ATTILA RESOURCES LIMITED

AND CONTROLLED ENTITIES

ABN 53 142 165 080

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2015

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CORPORATE DIRECTORY

DIRECTORS

Mr Max Brunsdon (Executive Director)
Mr Evan Cranston (Non Executive Director)
Mr Brynmor Hardcastle (Non Executive Director)

COMPANY SECRETARY

Ms Oonagh Malone

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COUNTRY OF INCORPORATION AND DOMICILE

Australia

DIRECTORS' REPORT

The Directors present their report, together with the condensed consolidated financial statements, of the consolidated entity (the 'Group') consisting of Attila Resources Limited (the 'Company') and the entities it controlled for the half-year ended 31 December 2015.

Directors

The names of Directors who held office at any time during or since the end of the half-year are set out below. Directors were in office for the entire period.

Max Brunsdon

Evan Cranston

Brynmor Hardcastle

Review of Operations

The operating loss of the Group for the six months after providing for income tax amounted to $1,864,644 (2014: $4,229,776).

Kodiak Hard Coking Coal Project (Kodiak Project), Alabama, USA (Attila Resources Ltd 70%)

In November 2014, a strategic decision was made to place the Kodiak Project into care and maintenance. The Company continues to monitor market conditions and to maintain the Project in good standing to ensure permits and licences remain current.

Capital Raising

During the period, the Company undertook a 1:1 non-renounceable rights issue at $0.02 per share to eligible shareholders. At 31 December 2015, 41,455,622 shares had been subscribed for to raise $829,112 less costs of $6,538. These shares were issued on 7 January 2016.

Events Subsequent to the Reporting Date

The Directors are not aware of any significant events since the end of the interim period other than:

- On 7 January 2016, Attila allotted 41,455,622 ordinary shares at $0.02 each for a total of $829,112.44 (before costs) pursuant to a 1 for 1 non-renounceable rights issue.
- On 3 February 2016, Attila allotted 1,324,795 following the conversion of one convertible note.
- On 24 February 2016, Attila allotted 1,324,795 following the conversion of one convertible note.
- On 1 March 2016, Attila allotted 45,479,176 ordinary shares at $0.02 each for a total of $909,583.52 (before costs), being shortfall shares of the rights issue.
- On 1 March 2016, Attila allotted 10,000,000 ordinary shares at $0.02 each for a total of $200,000 (before costs) pursuant to the placement as set out in the prospectus date 26 November 2015.

Dividends

No dividends have been paid or declared since the start of the financial period and the Directors do not recommend the payment of a dividend in respect of the financial half year ended 31 December 2015.

Auditor's Independence Declaration

The lead auditor's independence declaration under s.307C of the Corporation Act 2001 for the half-year ended 31 December 2015 is set out on page 6.

Made and signed in accordance with a resolution of the Directors.

Evan Cranston
Non-Executive Director

Signed at Perth this 15th day of March 2016

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

To: the directors of Attila 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

G-T Hogg

Graham Hogg
Partner

Perth

15 March 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Half year ended 31 December 2015 $	Half year ended 31 December 2014 $
Other income	9,041	59,771
Depreciation and amortisation expense	(8,881)	(6,989)
Exploration and evaluation expenditure	(663,810)	(2,188,370)
Employee benefits – share based payments	-	(263,322)
Employee benefits – other	(174,679)	(493,512)
Professional expenses	(117,315)	(241,712)
Loss on sale of plant and equipment	(15,186)	-
Foreign exchange gains	19	94,815
Finance costs	(816,483)	(940,335)
Other expenses	(77,350)	(250,122)
Loss before income tax expense	**(1,864,644)**	**(4,229,776)**
Income tax expense	-	-
Loss for the period	**(1,864,644)**	**(4,229,776)**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss when specific conditions are met:		
Exchange gain on translating foreign operations, net of tax	824,109	1,900,988
Other comprehensive income for the period	**824,109**	**1,900,988**
Total comprehensive loss for the period	**(1,040,535)**	**(2,328,788)**
Loss for the period attributable to:		
Members of the parent entity	(1,864,644)	(4,229,776)
	(1,864,644)	**(4,229,776)**
Total comprehensive loss for the period attributable to:		
Members of the parent entity	(1,040,535)	(2,328,788)
	(1,040,535)	**(2,328,788)**
Earnings per share from continuing operations:	**Cents**	**Cents**
Basic loss per share	(2.14)	(5.12)
Diluted loss per share	(2.14)	(5.12)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

	Note	As at 31 December 2015 $	As at 30 June 2015 $
Current Assets			
Cash and cash equivalents		255,691	1,169,552
Trade and other receivables		102,786	35,874
Other current assets		14,627	8,718
Total Current Assets		**373,104**	**1,214,144**
Non Current Assets			
Other financial assets		1,108,302	1,060,027
Property, plant and equipment	3	14,564,946	13,881,582
Deferred exploration and evaluation expenditure	4	2,365,086	2,291,577
Intangible assets		3,395	3,395
Total Non Current Assets		**18,041,729**	**17,236,581**
Total Assets		**18,414,833**	**18,450,725**
Current Liabilities			
Trade and other payables		548,170	366,673
Provisions		-	18,531
Borrowings	6	-	14,860,380
Total Current Liabilities		**548,170**	**15,245,584**
Non Current Liabilities			
Provisions		1,063,013	1,011,246
Borrowings	6	15,676,828	-
Total Non Current Liabilities		**16,739,841**	**1,011,246**
Total Liabilities		**17,288,011**	**16,256,830**
Net Assets		**1,126,822**	**2,193,895**
Equity			
Issued capital	5	24,273,262	24,315,800
Reserves		7,523,182	6,683,073
Accumulated losses		(30,669,622)	(28,804,978)
Total Equity		**1,126,822**	**2,193,895**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

Condensed consolidated statement of changes in equity for the half year ended 31 December 2015	**Ordinary Shares $**	**Accumulated Losses $**	**Foreign Currency Translation Reserve $**	**Share Based Payment Reserve $**	**Total Equity $**
Opening balance at 1 July 2015	**24,315,800**	**(28,804,978)**	**3,502,537**	**3,180,536**	**2,193,895**
Comprehensive Income					
Loss for the period	-	(1,864,644)	-	-	(1,864,644)
Other comprehensive income for the period	-	-	824,109	-	824,109
Exchange gain on translation of controlled entities					
Total comprehensive income/ (loss) for the period	**-**	**(1,864,644)**	**824,109**	**-**	**(1,040,535)**
Transactions with owners, in their capacity as owners, and other transfers					
Payment in cash for previously recognised shares to be issued	(36,000)	-	-	16,000	(20,000)
Costs arising from issue of shares	(6,538)	--	-	-	(6,538)
Balance at 31 December 2015	**24,273,262**	**(30,669,622)**	**4,326,646**	**3,196,536**	**1,126,822**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

Condensed consolidated statement of changes in equity for the half year ended 31 December 2014	**Ordinary Shares $**	**Accumulated Losses $**	**Foreign Currency Translation Reserve $**	**Share Based Payment Reserve $**	**Performance Rights Reserve $**	**Total Equity $**
Opening balance at 1 July 2014	**23,125,607**	**(22,274,690)**	**496,306**	**3,099,632**	**102,219**	**4,549,074**
Comprehensive Income						
Loss for the period	-	(4,229,776)	-	-	-	(4,229,776)
Other comprehensive income for the period		-			-	
Exchange gain on translation of controlled entities	-		1,900,988	-		1,900,988
Total comprehensive income/ (loss) for the period	**-**	**(4,229,776)**	**1,900,988**	**-**	**-**	**(2,328,788)**
Transactions with owners, in their capacity as owners, and other transfers						
Shares/Options issued/vested during the period	1,160,837	-	-	56,637	206,685	1,424,159
Shares committed to be issued	-	-	-	-	-	-
Costs arising from issue of shares	(6,644)	-	-	-	-	(6,644)
Balance at 31 December 2014	**24,279,800**	**(26,504,466)**	**2,397,294**	**3,156,269**	**308,904**	**3,637,801**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Half year ended 31 December 2015 $	Half year ended 31 December 2014 $
Cash Flows From Operating Activities		
Payments to suppliers and employees (inclusive of GST)	(775,270)	(3,337,496)
Interest received	10,960	56,919
Financing charges	(35)	(8)
Net cash outflow from operating activities	**(764,345)**	**(3,280,585)**
Cash Flows From Investing Activities		
Payments for mining lease interests	(149,336)	(355,504)
Refund of bonds	4,361	-
Payments for bonds and investments	-	(78,140)
Payments for property, plant, equipment	-	(18,019)
Net cash outflow from investing activities	**(144,975)**	**(451,663)**
Cash Flows From Financing Activities		
Proceeds from share issues	-	318,536
Share issue costs	(6,538)	(7,066)
Net cash inflow/ (outflow) from financing activities	**(6,538)**	**311,470**
Net (decrease)/ increase in cash and cash equivalents	(915,858)	(3,420,778)
Cash and cash equivalents at the beginning of the half-year	1,169,552	5,982,970
Exchange difference on cash and cash equivalents	1,997	102,908
Cash and cash equivalents at the end of the half-year	**255,691**	**2,665,100**

The accompanying notes form part of these financial statements.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

Note 1: Summary of significant accounting policies

Basis of Preparation

These condensed interim consolidated financial statements for half-year reporting period ended 31 December 2015 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Attila Resources Limited and its controlled entities (referred to as the “Group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2015, together with any public announcements made during the following half-year.

Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the June 2015 annual report.

Going Concern

For the half year ended 31 December 2015, the Group has incurred a loss of $1,864,644 and incurred net cash outflows of $764,345 from operating activities. It also has a deficiency in working capital as disclosed in the statement of financial position.

As a result of the loss, cash outflows from operations and the deficiency in working capital, the Directors have assessed the Group’s ability to continue as a going concern and to pay its debts as and when they fall due as follows:

- The Directors of the Parent entity advise that the Group has sufficient cash reserves to fund up to the next 12 months of operations, to continue as a going concern and to pay its debts as and when they fall due. This estimation is based on a) the Group having raised a total of $1,900,000 from the rights issue and shortfall placement between January 2016 and March 2016, b) active management of the current level of discretionary exploration expenditure in lines with the funds available and c) the Group deferring the repayment of the convertible notes to 26 June 2017 (refer to note 6).

- The funding of the Group beyond existing cash reserves and repayment of the convertible notes in June 2017 is dependent on the ability of the Group to secure additional funding through sale of the Kodiak project; external funding for the Kodiak project; or the issue of further shares, debt or a combination of debt and equity or a refinance/restructure of the convertible notes. The form and value of such transactions is yet to be determined but the directors are confident that adequate funding can be put in place. In the event the Group is unable to satisfy the liability, the note holders have the ability to take control of the Kodiak asset.

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Note 1: Summary of significant accounting policies (continued)

Based on the above, the Directors have assessed the Group's ability to continue as a going concern and conclude that a material uncertainty exists. Notwithstanding the material uncertainty discussed above, the Board believes that the Group will be able to raise funds through one of the alternatives available to repay or refinance the convertible notes. Should the Group at any time be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different from those stated in this financial report.

The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency. The functional currency of all US subsidiaries is US dollars.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Property, plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of property, plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in the statement of profit or loss and other comprehensive income during the financial period in which they are incurred.

Note 1: Summary of significant accounting policies (continued)

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Buildings	25 years
Furniture, fittings and equipment	3-8 years

Land is not depreciated. Buildings and mining plant are only depreciated when in use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Exploration and Evaluation Expenditure

All exploration and evaluation expenditure is expensed to the statement of profit or loss and other comprehensive income.

Expenditure in relation to the acquisition of a defined resource including an option to enter a mining lease is capitalised in respect of each identifiable area of interest. These costs are only capitalised to the extent that they are expected to be recovered through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

Borrowings

The component of convertible notes that exhibits characteristics of a borrowing is recognised as a liability in the Statement of Financial Position, net of transaction costs. On issue of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the equity component and is recognised in shareholders' equity. The carrying amount of the equity component is not remeasured in subsequent years.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. A provision has been recognised for the costs to be incurred for the restoration of the mining site at Kodiak Coking Coal Project, Alabama.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Note 2. Operating segments

(i) Segment performance

	Australia		United States		Eliminations		Consolidated Group	
	Half year ended 31 December		Half year ended 31 December		Half year ended 31 December		Half year ended 31 December	
	2015	2014	2015	2014	2015	2014	2015	2014
	$	$	$	$	$	$	$	$
Other income								
Interest Income	8,661	59,603	380	168	-	-	9,041	59,771
Total Income	**8,661**	**59,603**	**380**	**168**	**-**	**-**	**9,041**	**59,771**
Segment Result								
Loss after Income Tax	(1,171,129)	(2,052,047)	(693,515)	(2,465,891)	-	288,162	(1,864,644)	(4,229,776)

(ii) Segment assets

	As at 31 Dec 2015	As at 30 June 2015	As at 31 Dec 2015	As at 30 June 2015	As at 31 Dec 2015	As at 30 June 2015	As at 31 Dec 2015	As at 30 June 2015
	$	$	$	$	$	$	$	$
Assets								
Segment assets	16,168,361	16,451,022	18,135,790	17,161,547	(15,889,318)	(15,161,844)	18,414,833	18,450,725

Note 3: Property, plant and equipment

	Consolidated	
	Half-Year ended 31 December 2015	**Year ended 30 June 2015**
	$	**$**
Opening balance	13,881,582	11,316,080
Additions	-	19,169
Exchange Differences	692,245	2,563,942
Depreciation for the period	(8,881)	(17,609)
Closing balance	**14,564,946**	**13,881,582**

Note 4: Deferred exploration and evaluation expenditure

Opening balance	2,291,577	1,321,656
Tenement acquisition costs	149,336	614,477
Lapsed option to lease Upper Thompson seam.	(193,584)	-
Exchange Differences	117,757	355,444
Total	**2,365,086**	**2,291,577**

The ultimate recoupment of the deferred exploration and evaluation expenditure is dependent upon the successful development and commercial exploration or alternatively the sale of respective areas of interest.

Note 5: Issued Capital

a. Issue of ordinary shares and other equity instruments during the half-year

	Half-Year ended 31 December 2015		**Year ended 30 June 2015**	
	Number of shares	**$**	**Number of shares**	**$**
Opening balance	86,934,798	24,315,800	75,623,404	23,125,607
Shares committed to be issued at 30 June 2014 @ $0.20 per share on exercise of listed options. These shares were issued 11 July 2014			5,919,080	-
Shares issued 11 July 2014 @ $0.20 per share on exercise of listed options.	-	-	592,680	118,536
Shares Issued on 8 August 2014 @ $0.20 per share on exercise of unlisted options	-	-	1,000,000	200,000
Shares Issued on 31 December 2014 @ $0.2217 per share as interest on convertible notes	-	-	3,799,634	842,301
Shares committed to be issued on 25 June 2015 in relation to short term bonus.	-	-	-	36,000
Cancellation of share issue commitment due to termination.	-	(36,000)	-	-
Less:				
Costs arising from issue	-	(6,538)	-	(6,644)
	86,934,798	**24,273,262**	**86,934,798**	**24,315,800**

Holders of ordinary shares have the right to receive dividends as declared and in the event of winding up the parent entity, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held and the amount paid up.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Note 5: Issued Capital (Continued)

b. Options Over Ordinary Shares

Type of option	Number	Exercise price	Exercise date
Unquoted options	1,500,000	$1.02	28 March 2016
Unquoted options	1,000,000	$1.14	28 March 2016
Unquoted options	1,000,000	$0.5888	11 March 2017
Unquoted options	500,000	$0.7247	11 March 2017
	4,000,000		

Each option entitles the holder to subscribe for one share upon exercise of each option.

There were no options issued during the half-year ended 31 December 2015.

Total options issued by the Company as at 31 December 2015 are 4,000,000 (30 June 2015: 11,250,000). There are no remaining listed options over ordinary shares since previous unconverted listed options lapsed on expiry in the prior year.

c. Performance rights

As at 31 December 2015, there were nil (30 June 2015: 1,000,000) performance rights over ordinary shares held by the CEO on issue that were to expire on 25 June 2019 if they had not previously vested.

Performance rights converted to ordinary shares of the Company on a one-to-one basis depending on the achievement of performance based vesting conditions. Rights that did not vest at the end of a five year period from issue lapsed unless the Board in its discretion determined otherwise. Performance rights did not entitle the holder to dividends that were declared during the vesting period.

On vesting, performance rights were to convert into ordinary shares in the Company for no further consideration. These performance rights were valued for accounting purposes at $0.41 each, being the share price at the grant date of 1 April 2014 for a total value of $410,000.

Following the termination of the CEO's employment during the half year, the performance rights became incapable of vesting. This led to the probability of meeting the non market vesting conditions being nil for the year ended 30 June 2015, as notice of termination had been served before year end. This was reflected in the 30 June 2015 financial report with the reversal of all amounts recognised over the vesting period for these performance rights.

d. Share based payments reserve

On 25 June 2015, the original executive service agreement with the CEO was terminated with the following modifications to the terms of the CEO's appointment:

- The Group committed to pay a short term bonus payment to the CEO of $36,000. This amount was payable by the Company at the CEO's election as either:

    (a) cash, subject to the Company completing a fundraising of no less than $2,000,000; or

    (b) shares, with the deemed issue price being equal to the issue price of the most recent capital raising undertaken by the Company.

  The Group expected to settle this liability through the issue of shares. As the liability was not extinguished by the subsequent termination of the CEO's employment, this was recognised as a commitment to issue shares at 30 June 2015.

- Subsequently, this short term bonus was renegotiated to be a $20,000 cash payment that was paid during the half year. Consequently the previously recognised $36,000 of shares to be issued have been reversed, and the remaining $16,000 has been recognised in the share based payment reserve.

Note 5: Issued Capital (Continued)

e. Other equity securities

	Consolidated	
	Half-Year ended 31 December 2015	**Year ended 30 June 2015**
	$	**$**
Conversion rights (note 6)	404,548	404,548
Total	**404,548**	**404,548**

Note 6: Convertible Notes

The Notes are presented in the Consolidated Statement of Financial Position as follows:

Secured		
Face value of notes on issue	14,837,699	14,837,699
Accrued interest expense	839,129	22,681
	15,676,828	**14,860,380**
This liability is presented as:		
Current liability	-	14,860,380
Non-current liability	15,676,828	-
Total carrying value of liability	**15,676,828**	**14,860,380**

No convertible notes (Notes) were issued or converted during the period ended 31 December 2015.

On 26 June 2015, noteholders agreed to extend the term of previously issued Notes for up to two years with the expiry date now 26 June 2016, or 26 June 2017 at the election of the Group. Payment of interest on the Notes is deferred until redemption. Interest to 26 June 2015 of $837,699 been capitalised and included in the face value of the Notes.

A "Redemption Premium" is payable if the Group elects to redeem the Notes as follows:

(a) during the period from 26 June 2015 to 25 June 2016 ("Maturity Date"): 15% of the total amount owing under each Note; or

(b) during the period from 26 June 2016 to 26 June 2017 (if the Group elects to extend the Maturity Date) ("Extended Maturity Date"): 30% of the total amount owing under each Note.

If the Notes are not converted into shares on or before the Maturity Date or Extended Maturity Date as applicable, the Redemption Premium must be paid by the Company: 50% in cash and 50% in shares (based on an 85% VWAP).

If the Notes are converted on or before the Maturity Date or Extended Maturity Date as applicable, the Notes and capitalised interest will convert into shares at the Conversion Price of $0.20 per share. Should Noteholders wish to convert their Notes, they would convert into ordinary shares in the capital of the Company.

The change in terms of the Notes on 26 June 2015 was sufficient to constitute new notes, for accounting purposes, with the terms detailed. The face value of the Notes of $14,837,699 is the original $14,000,000 subscription amount for the previous Notes plus $837,699 of capitalised interest that would have been payable on 26 June 2015 on the previous notes. At 30 June 2015, the Notes were valued and classified as a current liability based on the Directors' best expectation that they would be repaid within one year with a 15% redemption premium payable.

At 31 December 2015, the Directors' best estimation is now that the Notes would be repaid on 26 June 2017 with a 30% redemption premium payable. Consequently, the Notes are now valued at the present value of the expected repayment of $19,289,008 at a market yield of 15% - the rate that could be earned on a similar debt instrument without the conversion feature. There has been no addition to the equity component as there has been no change in the terms of the Notes.

Note 6: Convertible Notes (continued)

The Notes are secured by a security interest over all assets of the US subsidiaries of the Group. During the half year, the Group and Noteholders agreed to amend the terms of the Convertible Note Agreement such that all payment obligations have been transferred to the Group's wholly owned subsidiary, Attila Resources (US) Pty Ltd. Attila Resources (US) Pty Ltd was already the guarantor under the Convertible Note Agreement. Attila Resources (US) Pty Ltd holds 100% of the shares in Attila Resources Holdings US Ltd, which in turn holds the 70% interest in the Kodiak Project. The shareholding of Attila Resources (US) Pty Ltd in Attila Resources Holdings US Ltd is the security granted in favour of the Noteholders under the Convertible Note Agreement.

Note 7: Contingent assets and liabilities

The Group had no contingent assets or liabilities as at 31 December 2015, other than a statement of claim received by the Group in October 2012 filed at the Circuit Court of Shelby County, Alabama relating to an alleged unfair dismissal claim by Mr Don Brown. The claim is for approximately US$1,000,000 (AUD$1,368,738). The Company intends to defend this matter and the Directors are of the opinion that the claim can be successfully defended. Accordingly, no liability has been recorded in relation to this matter.

The Group has engaged a corporate finance adviser to assist with corporate transactions whereby a third party may acquire an interest in the assets or issued capital of Attila. The corporate finance adviser is to be paid a fee of $500,000 plus 2% of the value ascribed to Attila in excess of $50,000,000 on completion of a successful transaction.

Note 8: Events subsequent to reporting date

The Directors are not aware of any significant events since the end of the interim period other than:

- On 7 January 2016, Attila allotted 41,455,622 ordinary shares at $0.02 each for a total of $829,112.44 (before costs) pursuant to a 1 for 1 non-renounceable rights issue.
- On 3 February 2016, Attila allotted 1,324,795 following the conversion of one convertible note.
- On 24 February 2016, Attila allotted 1,324,795 following the conversion of one convertible note.
- On 1 March 2016, Attila allotted 45,479,176 ordinary shares at $0.02 each for a total of $909,583.52 (before costs), being shortfall shares of the rights issue.
- On 1 March 2016, Attila allotted 10,000,000 ordinary shares at $0.02 each for a total of $200,000 (before costs) pursuant to the placement as set out in the prospectus date 26 November 2015.

Note 9: Commitments

Milestone Agreements

In December 2012, Attila entered into formal consultancy agreements with its project partner, TBL Metallurgical Resources, and its key personnel in relation to the Kodiak Coking Coal Project. In addition to the provision of key services to ensure the success of the Kodiak Coking Coal Project, the agreements provide for milestone payments of up to US$1,000,000 (AUD$1,368,738) each upon the achievement of key milestones linked to the Kodiak Coking Coal Project. The maximum outstanding amount payable for these milestones is US$3,000,000 (AUD$4,106,214). The outstanding milestones include the Group releasing a definitive feasibility study, the commencement of mining and washing of coal from the Kodiak Project and also annualised production of 250,000 saleable tonnes of hard coking coal from the Seymour or Gurnee Properties.

Note 9: Commitments (Continued)

Gurnee Property
In the year ended 30 June 2012, the Group acquired, through its 70% owned subsidiary, Kodiak Mining Company LLC, an option over a coal lease for the Atkins and Coke coal beds at the Gurnee Property. This option was exercised on 27 December 2012.

The resulting agreement to lease the underground mining rights to Atkins and Coke coal beds created the following outstanding commitments:

- Term of the lease: 3 year rolling terms until exhaustion of any discovered coal reserves subject to certain minimum production milestones per 3 year term; and
- Royalty of 8% on net coal sales with a minimum monthly payment of US$15,000 (AUD$20,531) per month commencing in December 2014. The minimum royalty payments will be offset against future actual production royalty payments.

At 31 December 2015, a 3 year extension of the lease to 26 December 2018 was being negotiated.

Seymour Property
On 20 December 2012, the Group announced that its 70% owned subsidiary, Kodiak Mining Company, had finalised the formal documentation for the option to acquire additional coal leases at the Seymour Property as originally announced on 3 December 2012.

The key terms of the option agreement to lease the underground mining rights to the Atkins, Coke, Upper Thompson and Big Bone coal seams on an approximately 4,000 acre property from RGGS Land & Minerals Ltd LP (RGGS) are as follows:

- Upfront option fee of US$100,000 paid in 2013;
- 2 year option to complete a minimum of US$500,000 worth of exploration in first year;
- Exercise of option at US$300,000;
- Term of the lease: 3 year rolling terms until exhaustion of any discovered coal reserves subject to certain minimum production milestones per 3 year term; and
- Royalty of 8% on net coal sales with an upfront payment of US$25,000 and minimum monthly payment of US$5,000 per month for each coal seam leased.

The US$500,000 exploration expenditure requirement was met by July 2013. This option was extended to 9 December 2015 with a further extension of the option to 9 December 2016 available for $50,000. The Group is currently in discussions regarding this extension.

Project X – Gholson and Clark Coal Seams Lease
On 23 September 2013, the Group announced that its 70% owned subsidiary, Kodiak Mining Company, had entered into a lease agreement with RGGS to mine the Gholson and Clark coal seams at an area known as Project X, which is also located on the Company's Gurnee Property. The Group is currently in discussions regarding the continuation or possible termination of this lease.

The key terms for the acquisition of Project X, which incorporates the Gholson and Clarke seams are as follows:

- Upfront leasing fee of US$25,000 paid in 2014;
- Term of the lease is 18 years or until exhaustion of any discovered coal reserves subject to certain minimum production milestones; and
- Royalty of 8% on net coal sales at mine gate with a minimum monthly royalty of $US3,000 (AUD$4,106) commencing in August 2014. The minimum royalty payments will be offset against future actual production royalty payments.

Note 10: Related Party Transactions and Balances

Kingslane Pty Ltd and associated entities (Kingslane) is a substantial shareholder in the Company and held 11,045,014 ordinary shares in the Company at 31 December 2015 (30 June 2015: 11,045,014). Entities controlled by Kingslane also:

- held a 10% non-controlling interest in the Kodiak project and Kodiak Mining Company LLC through a non-controlling shareholding in 70% owned Attila Resources US LLC;
- held convertible notes with face values of $4,504,301 (30 June 2015: $4,504,301) convertible into 22,521,505 (30 June 2015: 9,008,602) shares, which were recognised as a liability of $4,759,037 at 31 December 2015 (30 June 2015: $4,511,187) with $247,850 (31 December 2014: $255,697) recognised as an expense for the half year; and

Konkera Corporate, a related party of Kingslane Pty Ltd, received $75,000 (31 December 2014: $75,000) for company secretarial and administrative services for the half year. Kingslane and Konkera Corporate are related parties of Evan Cranston.

Various related parties have agreed to not seek payment of amounts owed by the Company until sufficient funds are available. At 31 December 2015, these unpaid amounts, that are recognised as liabilities, include:

- $195,000 for legal services provided by Bellanhouse Legal, a related party of Brynmor Hardcastle.
- Directors fees totalling $140,000 for the half year.
- $18,000 for office rent payable to an entity controlled by Kingslane.

All related party transactions are on normal arms' length terms, except for the above related parties not seeking payment of amounts due.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 7 to 21 are in accordance with the *Corporations Act 2001* including:

    a. complying with Accounting Standards AASB 134: Interim Financial Reporting; and

    b. giving a true and fair view of the financial position as at 31 December 2015 and of the performance for the half-year ended on that date of the Group;

2.. In the Directors' opinion 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 Board of Directors.

Evan Cranston
Non Executive Director

Dated this 15th day of March 2016

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

Report on the financial report

We have reviewed the accompanying interim financial report of Attila Resources Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2015, condensed consolidated statement of profit or loss and other 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 10 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.

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 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 Attila 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 Attila 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 half-year ended on that date; and

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

Emphasis of Matter – Going Concern

Without modifying our conclusion expressed above, we draw attention to the following matter. As a result of the facts set out in note 1, there is a material uncertainty which may cast doubt regarding the ability of the Group to continue as a going concern and therefore whether it will be able to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Graham Hogg
Partner

Perth

15 March 2016