# REY RESOURCES LIMITED

# A.B.N. 84 108 003 890

**CONDENSED CONSOLIDATED INTERIM FINANCIAL REPORT FOR THE SIX MONTHS ENDED 31 DECEMBER 2015**

## 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
Alternate Director for Ms Min Yang–Mr Louis Chien

**Company Secretary**
Ms Shannon Coates

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**Share Registry**
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**Lawyers**
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**Auditor**
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10 Shelley Street
Sydney NSW 2000

**Securities Exchange**
Australian Securities Exchange Code: REY

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# 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 2015 and the auditor's 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
Mr Louis Chien- Alternate Non-Executive Director for Ms Min Yang (appointed on 11th January 2016)

## 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") and a 50% interest in EP487 (known as the "Derby Block"). It also holds a 43.47% interest in the Perth Basin petroleum permit EP437, as well as holding coal exploration licences 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 $3,252,000 for the half-year ended 31 December 2015 (2014: loss $ 5,331,000).

At 31 December 2015, the Company's cash position was $56,000. Post the end of the period, the Company raised $1,000,000 (before costs) via an issue of fully paid ordinary shares and announced a non-Renounceable Pro-Rata 1 for 3 Rights Issue to Eligible Shareholders on 26 February 2016, under which the company will seek to raise up to $3,721,432 (before the costs of the Offer).

## DIRECTORS' REPORT

### 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.

The joint venture drilled two exploration wells during the half year.

Exploration well Victory-1 was spudded on 9 September 2015 in EP457, 185 km east of Broome and 85 km southeast of Buru Energy's producing Ungani Oilfield. The well was drilled with Atlas Rig 2 to the programmed total depth of 2,600 metres.

At a depth of 1,945 metres complete lost circulation was encountered with high and erratic drilling rates similar to those encountered elsewhere by the Operator in the Ungani Dolomite. The drilling system was then switched to a managed pressure system but complete losses continued to a depth of 2,600 metres where logs were attempted to be run. Logs were initially unable to be obtained deeper than approximately 2,030 metres due to hole conditions and several further attempts were made to log the lower part of the hole below the lost circulation zone with no success. The difficulties in acquiring the logs were principally due to a well-developed shale section below the zone of lost circulation. During these logging operations, further problems with the casing were encountered. After considering the options for remedying the issue, and the associated costs, it was agreed by the joint venture to plug and abandon the well bore, meaning that a flow test of the horizon where circulation was lost was not operationally achievable. Abandonment was undertaken in accordance with all regulations and oil field practice to ensure all formations were effectively isolated.

100 line-km of 2D seismic data was acquired in EP457 during the half year over prospects Rafael, Wright and Victory.

The Senagi-1 conventional exploration well was spudded on 15 October 2015 in EP458, 240 km southeast of Broome and 144 km southeast of Buru Energy's Ungani Oilfield. Senagi-1 was drilled with the DDH1 Rig#31 (with Buru as Operator) and was drilled to a total depth of 1,045 metres. The well targeted conventional oil and gas in the Lower Laurel (Ungani Dolomite) and Devonian-aged (Nullara) carbonates. A total of 286m of continuous core was cut, with 97% recovered. A thin interval with vugular porosity with oil shows was observed in core however, the shows were interpreted to be residual. Valuable data was obtained which will assist with correlation of core and image logs over the very well developed vugular dolomite reservoir section. This correlation will provide more certainty in the interpretation of the dolomite reservoirs encountered in future wells. Wireline logs were obtained and the well was plugged and abandoned. All of the data from the well is being analysed by the joint venture to ensure the highest chance of success of the other prospects in the area.

**1.2 Derby Block (EP487)**

The Company holds a 50% participating interest in petroleum exploration permit EP487 ("the Derby Block") with Oil Basins Limited ("Oil Basins") (ASX:OBL), holder of the remaining 50% interest. The Company and Rey Lennard Shelf Pty Ltd ("RLS") have applied to the Supreme Court of Western Australia for, amongst other things, a declaration that RLS is the Operator of the Derby Block.

The Derby Block is considered to be predominantly a Wet Laurel Basin Centred Gas play ("BCG") which is regionally extensive throughout the Canning Basin.

A new estimate of the gross prospective potential recoverable resource estimate (TCF gas recoverable) of the BCG play in the Derby Block (onshore portion) was provided by Oil Basins (OBL ASX release dated 15 January 2016).

In September 2015, the joint venture, lodged a work plan variation and on 5 February 2016 Oil Basins announced that the joint venture had been successful in its application to have the Work Program for Year 1 deemed complete and the Work Program Year 2 variation approved by the WA regulator, the Department of Mines and Petroleum. The Year 2 Work Program requires the drilling of two exploration wells in 2016.

On 1 March 2016 Oil Basins announced four potential well locations on 3 prospects in the Derby Block (OBL ASX release dated 1 March). The joint venture has made no decision on target selection as at the date of this report.

**1.3 Perth Basin (EP437)**

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% |
| Pilot Energy Limited | 13.06% |

The joint venture continued to review the prospectivity of the basin and will consider the possibility of an exploration program for 2016 during early 2016. Several shallow prospects have been identified which are structurally up-dip from the Dunnart structure where oil shows were encountered during the drilling of Dunnart-2 in 2014.

**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.

**Duchess Paradise Project**

The Duchess Paradise environmental approval assessment remained on hold while various matters are examined, including the future arrangements at the derby Port. Rey relinquished its sublease at the Derby Port during the half year. This has allowed the lessor, the Shire of Derby/West Kimberley, to bring forward the planning, survey and geotechnical studies for redefining lease areas and further development at the Derby Port, aimed at facilitating multiple users. Future export of coal is expected to be via negotiation of access to a multi-user bulk commodity export facility.

## 3. Corporate

As part of an ongoing capital management strategy, on 17 December 2014, the Company announced an on market buyback for up to 10% of its issued capital over a period of 12 months. On 3 December 2014, the Company announced that the buyback scheme was extended for a further twelve months to 17 December 2015.

A total of 797,000 shares were acquired and cancelled during the half year for a cost of $69,466 and an average price of 8.72 cents per share. A total of 3,058,596 shares have been acquired and cancelled since the scheme was initiated.

On 29 October 2015 the company entered into a Loan Facility Agreement with its major shareholder ASF Group Limited ("ASF") ("Loan Facility"). The Loan Facility provides up to $2 million in standby funding under which the Company can draw down as required, to fund exploration activities and general working capital. Pursuant to the Loan Facility, interest will accrue daily at a rate of 9% per annum. Repayment of the Loan Facility was initially set as 29 January 2016, or earlier at Rey's election, with the provision for an extension of up to 2 months, in either cash or, at ASF's election, fully paid ordinary shares in the capital of Rey, at an issue price of 8 cents per Share. On 15 February 2016, the term of the Loan Facility was extended to 30th June 2016.

On 1 December 2015, it was announced that, by mutual agreement, the Company's Managing Director, Mr Kevin Wilson, will resign on 31 May 2016.

## Further information

Further details of operations during the six months ended 31 December 2015 are reported in the Quarterly Activity Reports released to the ASX and also available on the Company's website.

## Rounding of Amounts

The Company is of the kind referred to in Australian Securities and Investments Commission (ASIC) Class Order 98/100. In accordance with that Class Order, amounts contained in this report and in the Financial Report have been rounded off to the nearest one thousand dollars or, where the amount is $500 or less, Zero, unless specifically stated to be otherwise.

## 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 2015.

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

Ms Min Yang
Chairman

15 March 2016
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 2015 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

Daniel Camilleri
*Partner*

Sydney

15 March 2016

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 31 DECEMBER 2015**

*In thousands of dollars*

| | NOTE | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|---|
| Other income | 4 | **3** | 3 |
| Exploration impairment | 9 | **(2,329)** | (4,183) |
| Employee benefit expense | 5 | **(391)** | (373) |
| Share based payment expense | 12 | **(9)** | (345) |
| Depreciation expense | | **(2)** | (2) |
| General Administration | | **(503)** | (453) |
| **Loss from operating activities** | | **(3,231)** | (5,353) |
| Finance income | | **2** | 22 |
| Finance cost | | **(23)** | - |
| **Loss before income tax expense** | | **(3,252)** | (5,331) |
| Income tax benefit | | **-** | - |
| **Loss for the period** | | **(3,252)** | (5,331) |
| **Total comprehensive loss for the period attributable to owners of the Company** | | **(3,252)** | (5,331) |
| **Basic and diluted loss per share (cents)** | 6 | **(0.46)** | (0.82) |

*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 2015

*In thousands of dollars*

| | NOTES | 31 Dec 2015 | 30 June 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | | **56** | 1,652 |
| Trade and other receivables | 7 | **69** | 58 |
| Prepayments | | **31** | 22 |
| **Total Current Assets** | | **156** | 1,732 |
| | | | |
| **Non-Current Assets** | | | |
| Security deposits | 7 | **81** | - |
| Property, plant and equipment | 8 | **16** | 20 |
| Investment in securities | | **250** | 250 |
| Exploration and Evaluation Expenditure | 9 | **35,219** | 34,796 |
| **Total Non-Current Assets** | | **35,566** | 35,066 |
| | | | |
| **Total Assets** | | **35,722** | 36,798 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 10 | **683** | 129 |
| Loan and borrowings | 16 | **1,674** | - |
| Employee benefits | 11 | **238** | 184 |
| **Total Current Liabilities** | | **2,595** | 313 |
| | | | |
| **Non-Current Liabilities** | | | |
| Employee benefits | 11 | **-** | 45 |
| **Non-Current Liabilities** | | **-** | 45 |
| **Total Liabilities** | | **2,595** | 358 |
| | | | |
| **Net Assets** | | **33,127** | 36,440 |
| | | | |
| **Equity** | | | |
| Share capital | 13 | **81,002** | 81,072 |
| Reserves | | **2,209** | 2,200 |
| Accumulated losses | | **(50,084)** | (46,832) |
| Total equity | | **33,127** | 36,440 |

*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 2015**

| *In thousands of dollars* | Share capital | Share based payment reserve | Accumulated losses | Total |
|---|---|---|---|---|
| Balance at 1 July 2014 | 75,565 | 1,823 | (36,632) | 40,756 |
| **Total comprehensive income:** | | | | |
| Loss for the period | - | - | (5,331) | (5,331) |
| Total comprehensive income for the period | - | - | (5,331) | (5,331) |
| **Transactions with owners recorded directly in equity:** | | | | |
| ***Contributions by and distributions to owners*** | | | | |
| Issue of ordinary shares | 2,000 | - | - | 2,000 |
| Share based payment | - | 345 | - | 345 |
| Share buy back | (18) | | | (18) |
| Share issue costs | (319) | - | - | (319) |
| **Balance at 31 Dec 2014** | 77,228 | 2,168 | (41,963) | 37,433 |
| | | | | |
| Balance at 1 July 2015 | **81,072** | **2,200** | **(46,832)** | **36,440** |
| **Total comprehensive income:** | | | | |
| Loss for the period | **-** | **-** | **(3,252)** | **(3,252)** |
| Total comprehensive income for the period | **-** | **-** | **(3,252)** | **(3,252)** |
| **Transactions with owners recorded directly in equity:** | | | | |
| ***Contributions by and distributions to owners*** | | | | |
| Issue of ordinary shares | **-** | **-** | **-** | **-** |
| Share based payments | **-** | **9** | **-** | **9** |
| Share buy back | **(70)** | | | **(70)** |
| Share issue costs | **-** | **-** | **-** | **-** |
| **Balance at 31 Dec 2015** | **81,002** | **2,209** | **(50,084)** | **33,127** |

*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 2015**

| *In thousands of dollars* | **31 Dec 2015** | **31 Dec 2014** |
|---|---|---|
| **Cash flows from operating activities** | | |
| Payment for office security bond | **(35)** | - |
| Payments to suppliers and employees | **(597)** | (753) |
| **Net cash used in operating activities** | **(632)** | (753) |
| **Cash flows from investing activities** | | |
| Interest received | **2** | 20 |
| Proceeds for property plant and equipment | **3** | (9) |
| Payments for exploration expenditure | **(2,549)** | (2,987) |
| **Net cash used in investing activities** | **(2,544)** | (2,976) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of ordinary shares (net of costs) | **-** | 1,680 |
| Share buyback expenses | **(70)** | (18) |
| Proceeds from loans and borrowings | **1,650** | - |
| **Net cash used in financing activities** | **1,580** | 1,662 |
| **Net increase / (decrease) in cash and cash equivalents** | **(1,596)** | (2,067) |
| **Cash and cash equivalents at 1 July** | **1,652** | 3,000 |
| **Cash and cash equivalents at 31 December** | **56** | 933 |

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

## 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 2015 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 2015 is available upon request from the Company's registered office or at 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 2015. The consolidated interim financial statements were approved by the Board of Directors on 15 March 2016.

### (b) Going concern basis

The consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

For the half year ended 31 December 2015 the Group incurred a loss of $3,252,000 and experienced net cash outflows of $1,596,000. The loss for the period was significantly impacted by the recognition of non-cash impairment losses on exploration and evaluation assets of $2,329,000. As at 31 December 2015 the Group had cash of $56,000, a working capital deficiency of $2,439,000 and net assets of $33,127,000.

The Group has prepared a cashflow forecast for the 12 months ending 31 March 2017. The cashflow forecast demonstrates the need to raise additional funding to meet forecast expenditures. Rey is pursuing funding alternatives in the form of debt and equity, including discussions with existing shareholders, and with third parties for farming out certain petroleum interests. Funding available to the Group at 31 December 2015 and up to the date of signing of these financial statements includes:

- A $2 million loan facility with ASF, the Company's largest shareholder, originally maturing 29 January 2016 was extended to a maturity date of 30 June 2016, of which $1.65 million was drawn at period end. As at the date of these financial statements the Group has fully drawn the facility;
- A $1 million (before costs) private placement of 33,333,333 fully paid ordinary shares at 3 cents per share through a sophisticated investor.

Further, the Group announced a non-renounceable rights issue of fully paid ordinary shares at an offer price of 1.5 cents per share on 26 February 2016, closing 31 March 2016. The maximum that could be raised by the offer is $3.7 million.

The Directors believe that sufficient funding will be available in the timeframes required and that the adoption of the going concern basis of preparation is appropriate. Should the Group be unable to raise the necessary funding to meet its commitments, there is a material uncertainty as to whether the Group will be able to continue as a going concern and whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

**(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 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.

## 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 2015.

## 4. OTHER INCOME

| *In thousands of dollars* | **31 Dec 2015** | **31 Dec 2014** |
|---|---|---|
| Other income | **3** | **3** |
| | **3** | **3** |

## 5. EMPLOYEE BENEFIT EXPENSE

| *In thousands of dollars* | **31 Dec 2015** | **31 Dec 2014** |
|---|---|---|
| Salaries and fees | **364** | 340 |
| Superannuation | **27** | 33 |
| | **391** | 373 |

## 6. LOSS PER SHARE

| | 31 Dec 2015 | 31 Dec 2014 |
|---|---|---|
| Basic loss per share (cents) | **(0.46)** | (0.82) |
| Diluted loss per share (cents) | **(0.46)** | (0.82) |

The calculation of basic loss per share was based on the loss attributable to shareholders of $3,252,000 (2014: loss $5,331,000) and a weighted average number of ordinary shares outstanding during the half year of 711,122,828 (2014: 584,406,683).

## 7. TRADE AND OTHER RECEIVABLES

| *In thousands of dollars* | 31 Dec 2015 | 30 June 2015 |
|---|---|---|
| Included in receivables are as follows: | | |
| **Current** | | |
| Other receivables | **69** | 58 |
| | **69** | 58 |
| **Non-current** | | |
| Security deposits | **81** | - |
| | **81** | - |

## 8. PROPERTY, PLANT & EQUIPMENT

| *In thousands of dollars* | 31 Dec 2015 | 30 June 2015 |
|---|---|---|
| Plant and equipment | | |
| At cost | **183** | 198 |
| Accumulated depreciation | **(167)** | (178) |
| | **16** | 20 |

## 9. EXPLORATION AND EVALUATION EXPENDITURE

| *In thousands of dollars* | 31 Dec 2015 | 30 June 2015 |
|---|---|---|
| Costs carried forward in respect of: | | |
| Incurred at cost by the Group on assets not governed by joint venture agreements (i) | **21,372** | 23,579 |
| Capitalised share of exploration assets under Joint Venture Agreements (ii) | **10,262** | 7,932 |
| Capitalised share of exploration assets under Joint Venture Agreements (iii) | **2,589** | 2,445 |
| Capitalised share of exploration assets under Joint Venture Agreements (iv) | **996** | 840 |
| Costs carried forward | **35,219** | 34,796 |

(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.

## 9. EXPLORATION AND EVALUATION EXPENDITURE (Continued)

(iii) Exploration and evaluation expenditure recognised on tenements under joint venture agreement with Key Petroleum (Australia) Pty Ltd (Key) and Pilot Energy Ltd. This amount includes the Group's proportionate share of exploration assets held by the joint venture.
(iv) Exploration and evaluation expenditure recognised on tenements under joint venture agreement with Oil Basins Ltd. This amount is the accumulated amount of Rey Resources' expenditure on EP487.

| *In thousands of dollars* | **31 Dec 2015** | **30 June 2015** |
|---|---|---|
| At cost | **55,115** | 52,363 |
| Accumulated impairment losses | **(19,896)** | (17,567) |
| | **35,219** | 34,796 |
| Movements in carrying amount: | | |
| Opening balance | **34,796** | 38,155 |
| Expenditure capitalised | **2,752** | 4,758 |
| Impairment | **(2,329)**[1] | (8,117)[2] |
| | **35,219** | 34,796 |

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.

[1] The impairment relates to mineral exploration licenses and a retention license which were relinquished during the half year.

[2] The impairment relates to mineral exploration licenses which were relinquished during the prior half year period.

## 10. TRADE AND OTHER PAYABLES

| *In thousands of dollars*<br>**Unsecured liabilities** | **31 Dec 2015** | **30 June 2015** |
|---|---|---|
| Trade payables | **513** | 2 |
| Sundry payables and accrued expenses | **170** | 127 |
| | **683** | 129 |

## 11. PROVISIONS

| *In thousands of dollars* | 31 Dec 2015 | 30 June 2015 |
|---|---|---|
| **Current:** | | |
| Employee benefits | **238** | 184 |
| | **238** | 184 |
| **Non-Current:** | | |
| Employee benefits | **-** | 45 |
| | **-** | 45 |

## 12. SHARE BASED PAYMENTS

**Share based payments**

A total of 3,426,667 Performance Rights remain outstanding and are subject to performance conditions of which 2,426,667 Performance Rights were subject to vesting on 30 June 2015 and are subject to re-test 30 June 2016; and 1,000,000 Performance Rights vest 30 June 2017 and are subject to re-test 30 June 2018 if the performance condition at vesting date are not met. The vesting or exercisability of the equity instruments is related to the Company's absolute total shareholder return over the measurement periods.

## 13. ISSUED CAPITAL

| | 6 months to 31 Dec 2015 | | 12 months to 30 June 2015 | |
|---|---|---|---|---|
| | $'000 | Number | $'000 | Number |
| **Ordinary Shares** | | | | |
| At the beginning of the reporting date | **81,072** | **711,750,074** | 75,565 | 630,202,151 |
| Shares issued during the financial period: | | | | |
| 30 June 2014(1) | **-** | **-** | - | 10,000,000 |
| 19 August 2014(1) | **-** | **-** | 1,500 | 15,000,000 |
| 09 September 2014(1) | **-** | **-** | 500 | 4,854,368 |
| 27 January 2015(2) | **-** | **-** | 4,000 | 50,000,000 |
| Share buy back (1/07/14-30/06/15) | **-** | **-** | (188) | (1,806,445) |
| Issue of shares to directors | **-** | **-** | - | 3,500,000 |
| Transaction costs relating to share issues | **-** | **-** | (305) | - |
| Share buy back (1/07/15-31/12/15) | **(70)** | **(797,000)** | - | - |
| On issue at the end of the period | **81,002** | **710,953,074** | 81,072 | 711,750,074 |

## 13. ISSUED CAPITAL (Continued)

(1) 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 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.

(2) On 27 January 2015, the Company completed a private placement to raise $4 million (before costs) via the issue of a total of 50,000,000 shares at an issue price of 8 cents per share to two Hong Kong-registered sophisticated investors.

## 14. CONTINGENCIES

**Parent Entity Guarantee in respect of the debt of subsidiaries**

The Company has certain wholly owned subsidiaries which hold joint venture interests. In the case of Rey Lennard Shelf Pty Ltd (RLS) the Company guarantees the payment and performance obligations of RLS under the terms of the joint venture operating agreement entered into by the Company, RLS and Oil Basins.

The Company provides loan or debt guarantee to its wholly owned subsidiary companies. As of 31 December 2015, no subsidiaries hold any debt or loan balances with third parties.

## 15. RELATED PARTIES

On 29 October 2015, the company entered into a Loan Facility Agreement with ASF Group Ltd, the Company's major shareholder. Pursuant to the Loan Facility, ASF provided $2 million in standby funding under which Rey can draw down as required, to fund its exploration activities and general working capital. Funds drawn down under the Loan Agreement attract annual interest of 9% and are repayable in cash (in certain circumstances) or new ordinary shares. The original term of the Loan Facility was to 29 January 2016. On 5 February 2016, the Loan Facility term was extended to 30 June 2016.

## 16. SUBSEQUENT EVENTS

On 1 January 2016 the Company changed its registered office to Suite 5, 62 Ord Street West Perth WA and moved its business office to Suite 3b, Macquarie St, Sydney.

On 11 January 2016 Mr Louis Chien was appointed as Alternate Director to Ms Min Yang.

On 4 February 2016, the Company announced that it had raised $1 million before costs via private placement of 33,333,333 fully paid ordinary shares at 3 cents per share through a sophisticated investor.

On 14 January 2016 Oil Basins made certain allegations in connection with Rey including in respect to the ability of Rey and its subsidiary, Rey Lennard Shelf Pty Ltd to meet any requirements to perform as Operator of the Derby Block. Rey refutes all allegations made by Oil Basins. On 12 February 2016, the Company reported that it had commenced legal proceedings against Oil Basins in the Supreme Court of Western Australia seeking orders that Oil Basins resign as the Operator of EP487 in accordance with the terms of the Joint Operating Agreement between Rey, Rey Lennard Shelf Pty Ltd and Oil Basins Limited. These legal proceedings will also seek a declaration that RLS be appointed Operator of EP487.

On 15 February 2016, the term of the $2 million Loan Facility with ASF Group was extended to 30 June 2016.

On 26 February 2016, The Company announced a non-renounceable pro-rata one for three rights issue of fully paid ordinary shares at an offer price of 1.5 cents per share.

## 16. SUBSEQUENT EVENTS (Continued)

The maximum amount raised by the offer would be $3,721,432 if every eligible shareholder exercised their rights to purchase their full entitlement.

On 5 February 2016 Oil Basins announced that the Derby Block joint venture had been successful in its application to have the Work Program for Year 1 deemed complete and the Work Program Year 2 variation approved by the WA regulator, the Department of Mines and Petroleum. The Year 2 Work Program requires the drilling of two exploration wells in 2016.

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.

**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 6 to 16, 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 2015 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

15 March 2016
Sydney, NSW, Australia

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

### Report on the financial report

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 2015, condensed consolidated statement of profit and loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the interim period 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 interim period end or from time to time during the interim 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 2015 and its performance for the interim period 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 2015 and of its performance for the interim period ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Emphasis of Matter*

Without modifying our conclusion expressed above, attention is drawn to the Directors' assessment of going concern in Note 2(b) of the interim financial report. The Group's ability to continue as a going concern is dependent on the Group sourcing the necessary funding to meet its commitments in the form of debt or equity and farming out assets to reduce expenditure obligations. These matters as outlined in Note 2(b) indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern, and therefore whether the Group will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Daniel Camilleri
*Partner*

Sydney

15 March 2016