015  
Sydney, NSW, Australia





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

To the directors of Rey Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

*KPMG.*

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta', with a stylized flourish at the end.

R Gambitta  
*Partner*

Perth

13 March 2015

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

*In thousands of dollars*

	NOTE	31 Dec 2014	31 Dec 2013
Other income	4	3	1
Derby Port remediation costs		-	(76)
Exploration impairment	9	(4,183)	(650)
Employee benefit expense	5	(373)	(465)
Share based payment expense	12	(345)	(113)
Depreciation expense		(2)	(33)
Office supplies, maintenance and IT support		(157)	(170)
Professional and consulting fees		(95)	(365)
Legal fees		(12)	(167)
Travel		(79)	(73)
Other expenses		(110)	(137)
<b>Loss from operating activities</b>		<b>(5,353)</b>	<b>(2,248)</b>
Finance income		22	79
<b>Loss before income tax expense</b>		<b>(5,331)</b>	<b>(2,169)</b>
Income tax benefit		-	-
<b>Loss for the period</b>		<b>(5,331)</b>	<b>(2,169)</b>
<b>Total comprehensive loss for the period attributable to owners of the Company</b>		<b>(5,331)</b>	<b>(2,169)</b>
<b>Basic and diluted loss per share (cents)</b>	6	<b>(0.82)</b>	<b>(0.37)</b>

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

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 DECEMBER 2014**

*In thousands of dollars*

	NOTES	31 Dec 2014	30 June 2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		933	3,000
Trade and other receivables	7	59	50
Prepayments		132	50
<b>Total Current Assets</b>		<b>1,124</b>	<b>3,100</b>
<b>Non-Current Assets</b>			
Security deposits	7	38	38
Property, plant and equipment	8	15	8
Exploration and Evaluation Expenditure	9	36,959	38,155
<b>Total Non-Current Assets</b>		<b>37,012</b>	<b>38,201</b>
<b>Total Assets</b>		<b>38,136</b>	<b>41,301</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	412	268
Provisions	11	244	232
<b>Total Current Liabilities</b>		<b>656</b>	<b>500</b>
<b>Non-Current Liabilities</b>			
Provisions	11	47	45
<b>Non-Current Liabilities</b>		<b>47</b>	<b>45</b>
<b>Total Liabilities</b>		<b>703</b>	<b>545</b>
<b>Net Assets</b>		<b>37,433</b>	<b>40,756</b>
<b>Equity</b>			
Share capital	13	77,228	75,565
Reserves		2,168	1,823
Accumulated losses		(41,963)	(36,632)
<b>Total equity</b>		<b>37,433</b>	<b>40,756</b>

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

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

*In thousands of dollars*

	Share capital	Share based payment reserve	Accumulated losses	Total
Balance at 1 July 2013	70,425	2,089	(33,328)	39,186
<b>Total comprehensive income:</b>				
Loss for the period			(2,169)	(2,169)
Total comprehensive income for the period			(2,169)	(2,169)
<b>Transactions with owners recorded directly in equity:</b>				
<b><i>Contributions by and distributions to owners</i></b>				
Issue of ordinary shares	4,360	-	-	4,360
Share based payment		113	-	113
Share issue costs	(73)	-	-	(73)
<b>Balance at 31 Dec 2013</b>	<b>74,712</b>	<b>2,202</b>	<b>(35,497)</b>	<b>41,417</b>
Balance at 1 July 2014	<b>75,565</b>	<b>1,823</b>	<b>(36,632)</b>	<b>40,756</b>
<b>Total comprehensive income:</b>				
Loss for the period	-	-	(5,331)	(5,331)
Total comprehensive income for the period	-	-	(5,331)	(5,331)
<b>Transactions with owners recorded directly in equity:</b>				
<b><i>Contributions by and distributions to owners</i></b>				
Issue of ordinary shares	<b>2,000</b>	-	-	<b>2,000</b>
Share based payments	-	<b>345</b>	-	<b>345</b>
Share buy back	<b>(18)</b>			<b>(18)</b>
Share issue costs	<b>(319)</b>	-	-	<b>(319)</b>
<b>Balance at 31 Dec 2014</b>	<b>77,228</b>	<b>2,168</b>	<b>(41,963)</b>	<b>37,433</b>

*The above condensed consolidated statement changes in equity should be read in conjunction with the accompanying notes.*

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

*In thousands of dollars*

**31 Dec 2014**

**31 Dec 2013**

**Cash flows from operating activities**

Payments to suppliers and employees

**(753)**

(1,929)

Derby Port remediation costs

-

(75)

**Net cash used in operating activities**

**(753)**

(2,004)

**Cash flows from investing activities**

Interest received

**20**

76

Receipt of R&D claims

-

545

Payments for property plant and equipment

**(9)**

1

Recovery of bonds

-

586

Payments for exploration expenditure

**(2,987)**

(2,175)

**Net cash used in investing activities**

**(2,976)**

(967)

**Cash flows from financing activities**

Proceeds from issue of ordinary shares (net of costs)

**1,680**

4,287

Share buy back

**(18)**

-

Repayments of loans and borrowings

-

(10)

**Net cash used in financing activities**

**1,662**

4,277

**Net increase / (decrease) in cash and cash equivalents**

**(2,067)**

1,306

**Cash and cash equivalents at 1 July**

**3,000**

3,277

**Cash and cash equivalents at 31 December**

**933**

4,583

*The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.*

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

**1. REPORTING ENTITY**

Rey Resources Ltd (the “Company”) is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the “Group”).

The condensed consolidated annual financial report of the Group as at and for the year ended 30 June 2014 is available upon request from the Company’s registered office or at [www.reyresources.com](http://www.reyresources.com)

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The consolidated interim financial statements have been prepared in accordance with *AASB 134 Interim Financial Reports* and the Corporations Act 2001. They do not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2014.

The consolidated interim financial statements were approved by the Board of Directors on 13 March 2015.

**(b) Going concern basis**

The Directors have prepared the financial statements on a going concern basis which contemplates the realisation of assets and payment of liabilities in the normal course of business. The Group has no debt obligations. The Group successfully raised \$1.6 million (net of costs) during or past the half year and an additional \$4 million (before costs) post December 2014. Based on a cash flow forecast the Directors believe that existing cash resources are sufficient for 12 months from the date of this report to meet non-discretionary expenditure. Funding of significant drilling programs will require the injection of future equity and/or debt.

**(c) Basis of measurement**

The financial report is prepared on the historical cost basis.

**(d) Functional and presentation currency**

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

The ASIC class order [CO 98/100] permits the rounding of amounts in financial reports and directors' reports prepared under Chapter 2M of the Corporations Act 2001. There are restrictions on the extent to which certain information can be rounded, such as remuneration of directors, executive officers and auditors.

**(e) Use of estimates and judgements**

The preparation of the interim financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

**(f) Operating segments**

The Group operates in one segment being the mining industry and in one geographical location, being Western Australia. Accordingly, all significant operating decisions are based upon analysis of

the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole. The Segment governed by joint venture agreements as set out in note 9.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied by the Group in the consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2014.

**4. OTHER INCOME**

*In thousands of dollars*

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Other income	<u>3</u>	<u>1</u>
	<u>3</u>	<u>1</u>

**5. EMPLOYEE BENEFIT EXPENSE**

*In thousands of dollars*

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Salaries and fees	340	399
Superannuation	33	23
Termination payment	-	43
	<u>373</u>	<u>465</u>

**6. LOSS PER SHARE**

	<b>31 Dec 2014</b>	<b>31 Dec 2013</b>
Basic loss per share (cents)	(0.82)	(0.37)
Diluted loss per share (cents)	(0.82)	(0.37)

The calculation of basic loss per share was based on the loss attributable to shareholders of \$5,331,000 (2013: loss \$2,169,000) and a weighted average number of ordinary shares outstanding during the half year of 654,126,747 (2013: 584,406,683).

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

**7. TRADE AND OTHER RECEIVABLES**

*In thousands of dollars*

**31 Dec 2014      30 June 2014**

Included in receivables are as follows:

**Current**

Other receivables

<b>59</b>	50
<b>59</b>	50

**Non-current**

Security deposits

<b>38</b>	38
<b>38</b>	38

**8. PROPERTY, PLANT & EQUIPMENT**

*In thousands of dollars*

**31 Dec 2014      30 June 2014**

Plant and equipment

At cost

<b>191</b>	242
<b>(176)</b>	(234)
<b>15</b>	8

Accumulated depreciation

**9. EXPLORATION AND EVALUATION EXPENDITURE**

*In thousands of dollars*

**31 Dec 2014      30 June 2014**

Costs carried forward in respect of:

Incurring at cost by the Group on assets not governed by joint venture agreements (i)

<b>27,190</b>	30,478
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Capitalised share of exploration assets under Joint Venture Agreements (ii)

<b>7,726</b>	7,266
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Capitalised share of exploration assets under Joint Venture Agreements (iii)

<b>2,043</b>	411
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Costs carried forward

<b>36,959</b>	38,155
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- (i) Exploration and evaluation expenditure recognised in exploration assets held solely by the Group.
- (ii) Exploration and evaluation expenditure recognised on tenements under joint venture agreement with Buru Energy Limited and Mitsubishi Corporation. This amount includes the Group's proportionate share of exploration assets held by the joint venture.
- (iii) Exploration and evaluation expenditure recognised on tenements under joint venture agreement with Key Petroleum (Australia) Pty Ltd (Key) and Caracal Exploration Pty Ltd. This amount includes the Group's proportionate share of exploration assets held by the joint venture.



**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

**9. EXPLORATION AND EVALUATION EXPENDITURE (Continued)**

	31 Dec 2014	30 June 2014
<i>In thousands of dollars</i>		
At cost	50,590	47,603
Accumulated impairment losses	(13,631)	(9,448)
	<b>36,959</b>	<b>38,155</b>
Movements in carrying amount:		
Opening balance	38,155	15,569
R&D refund offset	-	(545)
Expenditure capitalised	2,987	4,147
Impairment	(4,183)*	(1,416)
Transfer from asset held for sale	-	20,400
	<b>36,959</b>	<b>38,155</b>

For further information on exploration expenditure refer to note 14 on contingent liabilities. The ultimate recoupment of balances carried forward in relation to areas of interest still in the exploration or evaluation stage is dependent on successful development and commercial exploitation, or alternatively sale of the respective areas.

\* The \$4,183 thousand impairment relates to 12 tenements which were voluntarily relinquished during the half year. The carrying value of these 12 tenements at 31 December 2014 is nil.

**10. TRADE AND OTHER PAYABLES**

	31 Dec 2014	30 June 2014
<i>In thousands of dollars</i>		
<b>Unsecured liabilities</b>		
Trade payables	36	174
Sundry payables and accrued expenses	376	94
	<b>412</b>	<b>268</b>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

**11. PROVISIONS**

	31 Dec 2014	30 June 2014
<i>In thousands of dollars</i>		
<b>Current:</b>		
Employee benefits	164	152
Other	80	80
	<b>244</b>	<b>232</b>
<b>Non-Current:</b>		
Employee benefits	47	45
	<b>47</b>	<b>45</b>

**12. SHARE BASED PAYMENTS**

**Share based payments**

At the Company's Annual General Meeting on 26 November 2014, shareholders approved the grant of 1,000,000 share performance rights to the Managing Director.

Market based vesting conditions have been imposed on these rights that will determine whether the director receives the shares. The vesting or exercisability of the equity instruments is related to the Company's absolute total shareholder return over the measurement periods. The measurement periods are 1 July 2011 to 30 June 2014 for 985,294 of the rights, and 1 July 2012 – 30 June 2015 for the remaining 2,426,667 rights. The measurement periods are 1 July 2014 to 30 June 2017 for 1,000,000 of the rights. However, if none of the Performance Rights vest at the first test date then replacement measurement periods will apply from 1 July 2011 to 30 June 2015, 1 July 2012 – 30 June 2016 and 1 July 2014-30 June 2018.

At the Annual General Meeting on 26 November 2014, shareholders also approved the following grants of fully paid ordinary shares:

- 1,000,000 shares to Luxe Hill Ltd (Ms Min Yang is a director and shareholder of Luxe Hill Ltd);
- 1,000,000 shares to Gold Star Industry Ltd (Mr Geoff Baker is a director and shareholder of Gold Star Industry Ltd);
- 500,000 shares to Greenhouse Investment (VIC) Pty Ltd ATF AMF Superannuation Fund (Mr Da Chun Zhang is a director of Greenhouse investment Pty Ltd and beneficiary of AMF Superannuation Fund); and
- 1,000,000 shares to Renown Capital Holdings Ltd (Mr Jin Wei is a director and shareholder of Renown Capital Holdings Ltd).

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

**13. ISSUED CAPITAL**

	<b>6 months to 31 Dec 2014</b>		<b>12 months to 30 June 2014</b>	
	<b>\$'000</b>	<b>Number</b>	<b>\$'000</b>	<b>Number</b>
<b>Ordinary Shares</b>				
At the beginning of the reporting date	<b>75,565</b>	<b>630,202,151</b>	70,425	560,733,873
Shares issued during the financial period:				
1 July 2013 <sup>(1)</sup>			-	149,000
14 October 2013 <sup>(2)</sup>			3,000	53,571,429
29 October 2013 <sup>(3)</sup>			1,360	17,000,000
30 June 2014 <sup>(4)</sup>	-	<b>10,000,000</b>	1,000	-
Share buy back (18/02/14-30/06/14)			(119)	(1,252,151)
19 August 2014 <sup>(4)</sup>	<b>1,500</b>	<b>15,000,000</b>		
09 September 2014 <sup>(4)</sup>	<b>500</b>	<b>4,854,368</b>		
Share buy back (1/07/14-31/12/14)	<b>(18)</b>	<b>(200,000)</b>		
Issue of shares to directors after AGM		<b>3,500,000</b>		
Transaction costs relating to share issues	<b>(319)</b>		(101)	
On issue at the end of the year	<b>77,228</b>	<b>663,356,519</b>	75,565	630,202,151

- (1) 149,000 shares were issued on vesting of performance rights granted to an executive in accordance with the Company's Long Term Incentive Plan.
- (2) On 14 October 2013, 53,571,429 fully paid ordinary Rey shares were issued to Crystal Yield Investments at a price of 5.6 cents per share.
- (3) On 29 October 2013, Crystal Yield Investments subscribed to a further 17,000,000 shares at an issue price of 8 cents per share.
- (4) On 30 June 2014 the Company announced that it was undertaking a capital raising of up to \$3 million at 10 cents per share. The first tranche of shares was issued on 10 July 2014 and \$1 million received before 30 June 2014; the second tranche was issued on 19 August 2014; and the final tranche of 4,854,368 shares was issued for 10.3 cents per share on 9 September 2014.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

**14. COMMITMENTS AND CONTINGENCIES**

**Contingent Liabilities**

Blackfin Pty Ltd ("Blackfin"), a subsidiary of the Company, lodged applications for exemption from expenditure in relation to 11 of its exploration licences ("ELs") (E04/1515-1518, E04/1520-1525 and E04/1529) for the 2009 expenditure year. Mineralogy Pty Ltd ("Mineralogy") lodged objections to the applications for exemption from expenditure and forfeiture applications affecting the 11 exploration licences ("Mineralogy Proceedings"). While the tenements, which are the subject of the application, cover areas of strategic interest to Rey Resources, they do not relate to Rey Resource's Duchess Paradise Project.

By the exemption applications, Blackfin claims that it is entitled to be exempt from incurring the required expenditure amount associated with the tenements on various grounds. By the forfeiture applications, Mineralogy is claiming that Blackfin has failed to comply with its expenditure obligations, and such failure is of sufficient gravity to justify forfeiture of the tenements.

A hearing was conducted before the Mining Warden in May and July 2012. The Mining Warden delivered his report and recommendations with respect to applications for exemption from expenditure lodged by Blackfin in relation to the exploration licenses to the Minister for Mines and Petroleum in September 2013. The Warden recommended that an exemption from expenditure claimed by Blackfin on 1 EL should be granted by the Minister, and that exemptions from expenditure claimed by Blackfin on 10 ELs should not be granted. In August 2014, the Minister granted certificates of exemption from expenditure for 3 of the 11 ELs (E04/1515; 1517; and 1518) and returned the matter to the Mining Warden in relation to the pending applications for forfeiture.

In relation to the ELs for which Blackfin has not been successful in obtaining certificates of exemption, the ELs are at risk of forfeiture, or Blackfin may be issued with a fine of up to \$10,000 per tenement. The carrying value of the exploration and evaluation expenditure at 31 December 2014 is \$4,799,000 (30 June 2014: \$4,782,000) pertaining to the 11 tenements.

No adjustment has been made to the carrying value of the expenditure, pending the Minister's decision on forfeiture.

**Capital commitments**

The Group has no major capital commitments.

**15. SUBSEQUENT EVENTS**

On 24 December 2014, the Company announced it had executed subscription agreements with private investors to raise \$4 million by way of a placement of up to 50 million fully paid ordinary shares at an issue price of 8 cents per share. The capital raising was completed and \$4 million received in January 2015.

On 26 February 2015 the Mining Warden held a hearing in relation to the Mineralogy matter cited at note 14. The Orders from that hearing are yet to be received.

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 consolidated entity, the results of those operations or the state of affairs of the Group in future financial years.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2014**

**16. RELATED PARTIES**

**Transactions with Key Management Personnel**

On 26 November 2014, at the Annual General Meeting shareholders approved the grant of the following fully paid ordinary shares and share performance rights to Directors:

- 1,000,000 shares to Luxe Hill Ltd (Min Yang is a director and shareholder of Luxe Hill Ltd);
- 1,000,000 shares to Gold Star Industry Ltd (Geoff Baker is a director and shareholder of Gold Star Industry Ltd);
- 500,000 shares to Greenhouse Investment (VIC) Pty Ltd ATF AMF Superannuation Fund (Da Chun Zhang is a director of Greenhouse investment Pty Ltd and beneficiary of AMF Superannuation Fund);
- 1,000,000 shares to Renown Capital Holdings Ltd (Jin Wei is a director and shareholder of Renown Capital Holdings Ltd); and
- 1,000,000 share performance rights to Kevin Wilson, subject to the Company's absolute total shareholder return over the measurement period 1 July 2014 to 30 June 2017 (subject to re-test to 30 June 2018).

## DIRECTORS' DECLARATION

In the opinion of the Directors of Rey Resources Limited ("the Company"):

1. the condensed consolidated financial statements and notes, as set out on pages 7 to 18, are in accordance with the *Corporations Act 2001* including:
  - (a) giving a true and fair view of financial position of the Group as at 31 December 2014 and of its performance for the six month period ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 "*Interim Financial Reporting*", the Corporations Regulations 2001; 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 made in accordance with a resolution of the Directors.

Ms Min Yang  
Chairman



13 March 2015  
Sydney, NSW, Australia



## **Independent auditor's review report to the members of Rey Resources Limited**

We have reviewed the accompanying interim financial report of Rey Resources Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2014, 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 1 to 16 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year period.

### *Directors' responsibility for the interim financial report*

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

### *Auditor's responsibility*

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

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

### *Independence*

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



*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Rey Resources Limited is not in accordance with the *Corporations Act 2001*, including:

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

*KPMG.*

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta'.

R Gambitta  
*Partner*

Perth

13 March 2015