RUTILA RESOURCES LTD
(FORMERLY FORGE RESOURCES LIMITED)
ABN 30 139 886 187

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

CONTENTS

DIRECTORS' REPORT

DIRECTORS' REPORT

The Directors submit herewith the financial report of the consolidated group for the half year ended 31 December 2013. In order to comply with the provisions of the Corporations Act 2001, the Directors report is included as follows.

Directors

The names of the Directors of the Company during and since the end of the half year are:

Nicholas Curtis	Executive Chairman
Matthew James	Executive Director
Harold Ou Wang	Non-Executive Director
Emmanuel Correia	Non-Executive Director
Michael Wolley	Non-Executive Director

REVIEW OF OPERATIONS

The half year to December 2013 was a defining period for Rutila Resources Ltd (Rutila or the Company) with a high level of activity including:

HIGHLIGHTS

- The Western Australian Environmental Protection Authority published the decision of the Minister for the Environment to approve the Balla Balla Export Facility.

- Rutila completed the cost elements of the Definitive Feasibility Study (DFS) for the Balla Balla VTi Magnetite Project, which has resulted in a capital cost reduction of $238.8 million from $1,321.2 million to $1,086.4 million (inclusive of $103.6 million contingency).

- The Native Title Agreement with the Ngarluma Aboriginal Corporation RNTBC for the Balla Balla VTi Magnetite Project and Export Facility has been signed.The Ngarluma People shall hold equity within the company that shall own the Export Facility, ensuring the success of the project results in mutual benefit for all parties.

- The Central Pilbara Infrastructure Project has been a key focus of the Company during the half year, with a number of studies completed that confirm the feasibility of transporting iron ore from the central Pilbara to the Balla Balla Export Facility.

- A completed Export Facility optimisation study indicates the Export Facility may, subject to approvals, be expanded to an initial design capacity of 45 million tonnes per annum with potential of up to 90 million tonnes per annum.

- The Western Australia Department of Mines and Petroleum granted the Miscellaneous Licence L47/690 on 15 January 2014, which covers land from the Company's current mining leases to the gazetted Balla Balla Port area.

DIRECTORS' REPORT

- Rutila and Laiwu lab scale test work on Balla Balla concentrate produced an iron product of 87% Fe, with an iron recovery of over 80%, together with three TiO_2 product streams the highest of which was 58.7% TiO_2 and recovered 52% of the TiO_2 .

- A marketing trip was conducted in China, visiting five major Chinese steel companies, a major VTM producer/steelmaker, as well as an iron ore trader.

1. CORPORATE

During the period the Company received shareholder approval for the change of company name from Forge Resources Ltd to the new name Rutila Resources Ltd. The rationale for the name change is that Forge Resources Ltd continued to be confused in the market with the Forge Group Ltd (an engineering and construction company operating in the resources industry). Rutila has a dual meaning in latin, as a noun it is a "shovel" and as an adjective it is "red, golden red, or reddish yellow". The new name reflects an increasing focus by the company on our activities in the Pilbara.

On 21 October 2013, the sale of 7% of the Balla Balla Joint Venture's VTi Magnetite Project and Export Facility to Todd Corporation (Todd) for a consideration of $7 million was completed, taking Todd's share to 32% and Rutila's Share to 68% of the Balla Balla Joint Venture.

At the 2013 Annual General Meeting the Company introduced the Central Pilbara Infrastructure Project to shareholders. Approximately six months ago Rutila began to explore the potential of third parties accessing the surplus capacity of the Balla Balla Joint Venture's Export Facility located on the coast of the central Pilbara region which, subject to a variation to existing approvals, may be increased significantly utilising the same causeway and jetty infrastructure of the Export Facility. Once the engineering work for the Balla Balla DFS was complete, the Central Pilbara Infrastructure Project became the key focus of the Company, together with China marketing activity for the Balla Balla VTi magnetite concentrate.

An Export Facility optimisation study was undertaken by Marine Logistics Australia (MLA). This has now been completed and has identified the potential of increasing the Export Facility to an initial design capacity of 45 million tonnes per annum with potential capacity of up to 90 million tonnes per annum. In addition, transport concept studies have been completed into the central Pilbara region where there are a number of infrastructure constrained iron ore resource projects. Engenium have identified a viable 200km draft railway alignment route and Mintrex have identified a preliminary haul road route. Rutila is in discussions with potential foundation customers for this Central Pilbara Infrastructure Project capacity.

Over the last year Rutila has been working with the Ngarluma Aboriginal Corporation RNTBC (NAC) on heritage studies and negotiating the terms of the Native Title Agreement (NTA) for the Balla Balla VTi Magnetite Project and the Export Facility (Balla Balla Project Area). On 19 December 2013 the Board was pleased to announce that the NTA was signed with the NAC on behalf of the Ngarluma People.
The Ngarluma People have been recognised under the Determination by the Federal Court as native title holders to lands and waters within Ngarluma Country, including lands and waters within the Balla

DIRECTORS' REPORT

Balla Project Area. The NAC is the prescribed body corporate under the Native Title Act that represents and manages the native title rights and interests of the Ngarluma People.

The negotiation process with the Ngarluma people was undertaken in a spirit of mutual respect, co-operation and with the principles of Shared Value. The NAC has stated that this has resulted in a new benchmark for agreements with the NAC as traditional owners with regard to the use of their land. The agreement is multi-dimensional and provides protection for Ngarluma heritage and culture within the Balla Balla Project Area as well as future employment and training for the Ngarluma People. It is also unique in that the Ngarluma People shall hold equity within a proposed company that shall own the Export Facility, ensuring the success of the project results in mutual benefit for all parties.

2. CENTRAL PILBARA INFRASTRUCTURE PROJECT

The concept of the Central Pilbara Infrastructure Project has been the subject of internal assessment and key assumptions and operating parameters have been validated. The Company recognised that infrastructure constrained iron ore resources within the under-developed region of the central Pilbara, south of the Export Facility, could utilise surplus capacity identified in the Export Facility of the Balla Balla Joint Venture.

The development of the Export Facility to service a third party from the Central Pilbara would benefit the third party through the provision of an export path as well as reduce the capital requirement of the Balla Balla VTi Magnetite Project by approximately $370 million thereby making the Balla Balla Project more viable.

MLA has completed the Export Facility optimisation desktop study and quantified the potential long-term design capacity of the stockyard, causeway, and jetty infrastructure beyond the approved DFS configuration. This study focused on more expansive configurations considering tidal constraints, the number of transshipment shuttle vessels (TSV) together with their capacities and drafts. MLA identified the potential to increase the Export Facility to a design capacity of up to 90 million tonnes per annum in two stages. This design capacity is based on the following assumptions; the first stage for 45 million tonnes per annum would utilise a single conveyor and a single TSV loading facility with a load-out rate of 8,000 tonnes per hour together with four 30,000 tonne per load TSVs with a 7.5m draft operating in a circuit to load a cape-size ocean going vessel, with an appropriately sized stockyard facility. The design capacity could be doubled to 90 million tonnes per annum through the addition of a second conveyor from the stockyard to a second TSV loading facility on the jetty, with eight TSVs in total, plus the addition of extra stockyard capacity. Such expansions will require a variation to the current approvals.

The new generation TSVs are key enablers of this quantum of capacity at a competitive operational and capital cost and similar vessels are now in operation within Australia. These TSVs are larger, have significantly faster loading and load-out rates, with lower manning requirements compared to the traditional tug - barge - crane transshipping operations. The TSV is self-powered which removes the need for tugs. The TSV is self-unloading, which removes the need for grabs on geared ships and increases unloading speed, and lowers manning requirements. Environmental impact is decreased as TSVs reduce dust and spillage risk. The TSV would transship the material to a large ocean going vessel

DIRECTORS' REPORT

moored approximately 20 Nm offshore in deeper Commonwealth waters.

For the approved DFS configuration, and any potential expansion, ongoing work is being carried out that will feed into the Export Facility operating model to verify current modelling. This work involves the following:

- Additional detailed bathymetry work along the proposed transshipment corridor, the proposed bulk carrier anchorages and shipping channel between the inner and outer anchorages;
- Wave and current monitoring and modelling at the proposed TSV loading facility, transshipment channel and inner and outer anchorages; and
- Port simulation to determine the operational limits of a TSV loading operation. This will confirm the size of the TSV that will be able to operate within the port, permissible environmental conditions and assist in determining the operational regulations for the movement of bulk carriers.

Both road and rail transport corridors have been studied from the Export Facility on the coast to the central Pilbara region. Mintrex undertook a preliminary investigation to determine the viability of establishing a dedicated private haul road from the central Pilbara area to the Export Facility as an alternative to the existing public road network; Mintrex successfully identified a haul road alignment.

Engenium was engaged by Rutila to carry out a rail concept study for a 200km railway from the proposed Export Facility to a potential train-loading site in the central Pilbara region. The study defined a draft alignment for a railway and determined that a standard railway from the Export Facility to the central Pilbara area is viable, and would not be dissimilar to other railways that have been successfully built and are operating today.

Following the completion of the Export Facility Optimisation Study, preliminary haul road investigation and rail concept studies discussed above, Rutila is currently completing a Central Pilbara Infrastructure Scoping Study to combine the Export Facility, transport route and associated infrastructure. Key elements of this study include:

- Determination of stockyard layouts at both the Export Facility and train/truck load out facility;
- Revisions to jetty design to accommodate a second TSV loading facility and larger TSVs; and
- Dynamic modelling of the entire infrastructure supply chain to determine the operational capabilities and risks as well as the capacity of the system under different operating conditions.

3. BALLA BALLA PROJECT

Following the signing of the NTA the NAC subsequently withdrew their objection over the Miscellaneous License L47/690 tenement application. An access agreement was executed with the mining company that also had an outstanding objection on L47/690. With both objections withdrawn, the Department of Mines and Petroleum granted the Miscellaneous License L47/690 as announced by the Company on 17 January 2014. L47/690 covers land from the Company's current mining leases to the gazetted Balla Balla Port area by the Western Australia Department of Transport under the Marine and Harbours Act. L47/690 shall contain the Export Facility consisting of the stockyard area, the causeway and jetty to the transshipment shuttle vessel loading facility.

As the Department of Mines and Petroleum has now granted L47/690, the Company is able to move forward with the Department of Transport for the granting of the Sea Bed Lease (on which the jetty infrastructure will sit) and approve a conditional Jetty License. Discussions are progressing well for the lease and license respectively. The Jetty License shall be granted upon submission of appropriate final engineering construction drawings for the jetty.

With the engineering and cost structures of the DFS completed, the focus is now on the marketing of the Balla Balla VTi Magnetite concentrate. The Company is pursuing two parallel channels to market. The first is marketing the product to steel mills, mainly in China, as an iron ore for blending with other iron ores given the low silica, alumina and phosphor levels of the VTi Magnetite concentrate. The second is the collaboration with Laiwu Steel, part of the Shandong Steel Group, to extract full value from the VTi Magnetite concentrate through the production of pig iron together with vanadium and titanium co-products.

The current building and construction slowdown in China is resulting in a softening of domestic steel prices. Strong iron ore prices, competition, regulatory and environmental pressures have resulted in poor steel sector profitability. A central government restructuring policy has also resulted in short-term uncertainty within part of the Chinese steel industry. The next key steps to the marketing programme will be to demonstrate to sinter, pellet, and steel making plant operators that they can achieve Value In Use advantages by consuming Balla Balla VTi Magnetite concentrate at appropriate addition rates. Additional trips to China and Taiwan are underway, and opportunities in Japan and Korea are being pursued.

The work between Laiwu Steel and Rutila, together with the Beijing General Research Institute of Metal and Mining, to undertake verification test work of the final step in a process to separate the iron from the titanium and vanadium, as well as complete mass and energy balances for the proposed process was ongoing across the half year.

4. EXPLORATION ACTIVITIES

4.1 Eucla West Fraser Range Exploration

The Company continued to progress the sell down of 50% of its Farm-in rights into the Eucla West tenements, located in the Fraser Range region, Western Australia to Todd Corporation for consideration of $1.5 million. This transaction remains subject to a number of shareholder, regulatory and other approvals. Applications have been submitted the Department of Mines and Petroleum for Rutila to be registered on title for the completed earn-in stake of 50.1%.

4.2 New South Wales Tenements Overview

With the project development work under way within the Pilbara region the NSW tenement work has been deprioritised.

DIRECTORS' REPORT

Competent Person's Statement – Balla Balla

The Resource estimate for the Balla Balla BFS Central/Extension, BFS Western and East Block B deposits is sourced from Golder Associates report reference 087641039 011 L Rev2 dated 5 August 2009 and is contained within Domain 1 (main Fe zone modelled at 35% Fe cut-off) and Domain 7 (high vanadium zone modelled at 35% Fe cut-off and 0.85% V2O5 cut-off) combined. The Resource estimate for the Balla Balla Far Western Area is sourced from Golder Associates report reference 087641039 007 L Rev1 dated 8 December 2008 and is contained within Domain 1.1 (lower main Fe zone) and Domain 1.2 (upper main Fe zone), both modelled at 35% Fe cut-off. For all deposits, tonnage estimations are reported at a cut-off grade of 0.001% Fe within the modelled domains. The Fe resource includes in-situ Fe-bearing minerals that are not amenable to magnetic recovery. Magnetic recovery factors or assumptions have not been applied to these Mineral Resources.

In August 2009, an increase to Measured, Indicated and Inferred Resources of the Western and Central-East Pit areas of the Balla Balla magnetite (Fe-V-Ti) deposit was reported. In December 2008, an upgrade of the Balla Balla Far Western Area Resource from 100% Inferred to Measured, Indicated and Inferred Resources was reported. The information in this document that relates to Mineral Resources is based upon information compiled by Matthew Chinn who is a member of the Australasian Institute of Mining and Metallurgy and a Fellow of the Geological Society of London. Matthew Chinn is a geological consultant to Rutila Resources Limited and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he is undertaking to qualify as a Competent Person as defined by the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code 2012 Edition). Matthew Chinn consents to the inclusion in this document of the matters based on his information in the form and context in which it appears.

Competent Persons Statement – Eucla West

The information in this report that relates to Exploration Results is based on information compiled by Mr Ralph Porter who is a member of the Australian Institute of Geoscientists. Mr Porter is a consultant to Rutila Resources Limited and is employed by CSA Global Pty Ltd. Mr Porter has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking as a competent person as defined in the 2004 Edition of the "Australasian Code for Reporting Exploration results, Mineral Resources and Ore Reserves". Mr Porter consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

DIRECTORS' REPORT

Corporate Activity

The capital structure of the Company as at the date of this report is:

Fully Paid Ordinary Shares on issue	80,577,667
Options on issue	42,480,905

Net Tangible Asset Backing

	31 Dec 2013	**30 Jun 2013**
Per Ordinary Security (cents per share)	6.71 cents	7.52 cents

In the half year to 31 December 2013, the Group made a loss of $696,729 and experienced net cash inflow of $2,175,921 as shown in the statement of comprehensive income and statement of cash flows respectively in this financial report. These results are consistent with the Company's strategic objectives and budget estimates.

Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is included on page 10 for the half year ended 31 December 2013.

Singed in accordance with a resolution of the board of Directors.

On behalf of the Directors

Nicholas Curtis
Executive Chairman

11 March 2014

HLB Mann Judd

Accountants | Business and Financial Advisers

RUTILA RESOURCES LIMITED

ABN 30 139 886 187

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Rutila Resources Ltd for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have 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.

This declaration is in respect of Rutila Resources Ltd and the entities it controlled during the period.

Sydney, NSW	**M D Muller**
10 March 2014	**Partner**

HLB Mann Judd (NSW Partnership) ABN 34 482 821 289
Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190
Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 12 to 22 are in accordance with the Corporations Act 2001, including:

   (a) complying with Accounting Standard AASB 134 Interim Financial Reporting; and

   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 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.

Signed in accordance with a resolution of the board of Directors.

On behalf of the Directors

Nicholas Curtis
Executive Chairman

11 March 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	Half year ended 31 December 2013 $	31 December 2012 $
Other revenue		36,770	138,060
Gain on sale of asset	3	3,725,841	-
Consultancy expenses		(440,791)	(696,732)
Directors Remuneration		(62,164)	(40,900)
Legal and compliance fees		(160,180)	(108,053)
Depreciation and amortisation expense		(22,130)	(3,436)
Employee benefits expenses		(612,758)	(487,583)
Occupancy expenses		(19,237)	(94,837)
Professional fees		(39,559)	(39,825)
Interest expense		(2,391,377)	(2,079,452)
Equity-based compensation		(50,426)	(58,101)
Infrastructure expenses		(477,420)	-
Other expenses		(183,298)	(198,928)
Loss before income tax		**(696,729)**	**(3,669,787)**
Income tax expense		-	-
Loss for the period	2	**(696,729)**	**(3,669,787)**
Other Comprehensive Income			
Other Comprehensive income for the period net of tax		**-**	**-**
Total Comprehensive loss for the period		**(696,729)**	**(3,669,787)**
Loss per share			
Basic and diluted loss per share		0.86 cents	4.55 cents

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	31 December 2013 $	30 June 2013 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		4,221,340	2,045,419
Trade and other receivables		836,522	520,456
TOTAL CURRENT ASSETS		**5,057,862**	**2,565,875**
NON-CURRENT ASSETS			
Plant and equipment		101,171	27,252
Exploration and evaluation expenditure	3	36,912,145	37,249,357
Other non-current assets		286,977	234,900
TOTAL NON-CURRENT ASSETS		**37,300,293**	**37,511,509**
TOTAL ASSETS		**42,358,155**	**40,077,384**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		2,468,176	1,964,275
Short term provisions		73,185	41,382
Borrowings	6, 9	34,406,265	32,014,895
TOTAL CURRENT LIABILITIES		**36,947,626**	**34,020,552**
TOTAL LIABILITIES		**36,947,626**	**34,020,552**
NET ASSETS		**5,410,529**	**6,056,832**
EQUITY			
Issued capital	5	26,239,259	26,239,259
Reserves	5	1,639,040	1,588,614
Accumulated losses		(22,467,770)	(21,771,041)
TOTAL EQUITY		**5,410,529**	**6,056,832**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Ordinary Issued Capital	Accumulated Losses	Share Based Payment Reserve	Total
	$	$	$	$
Balance as at 1 July 2012	26,239,259	(14,236,640)	1,496,138	13,498,757
Loss for the period	-	(3,669,787)	-	(3,669,787)
Total comprehensive loss for the period	-	(3,669,787)	-	(3,669,787)
Options granted during the period	-	-	58,101	58,101
Balance as at 31 December 2012	26,239,259	(17,906,427)	1,554,239	9,887,071
Balance as at 1 July 2013	26,239,259	(21,771,041)	1,588,614	6,056,832
Loss for the period	-	(696,729)	-	(696,729)
Total comprehensive loss for the period	-	(696,729)	-	(696,729)
Options granted during the period	-	-	50,426	50,426
Balance as at 31 December 2013	26,239,259	(22,467,770)	1,639,040	5,410,529

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Half year ended	
	31 December 2013	**31 December 2012**
	$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	151	8,918
Interest received	32,086	129,142
Payments to suppliers and employees	(1,966,244)	(2,189,208)
Interest paid	(8)	-
Net cash outflow in operating activities	(1,934,015)	(2,051,148)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property, Plant and equipment expenditure	(96,049)	(3,538)
Proceeds from sale of interest in tenements	7,000,000	-
Exploration and evaluation expenditure	(2,726,015)	(1,649,605)
Net cash inflow/(outflow) from investing activities	4,177,936	(1,653,143)
CASH FLOWS FROM FINANCING ACTIVITIES		
Lodgement of tenement bond	(68,000)	-
Net cash outflow from financing activities	(68,000)	-
Net increase (decrease) in cash and cash equivalents	2,175,921	(3,704,291)
Cash and cash equivalents at the beginning of the half-year	2,045,419	9,720,297
Cash and cash equivalents at the end of the half-year	**4,221,340**	**6,016,006**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

These general purpose interim financial statements for the half-year reporting period ended 31 December 2013 have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting.

On 24 September 2013, the Company changed its name from Forge Resources Ltd to Rutila Resources Ltd.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Rutila Resources Ltd and its controlled entities (referred to as the consolidated group or 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 2013, 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.

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the June 2013 annual report.

In the half year ended 31 December 2013 management reassessed its estimates in respect of:

Carrying value of exploration expenditure

The Company performed a detailed review of its exploration tenements at period end to determine whether the related expenditure should continue to be capitalised under AASB 6 or written off to profit or loss.

In reviewing the application of the Group's accounting policy relating to exploration expenditure, management is required to make certain estimates and assumptions about future events or circumstances in particular whether an economically viable extraction operation can be established. Estimates and assumptions made may change if new information becomes available. Following a review of existing exploration expenditure management believes a continuation of the existing accounting policy relating to exploration expenditure should be maintained.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

Going concern basis of accounting

Notwithstanding the net loss for the Group during the period ended 31 December 2013 being $696,729 (2012: Loss $3,669,787), the financial statements have been prepared on a going concern basis. The major liability included in the net current liabilities at 31 December 2013 relates to a loan from The Todd Corporation (Todd) which, together with the accrued interest amounted to $34,406,265 at 31 December 2013. The loan had an initial term of two years (which ends in May 2014) which can be rolled 6 monthly at the option of Todd up to a maximum 10 year term.

The Board reached agreement with Todd on 26 February 2014 to extend the term of the loan to 31 December 2015, along with the provision of a further $10 million funding package, which is subject to shareholder and other regulatory approval. Should shareholder and regulatory approval not be obtained, there is a material uncertainty as to whether the company will continue as a going concern and therefore whether it will realise its assets and settle its liabilities in the normal course of business and at the amounts stated in the financial report.

NOTE 2: LOSS FOR THE PERIOD

All revenue and expense items that are relevant in explaining the financial performance for the interim report have been included in the consolidated statement of comprehensive income.

NOTE 3: EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2013 $	30 June 2013 $
Non-current:		
Costs carried forward in respect of areas of interest in the following phases:		
Exploration Phase		
Balance at beginning of period	37,249,357	31,806,000
Sale of interest in tenements	(7,000,000)	-
Gain on sale of tenement interest	3,725,841	-
Stamp duty on tenements acquired	1,142,528	-
Expenditure capitalised	2,824,419	5,443,357
Carrying amount at end of period	36,912,145	37,249,357

Recoverability of the carrying amount of exploration assets is dependent on the successful exploration and commercial exploitation of the tenements.

NOTE 4: OPERATING SEGMENTS

Identification of reportable segments

The consolidated group has identified its operating segment based on the location of its exploration assets.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 5: ISSUED CAPITAL

	Note	31 December 2013 $	30 June 2013 $
Ordinary shares	*(a)*	26,239,259	26,239,259

	31 December 2013 Number	$
(a) Movements in Ordinary shares on issue		
At 1 July 2013 and at 31 December 2013	80,577,667	26,239,259

(b) Options – Share based payments reserve

	Number	$
Movements in options on issue		
At 1 July 2013	33,480,905	1,588,614
Options issued	9,000,000	50,426
At 31 December 2013	**42,480,905**	**1,639,040**

NOTE 6: SUBSEQUENT EVENTS

On 26 February 2014 the company advised that it and its joint venture partner, Todd, through the Balla Balla Joint Venture, have entered into an Alliance Agreement with Flinders Mines (Flinders) to provide Flinders with a fully integrated transportation and port handling service (Transportation and Port Handling Service) of up to 30 million tonnes per annum (Mtpa) for its proposed Pilbara Iron Ore Project (PIOP).

The Transportation and Port Handling Service for the PIOP will combine a proposed rail transport solution together with the proposed Balla Balla Mine Export Facility surplus design capacity, subject to Government approvals.

The Alliance Agreement outlines the basis upon which the parties will co-operate with a view to achieving the following projects:

- The development of the Balla Balla Export Facility by the Balla Balla Joint Venture;
- The development of a proposed rail solution by the Balla Balla Joint Venture; and
- The development of PIOP by Flinders.

Further, the company also advised on 26 February 2014 that it reached agreement with Todd, subject to shareholder approval, to provide Rutila with a $10 million funding package and to extend the existing loan facility to 31 December 2015.

The funding package comprises a $10 million convertible loan, to be drawn down in two $5 million tranches, with the first drawdown occurring on signing of definitive documents and shareholder approval. The second drawdown is within 12 months and subject to certain

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 6: SUBSEQUENT EVENTS (Continued)
milestones. The tranches are to be converted into either shares in Rutila based on market price or additional interest in the Balla Balla JV based on enterprise value and the pricing of the conversion is at any time up until 31 December 2015 but not before three months post first drawdown (to be based on 30-day VWAP with an agreed discount applied). An agreed coupon is payable on drawn funds.

NOTE 7: RELATED PARTY TRANSACTIONS
During the period a sum of $475,000 (2012: $566,500) was paid to Riverstone Advisory Pty Ltd (Riverstone), a firm involved in the provision of merger and acquisition advisory services to the natural resource sector. Riverstone provided project management and other management support services as well as advisory services relating to the potential acquisitions the Group is currently reviewing. Nicholas Curtis and Harold Ou Wang are Directors and shareholders of Riverstone.

Additionally payments were made to Peloton Capital Pty Ltd of $24,000 (2012: $nil) for corporate advisory services. Emmanuel Correia is a Director of Peloton Capital Pty Ltd.

During the period, the Company granted options for no cash consideration to the Directors, as approved by Rutila shareholders at the AGM held 29 November 2013, as follows:

Director	Options No.	Value $
Mr Nicholas Curtis	5,000,000	487,125
Dr Matthew James	1,150,000	112,039
Mr Harry Wang	600,000	58,455
Mr Emmanuel Correia	400,000	38,970
Mr Michael Wolley[1]	300,000	29,288

Note 1. Mr Wolley has advised that the ultimate beneficial interest in these options, if they vest, has been assigned to Todd, in accordance with his contractual employment obligations with Todd.

The options have an exercise price of 30 cents per share and shall expire on the earlier of four years from the date of issue and the date which is six months after the date of which the option holder resigns as a director of the Company or discontinues their service to the Company. The options are subject to the following vesting conditions:

- 75% of the options vest on a recommendation to the board to approve a final investment decision for the Balla Balla project or a material project of similar scale; and
- 25% of the options vest after two years' service by the Director.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 8: JOINT VENTURE

	31 December 2013	30 June 2013
(a) Interest in Joint Venture Operations	**$**	**$**
A controlled entity, Forge Resources Swan Pty Ltd, has a 68% interest in an unincorporated joint venture, whose principal activity is exploration of the Balla Balla asset. This company is the manager of the unincorporated joint venture. The joint venture commenced on 31 May 2012.		
During the reporting period, on 22 October 2013, Balla Two (Mining) Pty Ltd, a subsidiary of Todd, acquired an additional 7% interest in the Balla Balla Joint Venture in accordance with the Balla Balla Joint Venture Project Sale and Purchase Agreement dated 22 August 2013. As a result, Balla Two (Mining) Pty Ltd now holds a 32% interest (2012: 25%) in the joint venture and Forge Resources Swan Pty Ltd holds a 68% interest (2012: 75%) in the joint venture as at 31 December 2013.		
The consolidated group's share of assets employed in the joint venture is:		
CURRENT ASSETS		
– Prepayments	2,992	-
NON-CURRENT ASSETS		
Other costs carried forward in respect of areas of interest:		
– Exploration and evaluation expenditure	5,229,144	2,605,720
– Tenements	27,895,892	30,655,000
– Other non-current assets	68,000	-
Share of total assets of joint venture	33,196,028	33,260,720
Other Current Liabilities		
Sundry payables and accrued expenses	1,550,830	1,400,597
Share of total liabilities of joint venture	1,550,830	1,400,597
Net interest in joint venture	31,645,198	31,860,123

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest. During the six months ended 31 December 2013 the consolidated group's share of the joint venture losses was $882,480 (2012: $1,051,213).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Consolidated	
	31 December 2013	30 June 2013
	$	$
NOTE 9: BORROWINGS		
CURRENT		
Secured liabilities:		
Loans – interest bearing	27,500,000	27,500,000
Accrued interest payable	6,906,265	4,514,895
Total current borrowings	34,406,265	32,014,895
The carrying amounts of non-current assets pledged as security are:		
Mortgage on interests in Balla Balla Joint Venture	34,406,265	32,014,895

If shareholder and regulatory approval is received, the agreement reached with Todd on 26 February 2014 will see this loan reclassified as non-current in the next reporting period.

NOTE 10: CONTINGENT LIABILITIES

Due to the acquisition of the Balla Balla Project in May 2012, Rutila is liable to pay stamp duty on the tenements acquired to the Western Australian Office of State Revenue. The Office of State Revenue has issued an interim assessment of stamp duty payable (Rutila's share being $1.024 million) on the acquisition of the Balla Balla Project, which is included in payables as at 31 December 2013 and was paid on 9 January 2014. Rutila are in the process of finalising its stamp duty obligations relating to the acquisition of the Balla Balla Project and accordingly has accrued an additional amount of approximately $120,000 in the accounts as at 31 December 2013.

However, as the final assessment of the stamp duty is still outstanding, and there is inherent uncertainty in estimating the quantum and timing of the issuance of the final stamp duty assessment, it is not possible to quantify the value of the contingent liability, in excess of the amounts already recorded in the accounts.

As part of the Balla Balla transaction with Atlas Iron Limited, Atlas is entitled to receive a 4% royalty from the initial 5.5 million tonnes of contained Fe within magnetite concentrate sales and 200,000 tonnes of contained TiO_2 within ilmenite sales.

Upon completion of the 4% royalty tonnages, the royalty shall drop to 1% of revenue on remaining tonnages up to a total of 36 million tonnes of contained Fe within magnetite concentrate sales and 1.2 million tonnes of contained TiO_2 within ilmenite sales.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

The value of these royalty streams will be determined by the price achieved at the time these tonnages are sold by Rutila.

Further royalties of $0.5/tonne ore original vendor royalties and 5% Western Australian Government royalties are also payable.

As payment of all the royalties mentioned above are dependent on future production, and given the inherent uncertainty in estimating the quantum and timing of production, it is not possible at this stage to quantify the value of the contingent liability.

HLB Mann Judd

Accountants | Business and Financial Advisers

RUTILA RESOURCES LIMITED

ABN 30 139 886 187

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Rutila Resources Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Rutila Resources Ltd ("the company") which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's review report.

HLB Mann Judd

RUTILA RESOURCES LIMITED

ABN 30 139 886 187

INDEPENDENT AUDITOR'S REVIEW REPORT

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

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

Material Uncertainty Regarding Continuation as a Going Concern

Without modifying our opinion, we draw attention to Note 1 (Going concern basis of accounting) in the half-year financial report, which indicates that the consolidated entity incurred a net loss of $696,729 during the half-year ended 31 December 2013 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by $31,889,764.

These conditions, along with other matters as set forth in Note 1 (Going concern basis of accounting), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M D Muller
Partner

Sydney, NSW
11 March 2014