

KAILI RESOURCES LIMITED AND CONTROLLED ENTITIES

ARBN 077 559 525

**Half-Year Financial Report
30 June 2015**

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CORPORATE DIRECTORY

Directors

Jianzhong Yang
Executive Chairman

Kaiyuan (Kelly) Yang
Executive

Chi Yuen (William) Kuan
Non-Executive

Company Secretaries

Ran Pang
Robert Lees

Registered Office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Representative Office in Australia

World Tower
Suite 1312, Level 13
87-89 Liverpool Street
Sydney NSW 2000
Australia
Telephone: +61 2 9267 5988
Facsimile: +61 2 9283 7166

Share Registry in Australia

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000
Australia
Telephone: 1300 855 080 (within Australia)
Telephone: +61 3 9415 4000 (outside Australia)
Facsimile: +61 2 8234 5050

Auditor

John Shute
Chartered Accountant
321 Pitt Street
Sydney NSW 2000
Australia

Home Stock Exchange

ASX Limited
20 Bridge St
Sydney NSW 2000
Australia

ASX Code: KLR

Website

www.kailigroup.com.au

REVIEW OF OPERATIONS

EXPLORATION

- All tenements due for expiry in 2015 were successfully renewed until 2016.
- Discussion on Native Title Agreement for WA tenements progressing.
- WA work program submitted to Kimberley Land Council for review.
- Qld drilling program finalised.

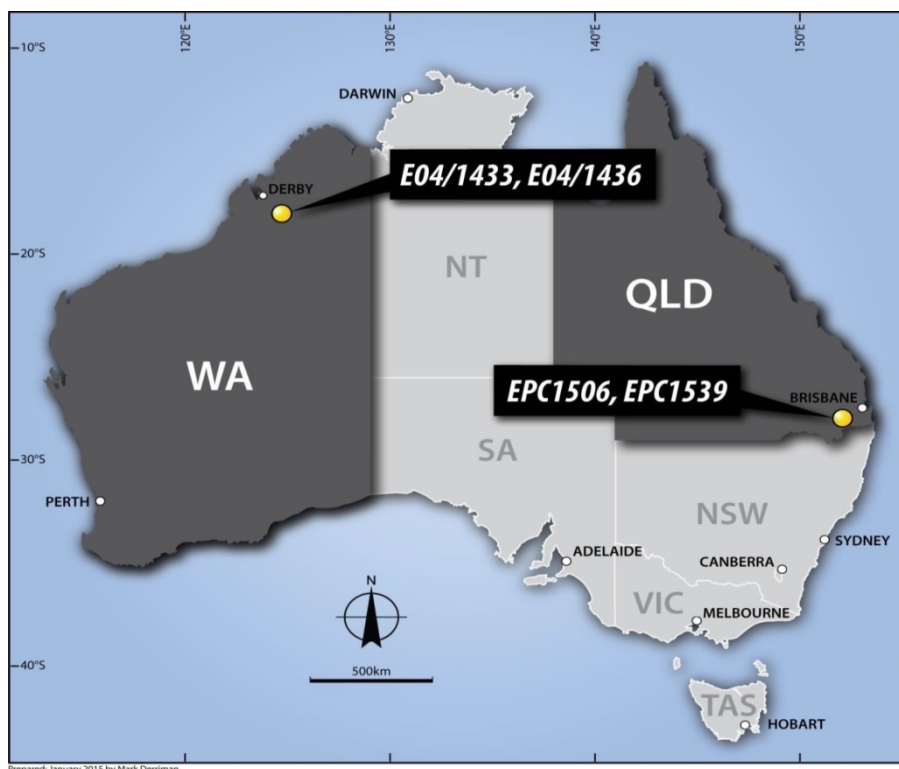


Figure 1: Kaili Resources projects locations – all 100% owned

PROJECT LOCATION	TENEMENT AREA IN KM ²
Queensland	274.4
Western Australia	58.4
Total Area	332.8

Table 1: Kaili Resources Limited's tenement areas, all held 100%

WESTERN AUSTRALIA

Canning Basin (South Ellendale) Coal, Diamonds and Phosphate Project

E04/1433 and E04/1436 held 100% by wholly owned subsidiary by ASF Kaili Resource Pty Ltd

A review of historical exploration indicates prospectivity for coal, diamonds and phosphate. The Group plans to conduct a field based surficial geochemical exploration work program in the September Quarter. The program will involve a grid based sampling program using the portable Olympus Innovex XRF sampler in conjunction with geological and regolith mapping. The proposed work program has been submitted to the Kimberley Land Council for review.

During the June 2015 quarter, both tenements were renewed for 12 months to April 2016 and there was no field activity while the renewals were awaited and Native Title Agreements are under discussion.

QUEENSLAND

Clarence Moreton Basin (Maryvale) Coal Project

EPC1506 and 1539 held 100% by wholly owned subsidiary APEC Coal Pty Ltd

Several coal seams have been intersected within EPC 1506 at near surface to depths of several hundred metres. The initial exploration program will comprise 5 to 6 open holes to be drilled to confirm the historical drill intersections as well as expanding the area of known coal mineralisation.

During the Quarter EPC 1539 was renewed for 12 months to August 2016 and there was no field activity in either EPCs while a drilling program was finalised.

WESTERN AUSTRALIA PROJECTS DESCRIPTION

The Western Australian Projects are located in the Canning Basin, and approximately 160 km east of Derby and 100 km west of Fitzroy Crossing in Western Australia (**Figure 2**). Access is via the Great Northern Highway, which transects the tenement package to the north, and then by unsealed pastoral tracks or the unsealed Noonkanbah access road (**Figure 3**).

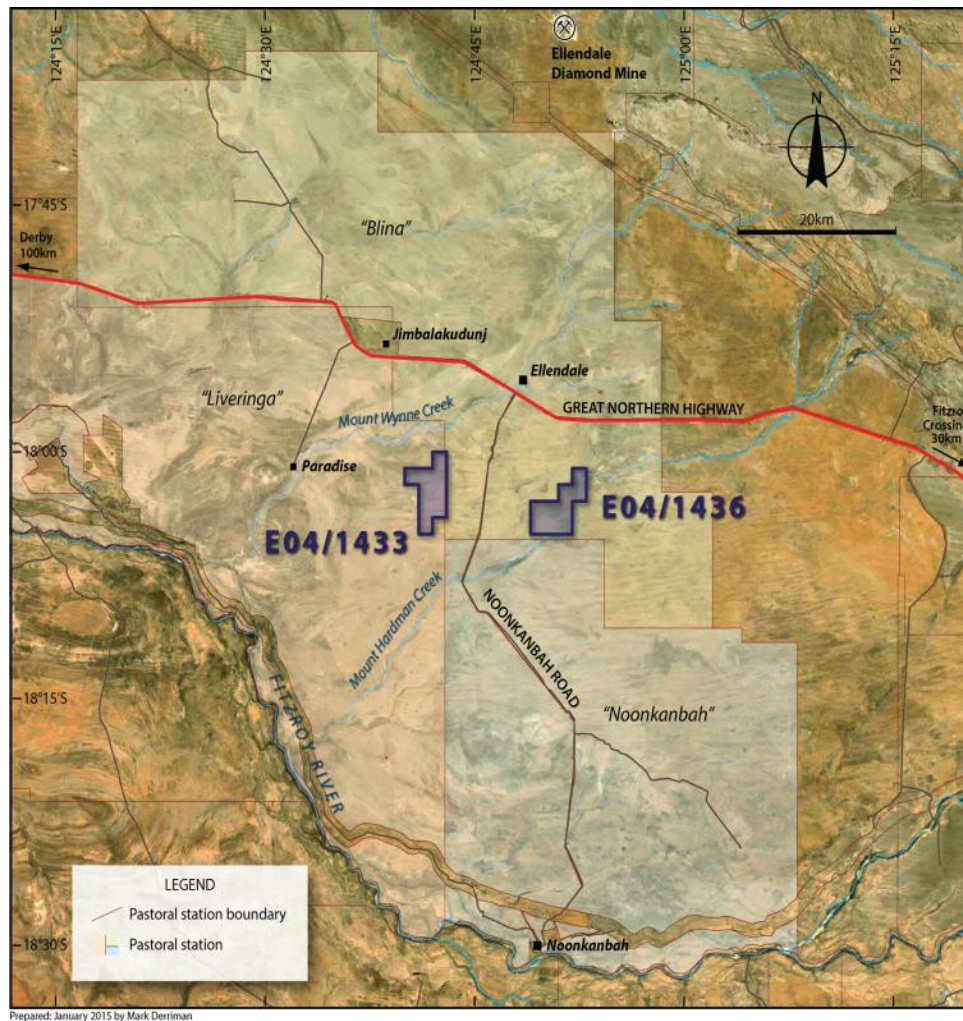


Figure 2 Kaili Resources Western Australian tenements

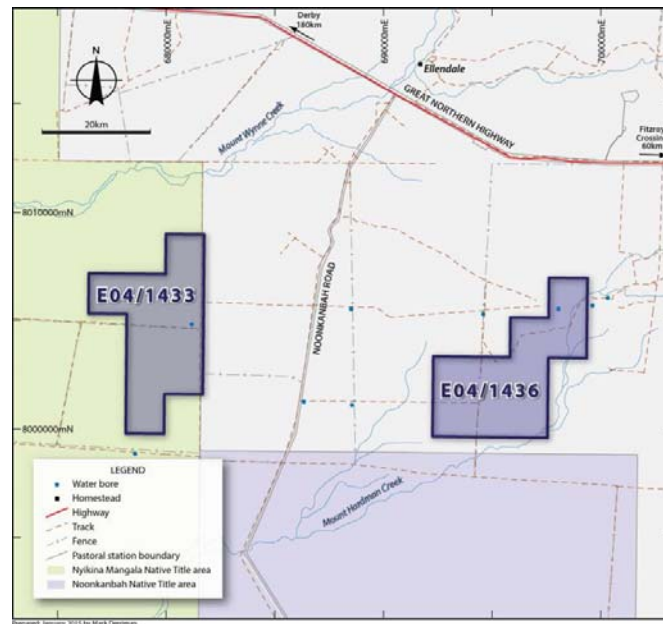


Figure 3 Kaili WA tenements showing proximity to infrastructure

The area is generally flat and vegetated mainly with native and introduced pastoral grass and weeds, spinifex, native shrubs and trees. Sand ridges and termite mounds are a common feature which can range up to 10m in height above the general land surface. The topsoil is generally very thin (<10cm), composed mainly of sand and minor silt with little organic matter. The uppermost 1m of strata predominantly comprises aeolian sand dune deposits.

The Canning Basin Project tenements are located in the Fitzroy Trough, one of four sub-basins separated by basement highs that together comprise the Canning Basin. The basin fill is of Permian age (**Figure 4**), similar to the Sydney Basin in Eastern Australia, and comprises a sequence of continental sediments dominated by mudstones to cross-bedded fine sandstones with occasional coarser units (**Table 2**). Thin coal seams are reported from most of the units in the Fitzroy Trough; however, the most persistent and thick seams has been reported from the Lightjack Formation of the Liveringa Group (**Figure 5**). The surface geology in the tenement areas is dominated by formations of the Liveringa group. The depth of weathering is reported as generally shallow (<25 m) and despite the presence of gentle east-southeast trending anticlines and synclines, bedding is generally shallow dipping at less than 6°.

AGE	GROUP	FORMATION	DESCRIPTION
EARLY TRIASSIC	LIVERINGA	BLINA SHALE	SILTSTONE AND SANDY SHALE
		HARDMAN	MUDSTONE, SANDSTONE AND RARE COAL
EARLY TO LATE PERMIAN		LIGHTJACK	SHALE, SILTSTONE AND COAL AT BASE
EARLY PERMIAN		NOONKANBAH	MUDSTONE, SHALE, SANDSTONE AND RARE COAL

Figure 9: Maryvale Project Surface Geology with coal in water bores

In the area surrounding E04/1433 and E04/1436 the Permian sequence has been intruded by lamproite pipes and dykes during the Miocene. The lamproite pipes tend to fall into three distinct fields: Ellendale (Ellendale Diamond Mine Area **Figure 2**) to the north of the Great Northern Highway, Calwynyardah which is located between E04/1433 and E04/1436 and shown as east – west known lamproite pipes in Figure 6 and Noonkanbah on Noonkanbah Station (Figure 2) to the south of the project area.

The age of the lamproite pipes exhibits a decrease from north to south, with pipes at Ellendale aged from 20-22 Mya (Million years ago) to 18-20 Mya at Noonkanbah. Numerous pipes have been discovered in all three fields, and while all fields have contained diamonds, only the Ellendale Lamproite Field has produced economic diamond pipes to date. Diamonds tend to be associated with the olivine-rich lamproites but many of the lamproites discovered to date, particularly in the Calwynyardah Field, tend to be leucite-rich and generally low in diamond content, however there has been very minor drill testing of the lamproite pipes outside the Ellendale Field.

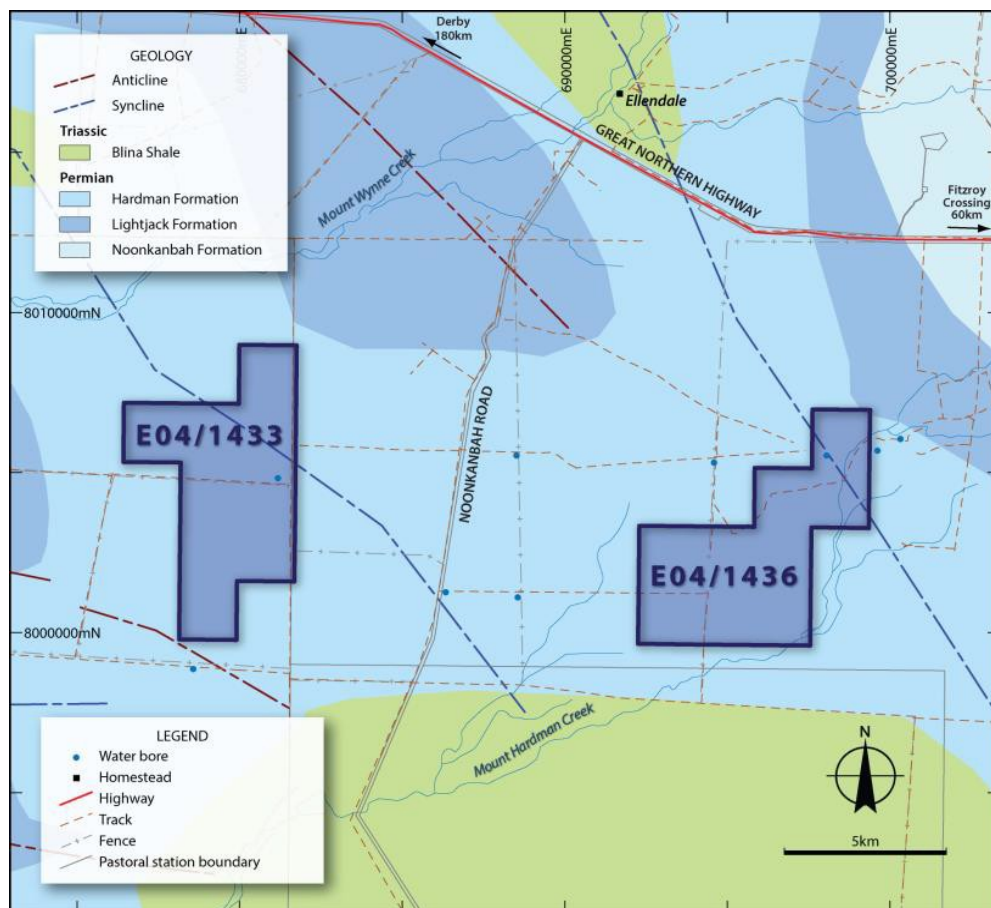


Figure 4: Kaili Resources Geology Map

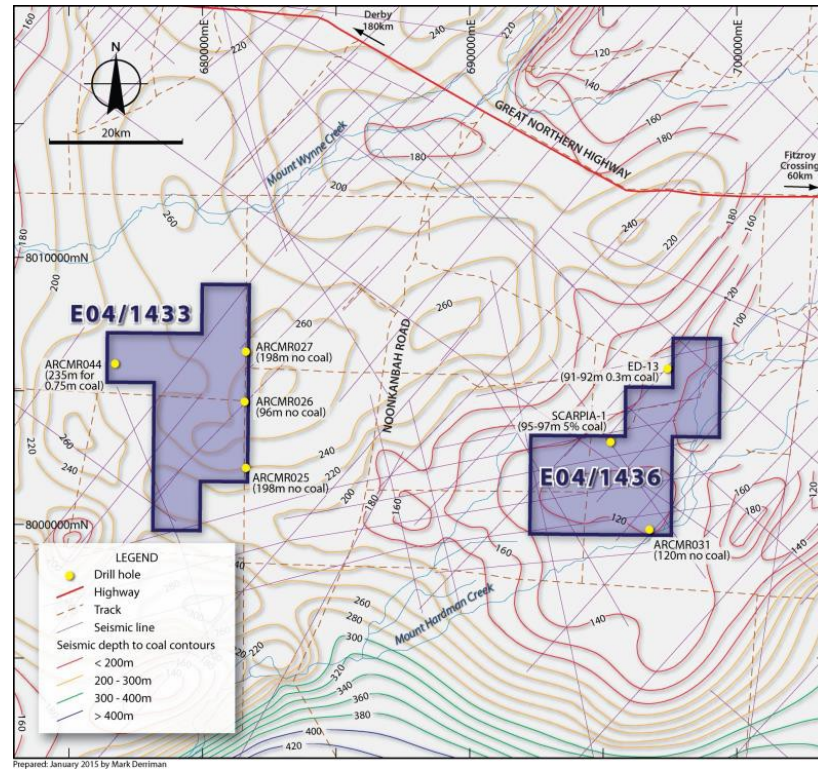


Figure 5: Depth to coal contours from Interpretation of seismic data

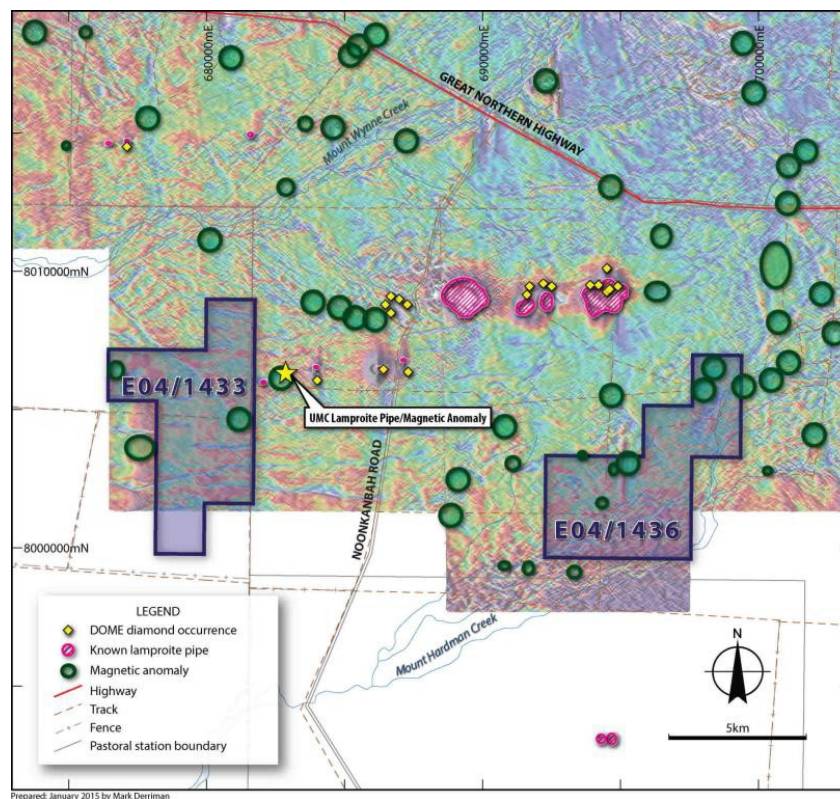


Figure 6: Known diamondiferous pipes and magnetic anomalies

QUEENSLAND PROJECTS DESCRIPTION

The Queensland projects are located along the western slopes of the Great Dividing Range within the southern portion of the Darling Downs region. The tenements are bordered by the Main Range National Park in the east which forms part of the Great Dividing Range.

The tenements are situated in the Clarence- Moreton Basin, approximately 30km north of Warwick and 50km south of Toowoomba, in southeast Queensland (**Figure 7**). Access to the tenement is possible through a series of sealed and unsealed roads and tracks branching from the Cunningham Highway and the New England Highway. Part of the Darling Downs, which includes the towns of Allora, and Warwick (**Figure 8**), is known as the Southern Downs.

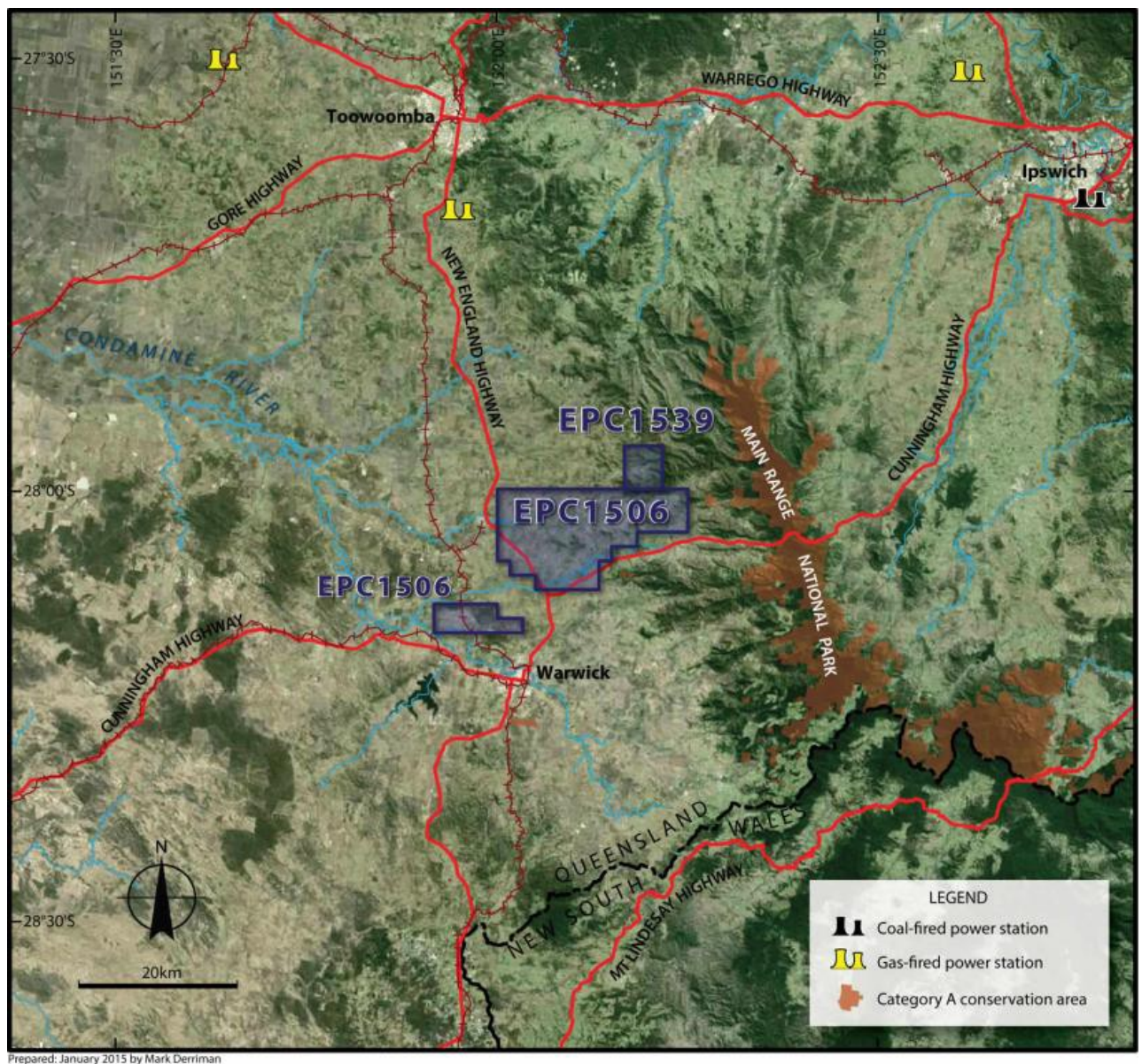


Figure 7: Regional Location of the Queensland Projects

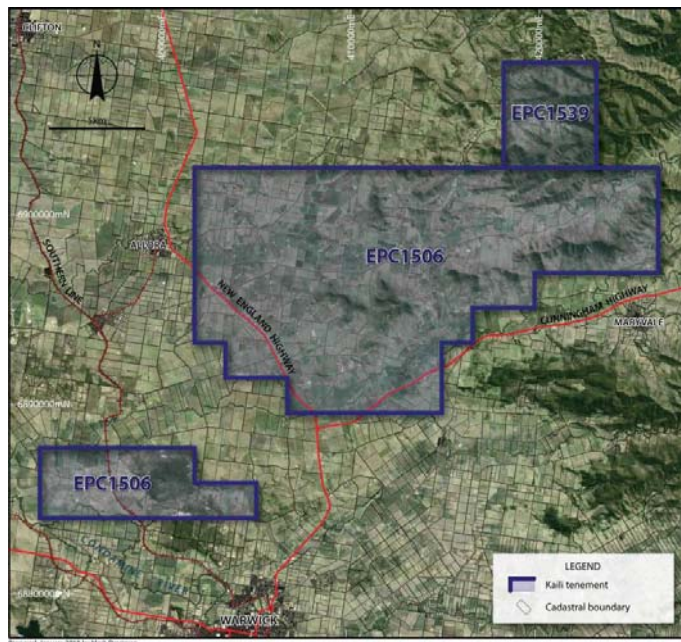


Figure 8: Maryvale Project showing cadastral boundaries and infrastructure

The tenements are situated in the Triassic to Cretaceous Clarence-Moreton Basin, which formed in conditions of predominately fluvial sedimentation. The development of the Clarence-Moreton Basin was contemporaneous with the Surat Basin and broad stratigraphic units can be correlated between the basins. However, the underlying tectonics and sources of sediment were different resulting in a differentiation of specific sedimentary sequences. Much of the basin is dominated by the late Triassic to Jurassic Bundamba group, comprising the older Woogaroo subgroup, a sequence of predominantly conglomerates and sandstones deposited in a fluvial to lacustrine environment. The overlying Marburg subgroup comprises predominately quartz sandstones interbedded with grey shales and mudstones (Figure 9).

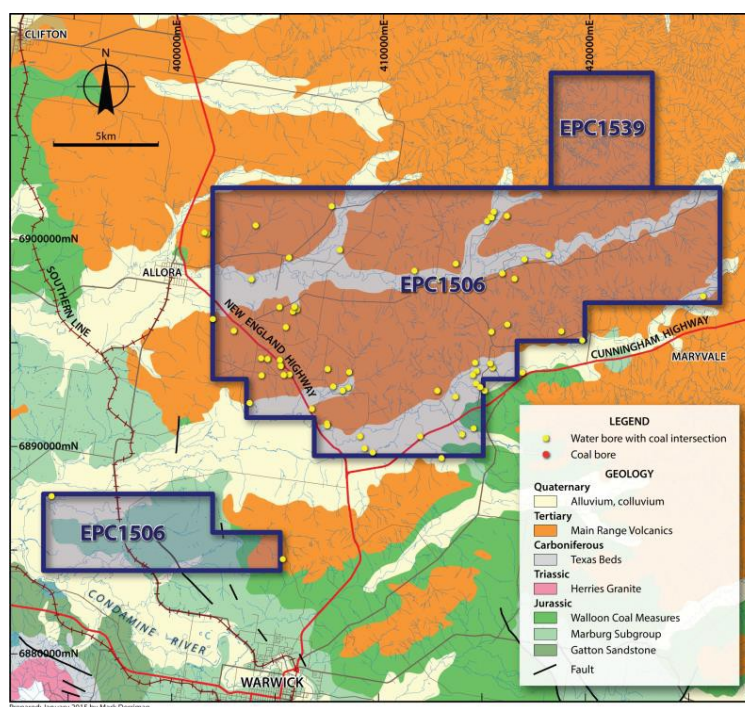


Figure 9: Maryvale Project Surface Geology with coal in water bores

The Walloon sub group (also known as Walloon Coal Measures) sit conformably on the Marburg subgroup and represent widespread fluvial and lacustrine to paludal deposition over the entire basin. They consist of siltstone, banded coal horizons or packages and fine to medium grained lithic sandstone, and have been subdivided into the Taroom and Jundah coal measures, which are separated by the Tangalooma sandstone.

Coal-Bearing “packages”, rather than distinct seams, are common, and this is a result of seam splitting, resulting in several seams with variable thicknesses (**Table 3**).

AGE	SUB GROUP	FORMATION	DESCRIPTION
TRIASSIC		MAIN RANGE VOLCANICS	VESICULAR BASALT
LATE JURASSIC		KANGAROO CREEK SANDSTONE	QUARTZ SANDSTONE AND CONGLOMERATE
MIDDLE JURASSIC	WALLOON SUB GROUP	JUNDAH COAL MEASURES	
		TANGALOOMA SANDSTONE	SANDSTONE AND SHALE
		TAROOM COAL MEASURES	
		DURABILLA	SANDSTONE AND MUDSTONE

Table 3 Maryvale Project Stratigraphy

LICENCES STATUS

The minerals tenements held at 30 June 2015 are as follows.

Tenement	Project Name	Location	Registered Holder	Beneficial Interest	Expiry
E04/1433	Annette Bore	Canning Basin WA, 150km east of Derby	ASF Kaili Resource Pty Ltd	100%	14 April 2016*
E04/1436	Luck Bore	Canning Basin WA, 150km east of Derby	ASF Kaili Resource Pty Ltd	100%	27 April 2016*
EPC 1506	Maryvale 1	Clarence Moreton Basin Qld, 15km north of Warwick	APEC Coal Pty Ltd	100%	12 May 2017
EPC 1539	Maryvale 2	Clarence Moreton Basin Qld, 15km north of Warwick	APEC Coal Pty Ltd	100%	5 August 2016*

* Renewal approved during the June 2015 quarter

There were no other tenements acquired or disposed of or change in beneficial interests under farm-in or farm-out agreements during the half-year.

(The information in the report above that relates to Exploration Results is based on information compiled by Mr Mark Derriman, who is the Company's Consultant Geologist and a member of The Australian Institute of Geoscientists.

Mr Mark Derriman has sufficient experience that is relevant to the style of mineralization and type of deposit under consideration and to the activities which he is undertaking to qualify as a Competent Person as defined in the 2004 and 2012 Editions of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Mark Derriman consents to the inclusion in this report of matters based on his information in the form and context in which it appears.)

CORPORATE AND FINANCIAL

Corporate

On 12 January 2015, ASX Limited effected the change of the Company's name from Omnitech Holdings Limited (OHL) to Kaili Resources Limited (KLR).

On 5 February 2015, the Company issued a prospectus to raise \$1,600,000 for working capital with the issue of 8,000,000 fully paid ordinary shares at \$0.20 per share as part of the process to reinstate the trading of the Company's securities on the Australian Securities Exchange ("ASX").

On 31 March 2015, the Company was reinstated to official quotation on the ASX following a successful capital raising under the prospectus and compliance with the requirements of ASX Listing Rules.

Funding

In March 2015, the Company raised \$1,600,000 from a public issue of shares with the issue of 8,000,000 fully paid ordinary shares at \$0.20 per share to fund exploration and working capital and to supplement the cash available at 31 December 2014 of \$2,400,423.

With cash of \$3,266,853 at 30 June 2015, the Group is able to fund the exploration expenditure that satisfies the minimum licence commitments activities and to meet its financial commitments as and when they fall due.

Performance

During the half year the Group incurred net losses of \$647,195 having incurred expenses relating to the issue of a prospectus for a public issue of shares and reinstatement of trading of the Company's securities on ASX.

Financial Position

Cash at 30 June 2015 was \$3,266,853 (31 December 2014: \$2,400,423). Current assets, held mainly in cash, increased from \$2,744,507 at 31 December 2014 to \$3,667,768 at 30 June 2015 as a result of funds of \$1,600,000 raised by the public issue of ordinary shares in March 2015

Current liabilities were \$42,125 (31 December 2014: \$46,313).

Net assets increased from \$2,698,194 at 31 December 2014 to \$3,625,643 at 30 June 2015.

Cash Flows

Operating activities resulted in net outflow of \$675,066 (2014: outflow \$306,333) as the Group is still in the exploration phase with no revenue from its principal activities. However, the Company successfully raised \$1,600,000 in March 2015 and held substantial cash balances at 30 June 2015.

STRATEGY AND PROSPECTS FOR FUTURE

The Company's immediate plan is to focus on resources exploration in its granted tenements, in particular to define coal resource to JORC 2012 standards within EPC 1506 with the aim to eventually mining coal. The future prospects of the Company are dependent on the exploration success within its tenements. However, no indication as to likely results in the future can be given due to the uncertainties usually associated with exploration activities.

The Company will also be seeking new ventures for investment to spur growth.

DIRECTORS' REPORT

The Directors of Kaili Resources Limited submit the financial report of the consolidated group for the half-year ended 30 June 2015.

Directors

The names of Directors who held office during or since the end of the half-year are:

Jianzhong Yang - Executive Chairman
Kaiyuan Yang - Executive
Chi Yuen Kuan – Non-Executive

Operating Results

Total comprehensive loss for the half-year ended 30 June 2015 was \$647,195 (2014: loss \$223,234).

Review of Operations

A review of operations for the half-year ended 30 June 2015 is set out on pages 3 to 12.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 14, and forms part of this report.

This report is signed in accordance with a resolution of the Board of Directors.



Jianzhong Yang
Director

Dated this 5th day of August 2015

Kaili Resources Limited

AUDITORS INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of Kaili Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Kaili Resources Limited for the half year ended 30 June 2015 there has been no contraventions of:

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



J F Shute

John F Shute Chartered Accountant
Suite 605, Level 6
321 Pitt Street
Sydney, NSW 2000

Dated this 5th August 2015

**Independent Auditors' Review Report to the Board of Directors of
Kaili Resources Limited
(Incorporated in Bermuda with limited liability)**

Introduction

We have reviewed the interim financial information set out on pages 17 to 23, which comprises the condensed consolidated statement of financial position of Kaili Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 30 June 2015 and the related condensed consolidated statement of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory notes. The directors of the Company are responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, 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 International Standards on Auditing 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34.

JOHN F SHUTE*Chartered Accountant***JOHN F SHUTE**Dated 5th August 2015

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 17 to 23 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 consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date.
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.

A handwritten signature in black ink, appearing to read '楊建忠' (Yang Jianzhong), written in a cursive style.

Jianzhong Yang
Director

Dated this 5th day of August 2015

**Consolidated Statement of Profit or Loss
and Other Comprehensive Income
For The Half-Year Ended 30 June 2015**

	Note	30 June 2015 \$	30 June 2014 \$
Revenue			
Interest income		19,343	1,642
Other income		100,000	50
		<u>119,343</u>	<u>1,692</u>
Expenses			
Depreciation expense		(174)	(169)
Employee benefits expense		(207,964)	(102,550)
Other expenses	3	(558,400)	(122,207)
Loss before income tax expense		(647,195)	(223,234)
Income tax expense		-	-
Loss for the period		<u>(647,195)</u>	<u>(223,234)</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Other comprehensive income for the period, net of tax		<u>-</u>	<u>-</u>
Total comprehensive loss for the period		<u>(647,195)</u>	<u>(223,234)</u>
Loss attributable to:			
- members of the Parent Entity		<u>(647,195)</u>	<u>(223,234)</u>
Total comprehensive loss attributable to:			
- members of the Parent Entity		<u>(647,195)</u>	<u>(223,234)</u>
		Cents	Cents
Earnings per share			
Basic and diluted loss per share		<u>(0.68)</u>	<u>(0.37)</u>

The accompanying notes form part of this financial report.

Consolidated Statement of Financial Position**As At 30 June 2015**

	30 June 2015 \$	31 December 2014 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	3,266,853	2,400,423
Trade and other receivables	47,450	23,098
Other assets	7,873	28,245
TOTAL CURRENT ASSETS	3,322,176	2,451,766
NON-CURRENT ASSETS		
Financial assets	5,000	5,000
Plant and equipment	1,790	-
Exploration and evaluation expenditure	338,802	287,741
TOTAL NON-CURRENT ASSETS	345,592	292,741
TOTAL ASSETS	3,667,768	2,744,507
CURRENT LIABILITIES		
Trade and other payables	42,125	46,313
TOTAL CURRENT LIABILITIES	42,125	46,313
TOTAL LIABILITIES	42,125	46,313
NET ASSETS	3,625,643	2,698,194
EQUITY		
Issued capital	2,477,313	902,669
Reserves	28,021,083	28,021,083
Accumulated losses	(26,872,753)	(26,225,558)
TOTAL EQUITY	3,625,643	2,698,194

The accompanying notes form part of this financial report.

Consolidated Statement of Changes In Equity

For The Half-Year Ended 30 June 2015

	Share capital	Share premium	Contribu- ted surplus	Foreign currency translation	Accumulated losses	Total
	\$	\$			\$	\$
Balance at 1 January 2014	5,531,147	14,234,549	7,553,193	(1,358,572)	(25,533,849)	426,468
Total comprehensive loss for the period	-	-	-	-	(223,234)	(223,234)
Transactions with owners in their capacity as owners						
Issue of share capital	110,000	495,000	-	-	-	605,000
Balance at 30 June 2014	5,641,147	14,729,549	7,553,193	(1,385,572)	(25,757,083)	808,234
Balance at 1 January 2015	902,669	21,826,462	7,553,193	(1,358,572)	(26,225,558)	2,698,194
Total comprehensive loss for the period	-	-	-	-	(647,195)	(647,195)
Transactions with owners in their capacity as owners						
Issue of share capital	1,600,000	-	-	-	-	1,600,000
Capital raising costs	(25,356)	-	-	-	-	(25,356)
Balance at 30 June 2015	2,477,313	21,826,462	7,553,193	(1,358,572)	(26,872,753)	3,625,643

The accompanying notes form part of this financial report.

Consolidated Statement of Cash Flows

For the Half-Year Ended 30 June 2015

	30 June 2015 \$	30 June 2014 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	100,000	-
Payments to suppliers and employees	(775,066)	(306,333)
Net cash outflow from operating activities	<u>(675,066)</u>	<u>(306,333)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of a subsidiary	-	655,445
Payments for exploration and evaluation expenditure	(51,062)	(8,093)
Payments for plant and equipment	(1,964)	-
Interest received	19,558	1,642
Net cash outflow from investing activities	<u>(33,468)</u>	<u>648,994</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,600,000	-
Capital raising costs	(25,356)	-
Net cash inflow from financing activities	<u>1,574,644</u>	<u>-</u>
Net (decrease)/increase in cash held	866,110	342,661
Cash and cash equivalents at the beginning of period	2,400,423	177,472
Effect of exchange rates on cash holding in foreign currencies	320	-
Cash and cash equivalents at the end of period	<u>3,266,853</u>	<u>520,133</u>

The accompanying notes form part of this financial report.

Notes to Financial Statements For the Half-Year Ended 30 June 2015**Note 1 – Nature of operations**

Kaili Resources Limited and subsidiaries' (the Group) principal activities consisted of investment in the coal, energy and resources industry.

Note 2 - Basis of Preparation

These general purpose financial statements for the interim six months ended 30 June 2015 are presented in Australian dollar (\$), which is the functional currency of the parent company. The interim financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting*.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Kaili Resources Limited and its controlled entities (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 31 December 2014, together with any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 5 August 2015.

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs.

Significant accounting policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 31 December 2014. The accounting policies have been adopted consistently throughout the Group for purposes of preparation of these interim financial statements

Note 3 – Other expenses from ordinary activities

	30 June 2015	30 June 2014
	\$	\$
Audit fees	4,000	4,575
Costs related to reinstatement of trading of the shares on ASX	379,982	-
Impairment of goodwill	-	16,095
Legal and consulting fees	50,796	10,522
ASX fees	92,632	3,999
Operating leases	4,000	12,618
Other	26,990	74,398
	558,400	122,207

Notes to Financial Statements For the Half-Year Ended 30 June 2015**Note 4 – Earnings per share**

Both the basic and diluted earnings per share have been calculated using the loss attributable to shareholders of the Parent Company as the numerator i.e. no adjustments to profits were necessary for the six month period to 30 June 2015 and 2014.

Note 5 – Operating segments

The Group has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources. The Group has identified its operating segment as the Mining Sector in Australia. All segments assets, segment liabilities and segment results relate to the one business segment and therefore no segment analysis has been prepared. This position has not changed from the prior period.

Note 6 – Equity securities issued

	30 June 2015 Shares	30 June 2014 Shares	30 June 2015 \$	30 June 2014 \$
Issues of ordinary shares during the half-year				
Acquisition of a subsidiary	-	11,000,000	-	605,000
Public issue of shares	8,000,000	-	1,600,000	-
	8,000,000	11,000,000	1,600,000	605,000

Note 7 – Commitments**Exploration Expenditure Commitments**

The Group has been granted four tenements in Australia. A condition of the tenements is that the Group is required to meet minimum committed requirements to maintain current rights of tenure. These commitments may be subject to renegotiation, may be farmed out or may be relinquished and have not been provided for in the financial statements and are due as follows from balance date:

	30 June 2015 \$	30 June 2014 \$
Within twelve months	301,000	301,000
Twelve months or longer and not longer than 5 years	115,000	230,000
Longer than five years	-	-
	416,000	531,000

The Group has obligations to restore land and rehabilitate areas disturbed during exploration. Cash deposit of \$5,000 (2014: \$5,000) has been provided as security for compliance with the conditions of the tenements.

Note 8 - Contingent Liabilities

At balance date, the Group has no contingent liabilities.

Notes to Financial Statements For the Half-Year Ended 30 June 2015

Note 9 – Events after Balance Date

In the opinion of the Directors, no items, transactions or events of a material or unusual nature have arisen in the interval between the end of the financial year and the date of this report which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.