

HANNANS REWARD LTD

ABN 52 099 862 129

Financial Report for the half-year ended 31 December 2015

www.hannansreward.com

CONTENTS

Page

Corporate Directory.....	1
Directors' Report	2
Directors' Declaration	4
Independence Declaration to the Directors of Hannans Reward Ltd.....	5
Independent Review Report to the Members of Hannans Reward Ltd	6
Consolidated Statement of Comprehensive Income	8
Consolidated Statement of Financial Position	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows.....	12
Notes to the Consolidated Financial Statements	13

CORPORATE DIRECTORY

Board of Directors

Managing Director	Mr Damian Hicks	Company Secretary	Mr Ian Gregory
Non-Executive Director	Mr Jonathan Murray		
Non-Executive Director	Mr Markus Bachmann		
Non-Executive Director	Mr Olof Forslund		

Principal Office

6 Outram Street, West Perth, Western Australia, 6005

Postal Address

PO Box 1227,
West Perth, Western Australia, 6872

Contact Details

+61 8 9324 3388 (Telephone)
+61 8 9324 3366 (Facsimile)
admin@hannansreward.com (Email)
www.hannansreward.com (Website)
ABN 52 099 862 129

Auditors

Ernst & Young
Ernst & Young Building
11 Mounts Bay Road, Perth, Western Australia, 6005

Registered Office

6 Outram Street, West Perth, Western Australia, 6005

Social Network Sites

Twitter – @hannansreward
Facebook – Hannans Reward

Share Registry

Computershare
Level 11, 172 St George's Terrace
Perth, Western Australia, 6000
1300 787 272 (Telephone)
www.computershare.com.au (Website)

Lawyers

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street, Perth, Western Australia, 6000

DIRECTORS' REPORT

The Directors of Hannans Reward Limited (**Group or Company**) submit the financial report for the half-year ended 31 December 2015. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

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

Managing Director

Mr Damian Hicks

Non Executive Directors

Mr Jonathan Murray

Mr Olof Forslund

Mr Markus Bachmann

The Directors held their position throughout the entire half-year period and up to the date of this report unless stated otherwise.

Principal activities

The principal activity of the Group during the half-year period was exploration and evaluation of mineral interests.

Results

The consolidated net loss of the Group for the half-year period after income tax expense was \$277,723 (2014: \$331,353 loss). This was largely the result of the decreased exploration activities due to the Company's decision to reduce the Australian and Sweden portfolio.

Review of operations

During the half-year period the Company announced that the Pahtohavare Project Joint Venture partner, Lovisagruvan AB has formally notified the Company of its decision to proceed to Stage 2 of the Pahtohavare Joint Venture. Lovisagruvan AB will now prepare and lodge an exploitation concession application for the Pahtohavare Central deposit within 12 months. As part of the Stage 2 commitment, Lovisagruvan AB will provide the Company with a SEK 3 million (equivalent to AUD 487,800 as at 31 December 2015) interest free working capital facility which can only be drawn down in two equal instalments (refer note 14 for further details).

The Company continues the search for a partner for the other projects with the technical expertise and financial strength to drive the projects forward.

Subsequent events

No matters or circumstances have arisen since 31 December 2015 that may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years except as stated below.

On 24 November 2015 the Company announced that the joint venture partner, Lovisagruvan AB (LOVI) has formally notified the Company of its decision to proceed to Stage 2 of the joint venture. As part of their Stage 2 commitment LOVI will provide the Company with a SEK 3 million (equivalent to AUD 487,800 as at 31 December 2015) interest free working capital facility which can only be drawn down in two equal instalments. Each instalment must be repaid within 12 months from the drawdown date. The Company received the first loan instalment of SEK 1.5 million (equivalent to AUD247,500 as at 29 January 2016) on 29 January 2016.

On 17 November 2015 the Company received an unsecured loan of \$250,000 from an unrelated third party on normal commercial terms. The loan facility was fully repaid by the Company on 1 February 2016.

The Company offered a loan facility of \$50,000 at an interest rate of 20% per annum to Errawarra Resources Ltd (Errawarra) which is secured against Errawarra's rights, title and interest in the agreement executed between Errawarra, Reid Systems Inc and Reid Systems (Australia) Pty Ltd. Errawarra made a loan drawdown of \$25,000 on 10 February 2016 and a further loan drawdown of \$25,000 on 9 March 2016.

An application to voluntarily deregister HR Subsidiary Pty Ltd (HRS), a dormant subsidiary of the Company, was submitted to the Australian Securities & Investments Commission on 15 February 2016. HRS does not have any outstanding obligations or liabilities as at the date of the application. ASIC will publish a notice of the proposed deregistration on the published notices website for 2 months and if no objections are submitted at the end of the notice period ASIC will send a deregistration confirmation letter to the Company.

On 4 March 2016 the Company announced that it has entered into a transaction with Neometals Ltd (**Neometals**). The transaction will result in the Company resuming management control and ownership of the Forrestania gold (20%) and Forrestania, Lake Johnston and Queen Victoria Rocks nickel (100%) joint venture with Neometals and requires the Company to complete a \$1.25 million capital raising to support this strategy (Gold and Nickel Transaction). As part of the transaction, the Company will also demerge its Scandinavian assets into an unlisted subsidiary company called Scandinavian Resources Pty Ltd (**SCR**). The transaction and demerger of SCR remain conditional and are subject to Hannans shareholder approval at a meeting expected to be held in the June quarter.

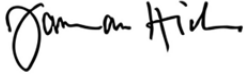
On 11 March 2016 the Company announced that it has completed a \$250,000 placement to Neometals for the subscription of 62.5 million shares in Hannans priced at 0.4 cents per share and 31.25 million options in Hannans exercisable at 0.4 cents within 2 years.

Auditor's independence declaration

The auditor's independence declaration is included on page 5 and forms part of the Directors' report for the six months ended 31 December 2015.

Signed in accordance with a resolution of directors.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Damian Hicks', written in a cursive style.

Damian Hicks
Managing Director
15 March 2016

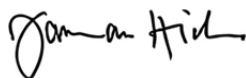
DIRECTORS' DECLARATION

The Directors declare that:

- (a) in the Directors' opinion, subject to the achievability of the matters set out in note 2, Going Concern, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with Australian Accounting Standard AASB 134 and the *Corporations Regulations 2001* as disclosed in note 2 and giving a true and fair view of the financial position and performance of the consolidated entity for the half-year ended 31 December 2015.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the Directors



Damian Hicks

Managing Director

Perth, Western Australia this 15th of March 2016

INDEPENDENCE DECLARATION TO THE DIRECTORS OF HANNANS REWARD LTD



Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

Auditor's Independence Declaration to the Directors of Hannans Reward Limited

As lead auditor for the review of Hannans Reward Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Hannans Reward Limited and the entities it controlled during the financial period.

Ernst & Young

Gavin Buckingham
Partner
15 March 2016

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF HANNANS REWARD LTD



Ernst & Young
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
ey.com/au

To the members of Hannans Reward Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Hannans Reward Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of 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 controls as the directors determine are 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 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 2015 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 Hannans Reward Ltd and the entities it controlled during the half-year, 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 have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' 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 Hannans Reward Limited 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 2015 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*.

Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 2(a) in the financial report. The matters as set forth in Note 2(a) 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.

Ernst & Young

Gavin Buckingham
Partner
Perth
15 March 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half-year ended 31 December 2015

	Half-year ended 31 Dec 2015 \$	Half-year ended 31 Dec 2014 \$
Other income	272,098	422,845
Employee and contractors expenses	(190,248)	(290,319)
Depreciation expense	(15,461)	(14,895)
Consultants expenses	(95,401)	(44,022)
Interest expense	(1,301)	(1,311)
Occupancy expenses	(22,934)	(117,229)
Marketing expenses	(4,297)	(5,065)
Exploration and evaluation expenses	(26,488)	(238,497)
Impairment of exploration and evaluation expenses	(123,656)	-
Other expenses	(70,035)	(42,860)
Loss from continuing operations before income tax benefit	(277,723)	(331,353)
Income tax benefit	-	-
Loss from continuing operations attributable to members of the parent entity	(277,723)	(331,353)
Other comprehensive income/(loss) for the period		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation differences – foreign operations	51,070	(24,944)
Net change in fair value of available-for-sale financial assets	-	130
Total items that may be reclassified subsequently to profit or loss	51,070	(24,814)
Total comprehensive loss for the period	(226,653)	(356,167)
Net loss attributable to the parent entity	(277,723)	(331,353)
Total comprehensive loss attributable to the parent entity	(226,653)	(356,167)
Loss per share:		
Basic (cents per share)	(0.04)	(0.05)
Diluted (cents per share)	(0.04)	(0.05)

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2015

	Note	31 Dec 2015 \$	30 Jun 2015 \$
Current assets			
Cash and cash equivalents		399,926	345,497
Trade and other receivables		51,929	21,763
Prepayments		49,695	54,827
Other financial assets	3	621	5,526
Total current assets		502,171	427,613
Non-current assets			
Other receivables		104,869	154,275
Property, plant and equipment		14,222	29,681
Other financial assets	3	168,985	168,985
Capitalised mineral exploration and evaluation expenditure	4	1,358,145	1,356,340
Total non-current assets		1,646,221	1,709,281
TOTAL ASSETS		2,148,392	2,136,894
Current liabilities			
Trade and other payables	5	1,821,603	1,737,519
Provisions	6	188,329	244,585
Other financial liabilities	7	250,422	2,884
Total current liabilities		2,260,354	1,984,988
Non-current liabilities			
Provisions	6	8,236	78,343
Total non-current liabilities		8,236	78,343
TOTAL LIABILITIES		2,268,590	2,063,331
NET ASSETS		(120,198)	73,563
Equity			
Issued capital	8	44,577,512	44,577,512
Reserves	9	(154,008)	(237,970)
Accumulated losses	10	(44,543,702)	(44,265,979)
TOTAL EQUITY		(120,198)	73,563

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2015

For the half-year ended 31 December 2015	Attributable to equity holders					
	Issued capital \$	Option Reserves \$	Revaluation Reserves \$	Foreign Currency Translation Reserves \$	Accumulated Losses \$	Total Equity \$
Balance as at 1 July 2015	44,577,512	75,380	-	(313,350)	(44,265,979)	73,563
Total comprehensive income						
Loss for the period	-	-	-	-	(277,723)	(277,723)
Other comprehensive income for the period	-	-	-	51,070	-	51,070
Total comprehensive income/(loss) for the period	-	-	-	51,070	(277,723)	(226,653)
Transactions with owners recorded direct to equity						
Issue of options	-	32,892	-	-	-	32,892
Share issue expense	-	-	-	-	-	-
Total transactions with owners	-	32,892	-	-	-	32,892
Balance as at 31 December 2015	44,577,512	108,272	-	(262,280)	(44,543,702)	(120,198)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half-year ended 31 December 2014

	Attributable to equity holders					
For the half-year ended 31 December 2014	Issued Capital \$	Option Reserves \$	Revaluation Reserves \$	Foreign Currency Translation Reserves \$	Accumulated Losses \$	Total Equity \$
Balance as at 1 July 2014	44,577,512	-	(29,210)	(212,940)	(15,145,576)	29,189,786
Total comprehensive income						
Loss for the period	-	-	-	-	(331,353)	(331,353)
Other comprehensive income for the period	-	-	130	(24,944)	-	(24,814)
Total comprehensive loss for the period	-	-	130	(24,944)	(331,353)	(356,167)
Transactions with owners recorded direct to equity						
Issue of options	-	45,459	-	-	-	45,459
Share issue expense	-	-	-	-	-	-
Total transactions with owners	-	45,459	-	-	-	45,459
Balance as at 31 December 2014	44,577,512	45,459	(29,080)	(237,884)	(15,476,929)	28,879,078

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

for the half-year ended 31 December 2015

	Half-year ended 31 Dec 2015 \$	Half-year ended 31 Dec 2014 \$
Cash flows from operating activities		
Receipts of other income	149,215	64,487
Receipt of exclusive due diligence fee	-	559,498
Receipts/(Payments) for exploration and evaluation	28,641	(203,976)
Payments to suppliers and employees	(370,519)	(520,200)
Interest received	4,603	7,033
Interest paid	(1,215)	(1,311)
Net cash used in operating activities	(189,275)	(94,469)
Cash flows from investing activities		
Payments for exploration and evaluation	(76,100)	(80,504)
Proceeds on sale of investment securities	5,420	-
Proceeds on sale of fixed assets	7,330	-
Amounts received from outside entities	-	46,931
Release of security bonds	50,262	59,000
Net cash (used)/received by investing activities	(13,088)	25,427
Cash flows from financing activities		
Proceeds from borrowings	250,000	-
Repayment of finance leases	(2,546)	(2,245)
Net cash received/(used) in financing activities	247,454	(2,245)
Net increase/(decrease) in cash and cash equivalents	45,091	(71,287)
Cash and cash equivalents at the beginning of the financial period	345,497	695,163
Effects of exchange rate fluctuations on cash held	9,338	(26)
Cash and cash equivalents at the end of the financial period	399,926	623,850

The accompanying notes form part of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2015

1. Reporting Entity

Hannans Reward Ltd (**Hannans** or **the Company**) is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange. The consolidated half-year financial report of the Group as at and for the six months ended 31 December 2015 comprises the Company and its subsidiaries (together referred to as **the Group**).

The financial report of Hannans for the half-year ended 31 December 2015 was authorised for issue by the Directors on 15 March 2016.

The nature of the operations and principal activities of the consolidated entity are described in the Directors' Report.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2015 is available upon request from the Company's registered office at 6 Outram Street, West Perth, Western Australia, 6005 or at www.hannansreward.com.

2. Basis of preparation and changes to the accounting policies

(a) Basis of preparation

This general purpose financial report for the half-year ended 31 December 2015 has been prepared in accordance with AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. It is recommended that the half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2015 and considered together with any public announcements made by the Company during the half-year ended 31 December 2015 in accordance with the continuous disclosure obligations of the ASX Listing Rules.

The half-year financial report has been prepared on a historical cost basis except for available-for-sale financial assets which are measured at fair value.

Apart from the changes in accounting policy in note 2(b), the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Going concern

The consolidated entity recorded a loss of \$277,723 (31 December 2014: \$331,353 loss) for the half-year ended 31 December 2015 and had a net cash outflow from operating and investing activities of \$202,363 (31 December 2014: \$69,042 net outflow) for the half year ended 31 December 2015. The consolidated entity had cash and cash equivalents at 31 December 2015 of \$399,926 (30 June 2015: \$345,497) and has a working capital deficit of \$1,758,183 (30 June 2015: \$1,557,375 deficit), which includes a \$90,984 payable for 50 per cent of the exploitation concession application expenses incurred by Avalon and \$1 million claimed as refundable to Avalon Minerals Limited (**Avalon**). Refer to note 5 for further details.

The Group's cashflow forecast for the period 1 January 2016 to 31 March 2017 reflects that the Group will need to raise additional working capital during the quarter ending 30 June 2016 to enable the Group to continue to meet its current committed administration and exploration expenditure.

Notwithstanding the above matters, the Directors are satisfied they will be able to raise additional working capital as required and thus it is appropriate to prepare the financial statements on a going concern basis. In arriving at this position the Directors have considered the following pertinent matters:

o On 9 October 2015 Hannans received a Refund Notice from Avalon to refund the first \$1 million received from them. Pursuant to the Heads of Agreement (**HOA**), Avalon was required to transfer the exploitation concession application back to Hannans upon receipt of the refund from Hannans.

On 21 October 2015 Hannans was made aware that the Discovery Zone exploitation concession application had been dismissed by the Mining Inspectorate of Sweden and Avalon can no longer transfer the application back to the Group as required by the HOA.

On 14 January 2016 Avalon advised Hannans that it will commence court action to recover the \$1 million paid by Avalon to Hannans pursuant to the HOA. It is important to note that if the Company is required to refund Avalon, the HOA provides that the Company can transfer a project of equivalent value to Avalon. There is no requirement in the HOA for Hannans to make a cash payment to Avalon. However no such action has been initiated by Avalon.

Hannans reinforces that it is reserving all of its rights in connection with the HOA. Refer to note 5 for further details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2015

2. Basis of preparation and changes to the accounting policies (cont'd)

(a) Basis of preparation (cont'd)

Going concern (cont'd)

∅ Creditors with an outstanding balance at 31 December 2015 of \$480,839 advised the Group that they will not seek repayment of monies owing to them until the Group has the financial capacity to do so. The creditors represent key management personnel of the Group.

On 11 November 2015 Avalon served Hannans with a Creditor's Statutory Demand for Payment being the 50 per cent expenditure expensed on the Discovery Zone Exploitation Concession application totalling to \$90,984. Hannans believes that there is a genuine dispute about the existence of the alleged debt and has initiated an action to set aside the statutory demand. The matter is expected to be listed for hearing in March 2016. Refer to note 5 for further details.

∅ The Group has secured an interest free working facility of SEK 3 million (equivalent to AUD 487,800 as at 31 December 2015) from Lovisagravan AB (**LOVI**). The first loan instalment of SEK 1.5 million (equivalent to AUD247,500 as at 29 January 2016) was drawn down on 29 January 2016. The Company has access to the balance SEK 1.5 million (equivalent to AUD243,900) which can be drawn down when required.

∅ On 11 March 2016 the Company announced that it has completed a \$250,000 placement to Neometals for the subscription of 62.5 million shares in Hannans priced at 0.4 cents per share and 31.25 million options in Hannans exercisable at 0.4 cents within 2 years.

∅ The Company is required to complete a \$1.25 million capital raising as a condition of the transaction with Neometals Ltd (**Neometals**) announced on 4 March 2016.

In the event that the Group is unable to raise additional funds to meet the Group's ongoing working capital requirements when required, there is a significant uncertainty as to whether the Group will be able to meet its debts as and when they fall due and thus continue as a going concern.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(b) Changes in accounting policies

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015, except for the adoption of new standards and interpretations effective as of 1 July 2015 detailed below:

∅ AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 *Materiality*. The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

The adoption of these new and revised standards has not resulted in any significant changes to the Group's accounting policies or to the amounts reported for the current or prior periods. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

	31 Dec 2015 \$	30 Jun 2015 \$
3. Other financial assets		
Current		
Quoted equity shares (i)	620	5,525
Unquoted equity shares (ii)	1	1
	621	5,526
(i) Investments in listed entities include the following: (a) 20,000 ordinary fully paid shares in Brighton Mining Group Ltd; and (b) 20,000 ordinary fully paid shares in Lithex Resources Ltd.		
(ii) HR Subsidiary Pty Ltd (a wholly owned subsidiary of Hannans Reward Ltd) holds 1 share at \$1 in Equity & Royalty Investments Ltd. Equity & Royalty Investments Ltd has 100 million ordinary shares on issue. The principal activity of the Company is the investment in equity and royalties in other companies with the objective of realising gains through equity and generating an income stream through the royalties.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2015

	31 Dec 2015 \$	30 Jun 2015 \$
3. Other financial assets (cont'd)		
Non-current		
Loan to director (i)	168,985	168,985
	168,985	168,985
(i) The Board approved a loan for \$300,000 at 6% per annum repayable on or before 31 March 2015. The loaned funds were used to exercise 1,500,000 options in Hannans at an exercise price of \$0.20 per option. The Company has agreed to suspend interest charged, principal repayments and interest payments while Mr Hicks' salary is being deferred. The loan repayment date has been extended by two (2) years to 31 March 2017.		
4. Capitalised mineral exploration and evaluation expenditure		
Balance at beginning of financial year	1,356,340	29,688,557
Exploration expenditure during the period	76,100	161,630
Foreign currency translation movement during the period	49,361	(67,375)
LESS: Expenditure recovered	-	(151,100)
LESS: Impairment costs (i)	(123,656)	(28,275,372)
Balance at end of period	1,358,145	1,356,340
(i) During the period ended 31 December 2015, Hannans recognised impairment losses of \$123,656 (30 Jun 2015: \$28,275,372) which has arisen as a result of relinquishment of permits.		
The recoverability of the carrying amount of the capitalised exploration and evaluation assets is dependent upon successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.		
5. Current trade and other payables		
Trade payables (i)	248,567	183,881
Accruals (ii)	519,565	516,953
Other payable (iii)	1,053,471	1,036,685
	1,821,603	1,737,519
(i) The average credit period on purchases of goods and services is 30 days. No interest is charged on the trade payables for the first 30 to 60 days from the date of invoice. Thereafter, interest is charged at various penalty rates. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.		
<u>Statutory Demand from Avalon</u>		
On 11 November 2015 Avalon served Hannans with a Creditor's Statutory Demand for Payment being the 50 per cent expenditure expensed on the Discovery Zone Exploitation Concession application totalling to \$90,984 pursuant to the HOA which is included in the above amount. Hannans believes that there is a genuine dispute about the existence of the alleged debt and has initiated an action to set aside the statutory demand. The matter is expected to be listed for hearing in March 2016.		
(ii) Mr Damian Hicks' total deferred salary entitlement from 1 April 2013 to 31 March 2015 of \$209,008 and the Non-Executive Director's fee entitlement from 1 January 2014 to 31 December 2015 of \$183,113 are included in the above amount.		
(iii) In May 2013, the Group entered into a Heads of Agreement (HOA) with Avalon Minerals Limited (Avalon) for the sale of the Discovery Zone copper-iron prospect in Sweden for \$4 million. On 10 May 2013, the Group made an application with the Inspectorate to transfer the tenements to Avalon which was granted on 23 May 2013.		
On 1 October 2013, the Group reached an agreement with Avalon that varies the HOA. The variation deleted and replaced clause 3 of the original HOA with the following:		
∅ \$1 million upon successful completion of a rights issue by Avalon or no later than 31 October 2013; and		
∅ \$3 million when the Mining Inspectorate of Sweden has formally granted the Discovery Zone Exploitation Concession to Avalon.		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2015

5. Current trade and other payables (cont'd)

On 8 October 2013 Hannans confirmed that Avalon had paid \$1 million pursuant to the varied HOA.

The HOA provided that if the Discovery Zone exploration concession is not granted or not granted within 2 years of the first payment date (being 1 October 2015) or a later date to be agreed by the parties, the Group is required to refund the first \$1 million received from Avalon and Avalon will be required to transfer title in the Discovery Zone back to the Group. The HOA provides that the Company can transfer a project of equivalent value to Avalon. There is no requirement in the HOA for the Group to make a cash payment to Avalon.

If the Discovery Zone exploration concession is granted, the Group will receive a further \$3 million within five business days of the exploitation concession being granted.

On 9 October 2015 Hannans received a Refund Notice from Avalon pursuant to the HOA. The Refund Notice has been presented on the basis that the Discovery Zone exploitation concession application has not been granted within the time stipulated in the HOA.

On 21 October 2015 Hannans was made aware that the Discovery Zone exploitation concession application had been dismissed by the Mining Inspectorate of Sweden and Avalon can no longer transfer the application back to the Group as required by the HOA. A consequence of this dismissal is that the Group has lost title to its Discovery Zone copper-gold project, Rakkurijärvi iron project and Tributary Zone copper-gold prospect. Hannans considers this to be a very serious matter and has in addition to reserving its rights, requested Avalon provide a written explanation of the circumstances that lead to the dismissal as a matter of urgency.

Avalon then lodged an appeal against the decision of the Mining Inspectorate of Sweden to dismiss the Discovery Zone exploitation concession application registered in the name of Avalon's wholly owned Swedish subsidiary company, Avalon Minerals Adak AB. Hannans will monitor the outcome of the Appeal and its impact on the HOA.

On 14 January 2016 Avalon advised Hannans that it will commence court action to recover the \$1 million paid by Avalon to Hannans pursuant to the HOA. It is important to note that if the Company is required to refund Avalon, the HOA provides that the Company can transfer a project of equivalent value to Avalon. There is no requirement in the HOA for Hannans to make a cash payment to Avalon. However no such action has been initiated by Avalon.

Hannans reinforces that it is reserving all of its rights in connection with the HOA.

	31 Dec 2015 \$	30 Jun 2015 \$
6. Provisions		
Current		
Employee benefits	156,060	159,660
Rent – unoccupied space (i)	32,269	84,925
	188,329	244,585
Non-current		
Employee benefits	8,236	7,508
Rent – unoccupied space (i)	–	70,835
	8,236	78,343

- (i) The provision was recognised on the basis that Hannans currently occupies and subleases part of its Perth office premises as a portion of the space is surplus to the requirements of the Group. The provision for the unoccupied space is calculated based on the difference between the Company's full operating office lease commitment to the end of the lease term on 14 December 2016 and the current occupied and subleased space discounted at 5% to present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2015

	31 Dec 2015 \$	30 Jun 2015 \$
7. Other financial liabilities		
Current		
Borrowings (i)	250,000	2,884
Finance lease liabilities	422	-
	250,422	2,884

(i) On 17 November 2015 the Company entered into an unsecured loan of \$250,000 with an unrelated third party on normal commercial terms. The loan facility was fully repaid on 1 February 2016.

8. Issued capital

721,966,133 fully paid ordinary shares (30 June 2015: 721,966,133)	44,577,512	44,577,512
	44,577,512	44,577,512

	31 Dec 2015		30 Jun 2015	
	No.	\$	No.	\$
Fully paid ordinary shares				
Balance at beginning of financial period	721,966,133	44,577,512	721,966,133	44,577,512
Share issue costs	-	-	-	-
Balance at end of financial period	721,966,133	44,577,512	721,966,133	44,577,512

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	31 Dec 2015 \$	30 Jun 2015 \$
9. Reserves		
Balance at the beginning of the financial period	(237,970)	(242,150)
Option reserve	32,892	75,380
Available-for-sale revaluation reserve	-	29,210
Foreign currency translation differences	51,070	(100,410)
Balance at the end of the period	(154,008)	(237,970)

The balance of reserves is made up as follows:

Option reserve	108,272	75,380
Foreign currency translation reserve	(262,280)	(313,350)
	(154,008)	(237,970)

10. Accumulated losses

Balance at the beginning of the financial period	(44,265,979)	(15,145,576)
Loss attributable to members of the parent entity	(277,723)	(29,120,403)
Balance at the end of the financial period	(44,543,702)	(44,265,979)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2015

11. Segment reporting

Operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the Group's Chief Operating Decision Maker which, for the Group, is the Board of Directors. In this regard, such information is provided using similar measures to those used in preparing the statement of comprehensive income and statement of financial position. The Group operates in the mineral exploration industry, both in Australia and overseas. The segment information provided to the Board for the reportable segments is as follows and the financial results from these segments are equivalent to the financial statements of the Group as a whole:

	31 Dec 2015 \$	31 Dec 2014 \$
Segment revenue – Other income		
Australia	176,422	83,587
Scandinavia	95,676	339,258
Consolidated	272,098	422,845
Segment result		
Australia	(174,319)	(315,708)
Scandinavia	(103,404)	(15,645)
	(277,723)	(331,353)
Loss before income tax benefit	(277,723)	(331,353)
Income tax benefit	-	-
Loss for the period	(277,723)	(331,353)

Segment assets and liabilities	Assets		Liabilities	
	31 Dec 2015 \$	30 Jun 2015 \$	31 Dec 2015 \$	30 Jun 2015 \$
Australia	651,791	547,511	1,026,137	813,468
Scandinavia	1,497,601	1,589,383	1,242,453	1,249,863
Consolidated	2,148,392	2,136,894	2,268,590	2,063,331

12. Contingencies and commitments

The Office of State Revenue ('OSR') informed the Company that it has raised a Duties Investigation regarding the restructure involving the Mineral Rights Deed between the Company and Errawarra Resources Ltd. OSR has requested preliminary supporting information to assess the duty on the transaction. The Company does not consider it probable a stamp duty liability will arise.

13. Financial instruments

The fair value of financial assets and financial liabilities of the Group approximated their carrying amount. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The table below analyses financial instruments carried at fair value by value measurement hierarchy.

Quantitative disclosures fair value measurement hierarchy	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
31 Dec 2015				
Assets measured at fair value				
Available-for-sale financial assets (note 3):				
Quoted equity shares (i)	620	-	-	620
Unquoted equity shares (ii)	-	-	1	1
Capitalised exploration and evaluation expenditure (note 4)	-	-	1,358,145	1,358,145
	620	-	1,358,146	1,358,766

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2015

13. Financial instruments (cont'd)

Quantitative disclosures fair value measurement hierarchy	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
30 Jun 2015				
Assets measured at fair value				
Available-for-sale financial assets:				
Quoted equity shares (i)	5,525	-	-	5,525
Unquoted equity shares (ii)	-	-	1	1
Capitalised exploration and evaluation expenditure	-	-	1,356,340	1,356,340
	5,525	-	1,356,341	1,361,866

Cash and short-term deposits, trade receivables, trade payables, related party loans and other current liabilities approximate their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the financial assets is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair value:

- (i) Fair value of available-for-sale financial assets is derived from quoted market prices in active markets.
- (ii) The historical cost has been used to fair value unquoted ordinary shares. There is no market for the share and the value of the share does not warrant further discount or valuation.

14. Related party disclosures

(a) Loans to key management personnel (KMP) and their related parties

Details regarding the aggregate of loans made, guaranteed or secured by an entity in the Group to KMP and their related parties, and the number of individuals in each group, are as follows:

	Opening balance \$	Closing balance \$	Interest charged \$	Number in group
31 Dec 2015				
Total for KMP	168,985	168,985	-	1
Total for other related parties (i)	-	-	-	-
Total for KMP and their related parties	168,985	168,985	-	1
30 Jun 2015				
Total for KMP	168,985	168,985	-	1
Total for other related parties	-	-	-	-
Total for KMP and their related parties	168,985	168,985	-	1

- (i) The Company provided a loan facility of \$50,000 at an interest rate of 20% per annum to Errawarra Resources Ltd (**Errawarra**), of which Mr Damian Hicks, Mr Jonathan Murray and Mr Markus Bachmann are the Directors. The loan is secured against Errawarra's rights, title and interest in the agreement executed between Errawarra, Reid Systems Inc and Reid Systems (Australia) Pty Ltd. Errawarra made a loan drawdown of \$25,000 on 10 February 2016 and a further loan drawdown of \$25,000 on 9 March 2016.

(b) Outstanding director's fees to key management personnel (KMP) and their related parties

In an effort to assist the Company with managing its cash flow:

- (i) Mr Hicks, Managing Director, deferred \$209,008 (30 Jun 2015: \$204,170) in salary entitlements during the period 1 April 2013 to 31 March 2015. Mr Hicks has accrued annual leave of \$60,225 (30 Jun 2015: \$58,054) and accrued long service leave of \$56,646 (30 Jun 2015: \$51,926) as at 31 December 2015.
- (ii) Mr Murray, Mr Bachmann and Mr Forslund, Non-Executive Directors, have deferred their Non-Executive Director fees from 1 January 2014 to 31 December 2015. The total deferred fees for the period amounts to \$183,113 (30 Jun 2015: \$165,113).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the half-year ended 31 December 2015

15. Subsequent events

No matters or circumstances have arisen since 31 December 2015 that may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years except as stated below.

- (a) On 24 November 2015 the Company announced that the joint venture partner, Lovisagruvan AB (**LOVI**) has formally notified the Company of its decision to proceed to Stage 2 of the joint venture. As part of their Stage 2 commitment LOVI will provide the Company with a SEK 3 million (equivalent to AUD 487,800 as at 31 December 2015) interest free working capital facility which can only be drawn down in two equal instalments. Each instalment must be repaid within 12 months from the drawdown date.

The Company received the first loan instalment of SEK 1.5 million (equivalent to AUD247,500 as at 29 January 2016) on 29 January 2016.

- (b) On 17 November 2015 the Company received an unsecured loan of \$250,000 from an unrelated third party on normal commercial terms. The loan facility was fully repaid by the Company on 1 February 2016.
- (c) Errawarra Resources Ltd (**Errawarra**), of which Mr Damian Hicks, Mr Jonathan Murray and Mr Markus Bachmann are the Directors, was provided with a loan facility of \$50,000 at an interest rate of 20% per annum. The loan is secured against Errawarra's rights, title and interest in the agreement executed between Errawarra, Reid Systems Inc and Reid Systems (Australia) Pty Ltd. Errawarra made a loan drawdown of \$25,000 on 10 February 2016 and a further loan drawdown of \$25,000 on 9 March 2016.
- (d) An application to voluntarily deregister HR Subsidiary Pty Ltd (**HRS**), a dormant subsidiary of the Company, was submitted to the Australian Securities & Investments Commission on 15 February 2016. HRS does not have any outstanding obligation or liabilities as at the date of the application. ASIC will publish a notice of the proposed deregistration on the published notices website for 2 months and if no objections are submitted at the end of the notice period ASIC will send a deregistration confirmation letter to the Company.
- (e) On 4 March 2016 the Company announced that it has entered into a transaction with Neometals Ltd (**Neometals**). The transaction will result in the Company resuming management control and ownership of the Forrestania gold (20%) and Forrestania, Lake Johnston and Queen Victoria Rocks nickel (100%) joint venture with Neometals and requires the Company to complete a \$1.25 million capital raising to support this strategy (Gold and Nickel Transaction). As part of the transaction, the Company will also demerge its Scandinavian assets into an unlisted subsidiary company called Scandinavian Resources Pty Ltd (SCR). The transaction and demerger of SCR remain conditional and are subject to Hannans shareholder approval at a meeting expected to be held in the June quarter.

On 11 March 2016 the Company announced that it has completed a \$250,000 placement to Neometals for the subscription of 62.5 million shares in Hannans priced at 0.4 cents per share and 31.25 million options in Hannans exercisable at 0.4 cents within 2 years.