



CAZALY

RESOURCES LIMITED

ABN 23 101 049 334

**AND CONTROLLED ENTITIES**

Consolidated Half Year Financial Report

31 December 2017

# CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

## CONSOLIDATED HALF YEAR FINANCIAL REPORT

31 December 2017

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**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**COMPANY DIRECTORY  
HALF YEAR ENDED 31 DECEMBER 2017**

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**MANAGING DIRECTOR**

Nathan McMahon

**MANAGING DIRECTOR**

Clive Jones

**NON-EXECUTIVE DIRECTOR**

Terry Gardiner

**COMPANY SECRETARY**

Mike Robbins

**PRINCIPAL & REGISTERED OFFICE**

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West Perth, WA, 6005

Telephone: (08) 9322 6283

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**AUDITORS**

Bentleys Audit & Corporate (WA) Pty Ltd

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Level 3, 216 St Georges Terrace

PERTH WA 6000

**SHARE REGISTRAR**

Advanced Share Registry Services

110 Stirling Highway

NEDLANDS WA 6009

Telephone: (08) 9389 8033

Facsimile: (08) 9389 7871

**STOCK EXCHANGE LISTING**

Australian Securities Exchange

(Home Exchange: Perth, Western Australia)

Code: CAZ

**BANKERS**

National Australia Bank

50 St Georges Terrace

PERTH WA 6000

# CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

## DIRECTORS' REPORT HALF YEAR ENDED 31 DECEMBER 2017

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Your directors submit the financial report of Cazaly Resources Limited ('Cazaly' or 'the Company') and its controlled entities ('the Group') for the half-year ended 31 December 2017.

### DIRECTORS

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

Nathan Bruce McMahon  
Clive Bruce Jones  
Terry James Gardiner

### COMPANY SECRETARY

Mike Robbins

### REVIEW OF OPERATIONS

#### Projects

##### Parker Range Iron Ore Project (CAZ 100%)

The project hosts a near mine-ready iron ore deposit located in the Yilgarn of Western Australia key features of which include ultra-low Phosphorous haematite ore, completed full DFS, located nearby to major infrastructure and has its key approvals to mine in place. The Company is in continued discussions with infrastructure advisors and is reviewing export solutions. The nature of the ultra-low phosphorous ore makes this orebody in demand as a blending ore. The Company notes that Cliffs Natural Resources has publically stated that they are closing down their Koolyannobbing operations and this should open up capacity at the Esperance Port which is the preferred export option for the Parker Range project.

The right to commence mining was extended for a further 5 years to 2022 by the Minister for Environment.

##### Bungonia Project (CAZ 100%)

During the December 2017 quarter, Cazaly announced results from first pass reconnaissance mapping and rock chip sampling on its Bungonia Cobalt project in New South Wales. Results confirmed the presence of shallow high grade cobalt mineralisation associated with manganese enriched quartz sandstone units. The results were highly promising and an initial drill programme is currently planned to commence this month.

The project is held under Exploration Licence 8483, covers approximately 242 sq km and is located 130km north east of Canberra and 25km south east of Goulburn in New South Wales. Previous exploration defined several areas of significant cobalt and nickel mineralisation some of which have been historically mined as early as the 1890's. Cobalt mineralisation occurs as flat lying residual on hills extending for several hundred metres associated with manganese deposits. The deposits typically contain relatively rich cobalt values, with minor nickel and copper credits, and have been worked historically with high cobalt recoveries.

The areal extent and assay results from historic work point to significant potential to extend known deposits as well as make new discoveries within the project area. The potential is highlighted by the results of rock chip grades from recent programmes of up to 1.68% cobalt along with historic mining from several locations.

# CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

## DIRECTORS' REPORT HALF YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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### Mount Venn (CAZ 100%)

The Mount Venn project is located ~125 km northeast of Laverton and just 40 km west of Gold Road Resources Ltd's (ASX:GOR) Gruyere gold deposit (148 Mt @ 1.30 g/t Au for 6.16M oz., GOR announcement, 22 April 2016) in the Eastern Goldfields region of Western Australia. The belt is highly prospective for gold and base metals.

Since Cazaly gained access to its Mount Venn project earlier in 2017 the focus has been on exploring the gold potential in the central part of the belt. Drilling has initially focussed on two prospects, Three Bears (gold) and Rutters (gold and base metals). This work has successfully defined a +3km long gold mineralised corridor at Three Bears occurring within a wide shear structure with the Company also defining significant disseminated and veined sulphides within a package of felsic volcanics which appear to represent an exhalative style VMS system.

### Kurabuka Creek Project (CAZ 100%)

During the December quarter, the Company acquired the Kurabuka Creek Project through exploration licence application E09/2267 over 69 sub blocks in the Bangemall Basin of Western Australia. The area is prospective for shale hosted base metal mineralization as demonstrated by historic work. Cazaly has collated all open file data sets and prepare for field reconnaissance work investigating the potential of this area to host significant mineralization. Grant of the tenement is expected in the March quarter.

### McKenzie Springs Project

In January 2018, the Company entered into an agreement with Orca Energy Limited whereby Orca may earn an upfront 51% working interest in McKenzie Springs for the following consideration:

- 5 million OGY shares issued at 2 cents per share (IPO price) post 1:2 consolidation
- 10 million options in OGY (post consolidation) exercisable at 3 cents per share 3 years from date of readmission – this will be approximately 4.34% of the issued capital in OGY
- Orca will also commit to expenditure of \$500,000 within 18 months from readmission following which it will earn another 19% in the project to take its ownership in the project to 70%.

The project is located immediately south & along strike of the Savannah Nickel Mine (Panoramic Resources Ltd), Kimberley, WA. Prospective ultramafic basal contact extends for ~15km. Work by Cazaly has identified high grade gossan samples returned 12.8% Cu, 1.92% Ni, 0.17% Co. The project is also within 10km of the Hexagon Resources McIntosh Graphite Resource. Reprocessing and imaging of historic VTEM data was completed by Cazaly with several conductor targets potentially representing graphitic units ready for follow up.

### Goldfields Lithium Alliance

The Company withdrew from the Goldfields Lithium Alliance to focus on its core projects.

### Tsumke Cobalt Project

In late December the Company entered into an Option Agreement over the Tsumke cobalt project in Namibia. As announced on 2<sup>nd</sup> January 2018, a thorough desktop review was undertaken which indicated that the project was not as prospective as originally thought. Subsequently, the Company has formally withdrawn from the Option Agreement.

# CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

## DIRECTORS' REPORT HALF YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

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### Halls Creek Copper (DDD 80%, CAZ 20%)

Hosts the VMS Mt Angelo North copper-zinc deposit and the Mt Angelo Cu Porphyry. Numerous look-alike VMS targets to explore. Kimberley, WA. The September 2017 Quarterly Report from 3D Resources Ltd stated the following "With the requirements to obtain approvals for another year of renewals and the high expenditure commitments associated with such renewals, the Halls Creek Joint Venture decided to surrender then three exploration licenses but retain the Mining Lease M80/0247 which contains all the resources defined to date."

### Czech Republic (CAZ 80%)

Two uranium project applications, Brzkov & Horni Venice, located in the Czech Republic. State enterprise Diamo are closing the country's only operating uranium mine & has indicated interest in mining at Brzkov. The Company notes the recent election victory by the pro-business ANO party.

### **Corporate**

On 14/12/17, the Company announced the completion of a capital raising through the issue of unsecured convertible notes via a Perth based portfolio management and corporate advisory firm, Oracle Capital Group Pty Ltd (Oracle) to raise up to \$750,000 through the issue of up to 750,000 convertible notes, each with a face value of one dollar (\$1.00). Oracle would also be entitled to 10 options for each convertible note issued, exercisable at \$0.06 on or before 31 December 2019. A total of 730,000 convertible notes were issued during the period and 7,300,000 options were issued on 8 January 2018. The conversion of the convertible note debt instruments to convertible equity was subsequently approved by shareholders on 13 March 2018.

The Company maintains its Controlled Placement Agreement (CPA). The CPA provides Cazaly with up to \$2 million of standby equity capital over the coming 12 months. Importantly, Cazaly retains full control of the placement process, including having sole discretion as to whether or not to utilise the CPA. The CPA provides Cazaly with the flexibility to quickly and efficiently raise capital, including the ability to take advantage of suitably attractive opportunities should they arise. Cazaly is under no obligation to raise capital under the CPA. If Cazaly does decide to utilise the CPA, the Company has control, allowing Cazaly to decide the frequency, timing, maximum size and minimum issue price of any capital raisings under the CPA. Following the end of the half year the Company issued 3,166,035 shares at average price of \$0.056 for net proceeds of \$177,298.

### **RESULTS OF OPERATIONS**

The operating loss after income tax of the Group for the half-year ended 31 December 2017 was \$968,656 (31 December 2016: \$537,333).

### **FINANCIAL POSITION**

The Group had a working capital deficit, being current assets less current liabilities of (\$152,228) at 31 December 2017 (30 June 2017: surplus of 660,978).

### **SUBSEQUENT EVENTS**

On 13 March 2018, a shareholders meeting was held to consider resolutions to approve the conversion of debt notes to convertible equity and to ratify the prior issue of 7,300,000 options that were issued under the terms and conditions of the convertible notes. Both resolutions were approved by shareholders.

# CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

## DIRECTORS' REPORT HALF YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

In January 2018, the Company entered into an agreement with Orca Energy Limited whereby Orca may earn an upfront 51% working interest in McKenzie Springs for the following consideration:

- 5 million OGY shares issued at 2 cents per share (IPO price) post 1:2 consolidation
- 10 million options in OGY (post consolidation) exercisable at 3 cents per share 3 years from date of readmission – this will be approximately 4.34% of the issued capital in OGY
- Orca will also commit to expenditure of \$500,000 within 18 months from readmission following which it will earn another 19% in the project to take its ownership in the project to 70%.

The Company issued 3,166,035 shares on 8 January 2018 at an average price of \$0.056 for net proceeds of \$177,298 under its Controlled Placement Agreement.

Apart from the above, there have not been any other matters or circumstances that have arisen which have significantly affected, or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

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

The lead auditor's independence declaration is set out on page 18 of the half-year ended 31 December 2017.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

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



Nathan McMahon  
Managing Director

Perth  
Dated: 15 March 2018

#### Competent Persons Statement

*The information that relates to exploration targets, exploration results, resource reporting and drilling data of Cazaly operated projects is based on information compiled by Mr Clive Jones and Mr Don Horn who are Members of The Australasian Institute of Mining and Metallurgy and/or The Australian Institute of Geoscientists and are employees of the Company. Mr Jones and Mr Horn have sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as a Competent Persons as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Jones and Mr Horn consent to the inclusion in their names in the matters based on their information in the form and context in which it appears.*

**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME  
HALF YEAR ENDED 31 DECEMBER 2017**

		<b>31 December 2017 \$</b>	<b>31 December 2016 \$</b>
Revenue	2	29,774	273,965
Other Income	2	14,882	14,181
Employee benefits expense		(140,217)	(150,824)
Depreciation & amortisation expense		(3,357)	(4,651)
Administration expenses		(77,701)	(60,890)
Advertising & Promotional expenses		(11,299)	(30,049)
Compliance & Regulatory expenses		(82,450)	(151,331)
Consultancy costs		(36,374)	(13,969)
Occupancy costs		(30,804)	(30,035)
Write off of exploration expenditure		(583,047)	(210,478)
Equity based payments		-	(106,536)
Diminution in fair value of financial assets through profit and loss		<u>(48,063)</u>	<u>(66,716)</u>
Profit/(Loss) before income tax		(968,656)	(537,333)
Income tax benefit		<u>-</u>	<u>-</u>
Profit/(Loss) for the period		<u>(968,656)</u>	<u>(537,333)</u>
Profit/(Loss) attributable to:			
- Members of the controlling entity		(968,656)	(537,333)
- Non-controlling interest		<u>-</u>	<u>-</u>
		<u>(968,656)</u>	<u>(537,333)</u>
Other comprehensive income		-	-
Total comprehensive loss for the period		<u>(968,656)</u>	<u>(537,333)</u>
Net loss and total comprehensive income for the period attributable to:			
- Members of the controlling entity		(968,656)	(537,333)
- Non-controlling interest		<u>-</u>	<u>-</u>
		<u>(968,656)</u>	<u>(537,333)</u>
Basic earnings / (loss) per share (cents per share)		(0.52)	(0.32)

The accompanying notes form part of this financial report.



**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2017**

	<b>31 December 2017</b>	<b>30 June 2017</b>
Note	\$	\$
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	661,671	723,262
Trade and other receivables	154,313	219,622
<b>TOTAL CURRENT ASSETS</b>	<b>815,984</b>	<b>942,884</b>
<b>NON-CURRENT ASSETS</b>		
Trade and other receivables	26,136	25,744
Financial assets	100,652	143,745
Property, plant and equipment	19,188	22,545
Exploration, evaluation and development	19,826,675	19,679,982
<b>TOTAL NON-CURRENT ASSETS</b>	<b>19,972,651</b>	<b>19,872,016</b>
 <b>TOTAL ASSETS</b>	 <b>20,788,635</b>	 <b>20,814,900</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	283,510	204,692
Short-term provisions	85,996	77,214
Convertible notes	4 598,706	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>968,212</b>	<b>281,906</b>
 <b>TOTAL LIABILITIES</b>	 <b>968,212</b>	 <b>281,906</b>
 <b>NET ASSETS</b>	 <b>19,820,423</b>	 <b>20,532,994</b>
<b>EQUITY</b>		
Issued Capital	3 27,881,867	27,712,676
Reserves	305,198	218,304
Accumulated profits/(losses)	(8,351,666)	(7,383,010)
Controlling entity interest	19,835,399	20,547,970
Non-controlling interest	(14,976)	(14,976)
 <b>TOTAL EQUITY</b>	 <b>19,820,423</b>	 <b>20,532,994</b>

The accompanying notes form part of this financial report.

**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT  
HALF YEAR ENDED 31 DECEMBER 2017**

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	<b>31 December 2017 \$</b>	<b>31 December 2016 \$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from tenant recoupments	104,643	12,052
Receipts from royalty payments	10,065	139,095
Payments to suppliers and employees	(341,400)	(454,197)
Interest and bill discounts received	875	3,952
Payments for exploration and evaluation	<u>(632,944)</u>	<u>(585,336)</u>
Net cash used in operating activities	<u>(858,761)</u>	<u>(884,434)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equity investments	(8,000)	-
Proceeds from disposal of investments	2,631	-
Proceeds on sale of exploration assets	<u>-</u>	<u>14,181</u>
Net cash (used in)/ provided by investing activities	<u>(5,369)</u>	<u>14,181</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	-	11,000
Proceeds from shares to be issued	53,300	-
Payments for costs of issue of shares	(1,125)	-
Proceeds from convertible note	<u>750,000</u>	<u>-</u>
Net cash provided by financing activities	<u>802,175</u>	<u>11,000</u>
Net (decrease) in cash held	(61,955)	(859,253)
Cash at beginning of period	<u><b>723,626</b></u>	<u><b>1,585,592</b></u>
Cash at end of reporting period	<u><b>661,671</b></u>	<u><b>726,339</b></u>

The accompanying notes form part of this financial report.

**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
HALF YEAR ENDED 31 DECEMBER 2017**

	<b>Issued Capital</b>	<b>Accumulated Profits/(Losses)</b>	<b>Option Reserve</b>	<b>Non- Controlling Interest</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2017</b>	27,712,676	(7,383,010)	218,304	(14,976)	20,532,994
Net loss and total comprehensive income for the period attributable to members	-	(968,656)	-	-	(968,656)
Shares issued	72,616	-	-	-	72,616
Shares to be issued	97,700	-	-	-	97,700
Issue costs	(1,125)	-	-	-	(1,125)
Options to be issued	-	-	86,894	-	86,894
Options expired	-	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>27,881,867</b>	<b>(8,351,666)</b>	<b>305,198</b>	<b>(14,976)</b>	<b>19,820,423</b>
<b>Balance at 1 July 2016</b>	26,487,504	(6,071,442)	115,744	(14,711)	20,517,095
Net loss and total comprehensive income for the period attributable to members	-	(537,333)	-	-	(537,333)
Shares issued	507,751	-	-	-	507,751
Issue costs	-	-	-	-	-
Options issued	-	-	218,304	-	218,304
Options expired	-	115,744	(115,744)	-	-
<b>Balance at 31 December 2016</b>	<b>26,995,255</b>	<b>(6,493,031)</b>	<b>218,304</b>	<b>(14,711)</b>	<b>20,705,817</b>

The accompanying notes form part of these financial statements.

# CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

## NOTES TO THE FINANCIAL STATEMENTS HALF YEAR ENDED 31 DECEMBER 2017

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### 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Corporate information

The interim financial report of Cazaly Resources Limited ('Cazaly' or the 'Company') for the half year ended 31 December 2017 was authorised for issue in accordance with a resolution of the Directors on 15 March 2018.

Cazaly is a company limited by shares incorporated and domiciled in Australia whose shares (CAZ) are publicly traded on the Australian Securities Exchange. The principal activity of Cazaly Resources Limited is the exploration and development of mineral resources.

#### (b) Statement of compliance

The interim consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standard AASB 134: *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS34: *Interim Financial Reporting*.

The condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by Cazaly and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

#### (c) Basis of preparation

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the impact of the standards and interpretations below in note 1(e). These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The financial statements are for the consolidated entity consisting of Cazaly Resources Ltd and its subsidiaries (the 'Group').

The financial report has also been prepared on an historical cost basis, except for available for sale investments which have been measured at fair value through profit and loss. Cost is based on the fair values of the consideration given in exchange for assets.

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

#### (d) Going concern

The half-year financial report for the period ended 31 December 2017 has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the half-year ended 31 December 2017 the Group recorded a net loss after tax of \$968,656 (2016: \$537,333) and had a net working capital deficit of (\$152,228) (30 June 2017: surplus of \$660,978).

## CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) HALF YEAR ENDED 31 DECEMBER 2017

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The Group will require further funding during the 2018 calendar year in order to meet day to day obligations as they fall due and to progress its exploration projects. Based on the Group's cash flow forecast, the Board of Directors is aware of the Group's need to access additional working capital funds in the next 12 months to enable the Group to continue its normal business activities and to ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

Based on above, the Directors consider the going concern basis of preparation to be appropriate for this half-year report.

In the event that the Group is not successful in raising funds from the issue of new equity, containing operating and exploration expenditures and the receipt of royalty payments from previous tenement sale agreements, there exists material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year report.

The financial report does not contain any adjustments relating to the recoverability and classification of recorded assets or to the amounts or classification of recorded assets or liabilities that might be necessary should the Group not be able to continue as going concern.

#### **(e) New and revised standards and interpretations that are first effective in the current reporting period**

The Group has adopted all of the new, revised and amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position in this financial report.

Any new, revised or amending Accounting Standards and Interpretations that are not yet mandatory have not been early adopted by the Group.

#### **(f) Significant accounting judgements and key estimates**

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing this half-year report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2017.

#### *Capitalised exploration costs carried forward*

The future recoverability of capitalised exploration costs carried forward has been reviewed by the directors. They are dependent on a number of factors, including whether the Group decides to exploit the related lease/licence itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, sovereign risk, future technological changes, availability of funds, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration expenditure is determined not to be recoverable in the future, results and net assets will be reduced in the period in which this determination is made.

**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
HALF YEAR ENDED 31 DECEMBER 2017**

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable resources. To the extent it is determined in the future that this capitalised expenditure should be written off, results and net assets will be reduced in the period in which this determination is made.

**(g) Segment information**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments has been identified as the Managing Director of Cazaly.

**2. INCOME AND EXPENSES**

	31 Dec 2017	31 Dec 2016
	\$	\$
The following revenue and expense items are relevant in explaining the income statement for the half-year:		
<b>Revenue</b>		
Interest received	1,267	3,952
Recoupment of office costs on-charged	18,442	26,867
Royalty Revenue	10,065	175,199
Other	-	67,947
	<u>29,774</u>	<u>273,965</u>
<b>Other Income</b>		
Sale of tenement	-	14,181
Insurance compensation	14,882	-
	<u>14,882</u>	<u>14,181</u>

**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**HALF YEAR ENDED 31 DECEMBER 2017**

**3. ISSUED CAPITAL**

	<b>31 Dec 2017</b>	<b>30 June 2017</b>
	\$	\$
188,032,345 (30 June 2017: 186,191,608) fully paid ordinary shares with no par value	<u>27,881,867</u>	<u>27,712,676</u>

	31 Dec 2017	31 Dec 2017	30 June 2017	30 June 2017
	Number	\$	Number	\$

**(a) Movements in ordinary shares**

Balance at the beginning of the year/period	186,191,608	27,712,676	160,116,480	26,487,504
Issue of shares at \$0.04 each (i)	535,980	21,600	-	-
Issue of shares at \$0.04 each (i)	1,304,757	51,016	-	-
Conversion of convertible notes (ii)	-	-	6,666,666	200,000
Issue of shares at \$0.071 each (iii)	-	-	2,500,000	177,500
Issue of shares at \$0.065 each (iv)	-	-	1,538,462	100,000
Issue of shares at \$0.11 each (v)	-	-	175,000	19,250
Conversion of options at \$0.04 each (vi)	-	-	275,000	11,000
Issue of shares at \$0.05 each (vii)	-	-	14,120,000	706,000
Issue of shares at \$0.05 each (viii)	-	-	800,000	40,000
Less: transaction costs	-	(1,125)	-	(28,578)
Shares to be issued (ix)		97,700		
Balance at the end of the period	<u>188,032,345</u>	<u>27,881,867</u>	<u>186,191,608</u>	<u>27,712,676</u>

- (i) Shares issued in lieu of services provided by a contractor.
- (ii) Shares issued on conversion of two convertible notes provided by Directors. Approved by shareholders at a general meeting on 12 August 2016.
- (iii) Shares issued to the vendors of Yamarna West Pty Ltd. Approved by shareholders at the annual general meeting on 24 November 2016.
- (iv) Shares issued to the vendors of the Widgiemooltha project. Approved by shareholders at the annual general meeting on 24 November 2016.
- (v) Shares issued to a consultant on 23 August 2016 in lieu of services provided by a consultant.
- (vi) Shares issued on the conversion of \$0.04 options (expiry date 5 January 2018).
- (vii) Placement shares issued on 15 May 2017.
- (viii) Shares issued to consultant on 15 May 2017 in lieu of services provided.
- (ix) \$53,300 received for conversion of \$0.04 options. \$44,400 to be issued for consultancy costs in relation to the convertible notes issue. The shares were issued on 8 January 2018.

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held and in proportion to the amount paid up on the shares held.

At shareholders meetings each ordinary share is entitled to one vote in proportion to the paid up amount of the share when a poll is called, otherwise each shareholder has one vote on a show of hands.

**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**HALF YEAR ENDED 31 DECEMBER 2017**

**3. ISSUED CAPITAL (continued)**

**(b) Movements in Options over ordinary shares**

Exercise Period	Exercise Price	Number on issue at 30 June 2017	Issued during the half year	Exercised/ Expired/ Cancelled	Number on issue at 31 December 2017
<u>Quoted</u>					
On or before 21 August 2018	\$0.11	18,913,847	-	-	18,913,847
<u>Unquoted</u>					
On or before 5 January 2018	\$0.040	5,974,168	-	-	5,974,168
On or before 22 August 2018	\$0.150	175,000	-	-	175,000
On or before 30 November 2018	\$0.200	5,000,000	-	-	5,000,000
On or before 22 August 2019	\$0.180	1,450,000	-	-	1,450,000
On or before 22 August 2019	\$0.144	2,500,000	-	-	2,500,000
On or before 22 August 2020	\$0.216	2,500,000	-	-	2,500,000
Total unquoted options		17,599,168	-	-	17,599,168

- (i) 7,300,000 options expiring 31 December 2019 with an exercise price of \$0.06 were still to be issued at 31/12/2017 as part of the issue of convertible notes (refer to note 4). These were issued on 8/1/2018. Shareholders subsequently ratified the issue of these options at a general meeting held on 13 March 2018.

Unquoted options are issued to vendors, directors, employees and consultants. The unquoted options may be subject to performance criteria, and are issued to directors, employees and consultants to increase goal congruence between executives, directors and shareholders. Unquoted options carry no dividend or voting rights.

**4. CONVERTIBLE NOTES**

	31 Dec 2017	30 June 2017
	\$	\$
Face value	730,000	-
Issue costs		
- 7,300,000 options to be issued	(86,864)	-
- Consultancy costs settled in shares	(44,400)	-
Costs unwound during the period	-	-
Balance	<u>598,736</u>	-

On 14/12/17, the Company announced the completion of a capital raising through the issue of unsecured convertible notes via a Perth based portfolio management and corporate advisory firm, Oracle Capital Group Pty Ltd (Oracle) to raise up to \$750,000, through the issue of up to 750,000 convertible notes, each with a face value of one dollar (\$1.00). Oracle would also be entitled to up to 10 options for each convertible note issued, exercisable at \$0.06 on or before 31 December 2019. A total of 730,000 convertible notes were issued during the period and 7,300,000 unquoted options were issued on 8 January 2018.



# CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) HALF YEAR ENDED 31 DECEMBER 2017

### 4. CONVERTIBLE NOTES (continued)

The 7,300,000 unquoted options have been valued at \$86,864 based on the following assumptions:

Number of Options	Fair Value at Grant Date per Option	Estimated Volatility	Life of Option (years)	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate
7,300,000	\$0.0119	67.5%	2	\$0.06	\$0.043	1.86%

Other key terms include:

- (a) Maturity Date - 12 months from the date of issue
- (b) Interest - 10% per annum. Only paid on redemption.
- (c) Conversion Price - the lower of \$0.047 or a 15% discount to the VWAP for the 5 trading days prior to the Conversion Notice.
- (d) Conversion prior to Repayment Date - the Company may convert all or any of the Notes into Ordinary Shares at any time and at any frequency as at a date prior to the Repayment Date by giving a Conversion Notice to the Noteholder.
- (e) Conversion on Repayment Date - All outstanding Notes (excluding any Notes in respect of which a Redemption Notice has been issued or a Conversion Notice has been issued) will automatically convert into Ordinary Shares on the Repayment Date and the Company will be deemed to have issued a Conversion Notice converting all outstanding Notes held by the Noteholder at the Repayment Date.
- (f) Security: the Convertible Notes are unsecured.
- (g) Transferability and other restrictions: the Convertible Notes will only be transferrable with the Company's written consent.

### 5. SUBSEQUENT EVENTS

On 13 March 2018, a shareholders meeting was held to consider resolutions to approve the conversion of debt notes to convertible equity and to ratify the prior issue of 7,300,000 options that were issued under the terms and conditions of the convertible notes. Both resolutions were approved by shareholders.

In January 2018, the Company entered into an agreement with Orca Energy Limited whereby Orca may earn an upfront 51% working interest in McKenzie Springs for the following consideration:

- 5 million OGY shares issued at 2 cents per share (IPO price) post 1:2 consolidation
- 10 million options in OGY (post consolidation) exercisable at 3 cents per share 3 years from date of readmission – this will be approximately 4.34% of the issued capital in OGY
- Orca will also commit to expenditure of \$500,000 within 18 months from readmission following which it will earn another 19% in the project to take its ownership in the project to 70%.

The Company issued 3,166,035 shares on 8 January 2018 at an average price of \$0.056 for net proceeds of \$177,298 under its Controlled Placement Agreement.

No other events have arisen that would be likely to materially affect the operations of the Group, or the state of affairs of the Group not otherwise disclosed in the Group's financial report.

## CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES

ABN 23 101 049 334

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) HALF YEAR ENDED 31 DECEMBER 2017

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#### **6. CONTINGENT LIABILITIES**

There has been no change in contingent liabilities since the last annual reporting date.

#### **7. OPERATING SEGMENTS**

The Company operates in one geographical area being Australia and one industry, being exploration, for the half year ended 31 December 2017 which was the same as reported in the financial report for the year ended 30 June 2017. The Chief Operating Decision Makers are the Board of Directors and the management of the Group. There is currently only one operating segment identified, being exploration activities based in Australia based on internal reports reviewed by the Chief Operating Decision Makers in assessing performance and allocation of resources. The accounting policies applied for internal reporting purposes are consistent with those applied in the preparation of the financial statements.

#### **8. FINANCIAL INSTRUMENTS**

The Group's financial instruments consist of trade and other receivable, trade and other payables and convertible notes. These financial instruments are measured at amortised cost, less any provision for non-recovery. The carrying amount of the financial assets and liabilities approximate their fair value.

The Group's held for trading financial assets are level-1 financial instruments and valued using the quoted bid prices from the Australian Securities Exchange as at the reporting date.

**CAZALY RESOURCES LIMITED AND CONTROLLED ENTITIES**

ABN 23 101 049 334

**DIRECTORS' DECLARATION  
HALF YEAR ENDED 31 DECEMBER 2017**

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In the opinion of the directors:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134: "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) 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 directors, made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the Board.



Nathan McMahon  
Managing Director

PERTH  
Dated 15 March 2018

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To the Board of Directors

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

As lead audit director for the review of the financial statements of Cazaly Resources Limited for the period ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully



**BENTLEYS**  
Chartered Accountants



**MARK DELAURENTIS CA**  
Director

Dated at Perth this 15<sup>th</sup> day of March 2018

## Independent Auditor's Review Report

### To the Members of Cazaly Resources Limited

We have reviewed the accompanying financial report of Cazaly Resources Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the condensed consolidated statement of financial position as at 31 December 2017, the 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, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled during the period.

#### Directors Responsibility for the Financial Report

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

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the 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 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 2017 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 Consolidated Entity, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a 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.

# Independent Auditor's Review Report

To the Members of Cazaly Resources Limited (Continued)

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## 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 financial report of Cazaly Resources Limited and Controlled Entities 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 2017 and of its performance for the period ended on that date; and
- b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

## Material Uncertainty Related to Going Concern

We draw attention to Note 1(d) in the financial report, which indicates that the Consolidated Entity incurred a net loss of \$968,656 during the half year ended 31 December 2017. As stated in Note 1(d), these events or conditions, along with other matters as set forth in Note 1(d), indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

**BENTLEYS**  
Chartered Accountants

**MARK DELAURENTIS CA**  
Director

Dated at Perth this 15<sup>th</sup> day of March 2018