ATTILA RESOURCES LIMITED

AND CONTROLLED ENTITIES

ABN 53 142 165 080

INTERIM FINANCIAL REPORT
FOR THE HALF-YEAR ENDED
31 DECEMBER 2016

TABLE OF CONTENTS

CORPORATE DIRECTORY

DIRECTORS

Mr Evan Cranston (Non Executive Director)
Mr Brynmor Hardcastle (Non Executive Director)
Ms Oonagh Malone (Non Executive Director)

COMPANY SECRETARY

Ms Oonagh Malone

REGISTERED OFFICE AND BUSINESS ADDRESS

Suite 23, 513 Hay Street
Subiaco WA 6008
Australia
Telephone: +61 8 6142 0989
Fax: +61 8 9388 8824
Email: admin@attilaresources.com

AUDITORS

Bentleys Audit & Corporate (WA) Pty Ltd
Level 3, 216 St Georges Terrace
Perth WA 6000

SHARE REGISTRY

Security Transfer Australia Pty Ltd
770 Canning Highway
Applecross WA 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233

INTERNET ADDRESS

www.attilaresources.com

ASX CODE

AYA

COUNTRY OF INCORPORATION AND DOMICILE

Australia

DIRECTORS' REPORT

The Directors present their report, together with the condensed consolidated financial statements, of the consolidated entity (the 'Group') consisting of Attila Resources Limited (the 'Company') and the entities it controlled for the half-year ended 31 December 2016.

Directors

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

Evan Cranston

Brynmor Hardcastle

Oonagh Malone

Review of Operations

The operating loss of the Group for the six months after providing for income tax amounted to $1,503,614 (2015: $1,864,644).

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

The strategic decision was made by the Company to suspend work on the definitive feasibility study. During the half-year the Company maintained the Kodiak Coking Coal Project in care and maintenance mode including environmental studies and monitoring. The Company is considering its options with regards to future financing of the Kodiak Coking Coal Project in Alabama, USA, in light of the recent rise in the coal price to over US$200/ton.

Potential Transaction with SecurET Pty Ltd

Attila Resources Ltd (ASX: AYA) was advised by SecurET Pty Ltd (SecurET) of a dispute and purported termination of the agreement between SecurET and Point of Pay Pty Ltd (POP) in connection with its proposed earn-in to a revolutionary and highly disruptive cyber security technology known as VeroGuard Systems (ASX: 13 May 2016). SecurET has advised the Company that it is seeking legal advice and as such it is not known what will be the outcome of the dispute and if the proposed transaction will progress further.

Events Subsequent to the Reporting Date

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

- On 28 February 2017 the Company entered into agreements to progressively acquire the Century Zinc Mine and all associated infrastructure (Century) from an entity controlled by MMG Limited (ASX: MMG) (MMG). Key details are:
    - MMG agreed with Century Bull Pty Ltd (Century Bull) for Century Bull's 100% owned and controlled subsidiary Century Mine Rehabilitation Pty Ltd (CMRP) to acquire Century. Mr Evan Cranston, a director of the Company, has a 25% shareholding in Century Bull.
    - MMG would contribute $34,500,000 over three years to fund rehabilitation and care and maintenance expenditures.
    - MMG would contribute $12,100,000 to a special purpose trust to meet existing community and stakeholder commitments.
    - MMG would provide bank guarantees to meet a financial assurance bond of $193,731,600 lodged with the Queensland government for up to 10 years. This bank guarantee is to be progressively repaid to MMG by 31 December 2026, with an annual fee of 1.35% of the outstanding balance also paid.

- o The Company, jointly with Century Bull and CMRP, guarantees to MMG that the bank guarantee will not be called on and the progressive repayments of the bank guarantee will be made.
- o The Group will initially acquire a 70% interest in CMRP from Century Bull in consideration for:
  - 30,000,000 unquoted options in the Company with an exercise price of $0.25 each and an expiry date 5 years from the issue date.
  - A 2% net smelter royalty from Century operations.
  - sole funding $10,000,000 of project expenditure for the first 3 years.
- o Following the sole funding of $10,000,000 of project expenditure, the Group will have an option to acquire the remaining 30% of the project based on 30% of the fully diluted enterprise value of the Company, payable at the Company's sole election in cash and shares in the Company, as permissible by ASX listing rules and any required shareholder approvals.
- o The Group's completion of this transaction and joint guarantees are subject to shareholder approval.

Dividends

No dividends have been paid or declared since the start of the financial period and the Directors do not recommend the payment of a dividend in respect of the financial half year ended 31 December 2016.

Auditor's Independence Declaration

The lead auditor's independence declaration under s.307C of the Corporation Act 2001 for the half-year ended 31 December 2016 is set out on page 6.

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

Evan Cranston
Non-Executive Director

Signed at Perth this 14th day of March 2017

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd
London House
Level 3,
216 St Georges Terrace
Perth WA 6000

PO Box 7775
Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500
F +61 8 9226 4300

bentleys.com.au

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 Attila Resources Limited for the half year ended 31 December 2016, 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

CHRIS NICOLOFF CA
Director

Dated at Perth this 14th day of March 2017

KRESTON

A member of Bentleys, a network of independent accounting firms located throughout Australia, New Zealand and China that trade as Bentleys. All members of the Bentleys Network are affiliated only and are separate legal entities and not in Partnership. Liability limited by a scheme approved under Professional Standards Legislation.

Accountants
Auditors
Advisors

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Half year ended 31 December 2016 $	Half year ended 31 December 2015 $
Other income	9,302	9,041
Depreciation and amortisation expense	(7,888)	(8,881)
Exploration and evaluation expenditure	(77,878)	(663,810)
Employee benefits – other	(24,000)	(174,679)
Professional expenses	(125,985)	(117,315)
Loss on sale of plant and equipment	-	(15,186)
Foreign exchange gains	1,884	19
Finance costs	(1,182,462)	(816,483)
Other expenses	(96,587)	(77,350)
Loss before income tax expense	**(1,503,614)**	**(1,864,644)**
Income tax expense	-	-
Loss for the period	**(1,503,614)**	**(1,864,644)**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss when specific conditions are met:		
Exchange gain on translating foreign operations, net of tax	449,858	824,109
Other comprehensive income for the period	**449,858**	**824,109**
Total comprehensive loss for the period	**(1,053,756)**	**(1,040,535)**
Loss for the period attributable to:		
Members of the parent entity	(1,503,614)	(1,864,644)
	(1,503,614)	**(1,864,644)**
Total comprehensive loss for the period attributable to:		
Members of the parent entity	(1,053,756)	(1,040,535)
	(1,053,756)	**(1,040,535)**
Earnings per share from continuing operations:	**Cents**	**Cents**
Basic loss per share	(0.81)	(2.14)
Diluted loss per share	(0.81)	(2.14)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

	Note	As at 31 December 2016 $	As at 30 June 2016 $
Current Assets			
Cash and cash equivalents		605,314	1,325,655
Trade and other receivables		106,448	114,106
Other current assets		15,602	4,243
Total Current Assets		**727,364**	**1,444,004**
Non Current Assets			
Other financial assets		1,039,442	1,091,196
Property, plant and equipment	3	14,691,232	14,323,361
Deferred exploration and evaluation expenditure	4	3,311,983	3,053,375
Intangible assets		3,395	3,395
Total Non Current Assets		**19,046,052**	**18,471,327**
Total Assets		**19,773,416**	**19,915,331**
Current Liabilities			
Trade and other payables		364,535	436,604
Borrowings	5	17,381,263	16,198,805
Total Current Liabilities		**17,745,798**	**16,635,409**
Non Current Liabilities			
Other payables		857,718	796,566
Provisions	6	786,135	1,045,835
Total Non Current Liabilities		**1,643,853**	**1,842,401**
Total Liabilities		**19,389,651**	**18,477,810**
Net Assets		**383,765**	**1,437,521**
Equity			
Issued capital	7	26,715,502	26,715,502
Reserves		7,699,272	7,249,414
Accumulated losses		(34,031,009)	(32,527,395)
Total Equity		**383,765**	**1,437,521**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Condensed consolidated statement of changes in equity for the half year ended 31 December 2015	**Ordinary Shares $**	**Accumulated Losses $**	**Foreign Currency Translation Reserve $**	**Share Based Payment Reserve $**	**Total Equity $**
Opening balance at 1 July 2016	**26,715,502**	**(32,527,395)**	**4,052,878**	**3,196,536**	**1,437,521**
Comprehensive Income					
Loss for the period	-	(1,503,614)	-	-	(1,503,614)
Other comprehensive income for the period	-	-	449,858	-	449,858
Exchange gain on translation of controlled entities					
Total comprehensive income/ (loss) for the period	**-**	**(1,503,614)**	**449,858**	**-**	**(1,053,756)**
Transactions with owners, in their capacity as owners, and other transfers					
Costs arising from issue of shares	-	--	-	-	-
Balance at 31 December 2016	**26,715,502**	**(34,031,009)**	**4,502,736**	**3,196,536**	**383,765**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

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

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Half year ended 31 December 2016 $	Half year ended 31 December 2015 $
Cash Flows From Operating Activities		
Payments to suppliers and employees (inclusive of GST)	(691,441)	(775,270)
Interest received	9,719	10,960
Financing charges	(4)	(35)
Net cash outflow from operating activities	**(681,726)**	**(764,345)**
Cash Flows From Investing Activities		
Payments for mining lease interests	(132,521)	(149,336)
Refund of bonds	77,399	4,361
Net cash outflow from investing activities	**(55,122)**	**(144,975)**
Cash Flows From Financing Activities		
Share issue costs	-	(6,538)
Net cash inflow/ (outflow) from financing activities	**-**	**(6,538)**
Net (decrease)/ increase in cash and cash equivalents	(736,848)	(915,858)
Cash and cash equivalents at the beginning of the half-year	1,325,655	1,169,552
Exchange difference on cash and cash equivalents	16,507	1,997
Cash and cash equivalents at the end of the half-year	**605,314**	**255,691**

The accompanying notes form part of these financial statements.

CONDENSED NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Note 1: Summary of significant accounting policies

Basis of Preparation

These condensed interim consolidated financial statements for half-year reporting period ended 31 December 2016 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: Interim Financial Reporting. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Attila Resources Limited and its controlled entities (referred to as the “Group”). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2016, together with any public announcements made during the following half-year.

Accounting Policies

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

Critical Accounting Estimates and Judgments

The critical estimates and judgments are consistent with those applied and disclosed in the June 2016 annual report.

Going Concern

For the half year ended 31 December 2016, the Group has incurred a net loss of $1,503,614 (2015: $1,864,644) and incurred net cash outflows of $681,726 (2015: 764,345) from operating activities. It also has a deficiency in working capital of $17,018,434 (30 June 2016: $15,191,405) as disclosed in the statement of financial position. The majority of the deficiency relates to convertible notes amounting to $17,381,263 (30 June 2016: $16,198,805) which are classified as current. In addition, subsequent to 31 December 2016, the Group entered into a binding agreement to progressively acquire the Century Zinc Mine from MMG Limited (refer Note 9 for key terms), which initially will increase the Group’s commitments by approximately $278,000 per month, commencing from June 2017.

These conditions indicate a material uncertainty that may cast significant doubt about the ability of the Group to continue as a going concern. As a result of the loss, cash outflows from operations and the deficiency in working capital, the Directors have assessed the Group’s ability to continue as a going concern and to pay its debts as and when they fall due as follows:

- The Directors of the Parent entity advise that the Group has sufficient cash reserves to fund operations until June 2017, continuing as a going concern and paying its debts as and when they fall due. This estimation is based on a) continued expenditure on administration and maintaining the Kodiak Project in line with current expenditures, b) active management of the level of discretionary expenditure in lines with the funds available and c) the Group deferring the repayment of the convertible notes of $17,381,263 (including Redemption Premium) to 26 June 2017 (refer to note 5).
- The funding of the Group beyond existing cash reserves and repayment of the convertible notes in June 2017 is dependent on the ability of the Group to secure additional funding through a capital raising associated with acquisition of the Century Zinc Mine and associated infrastructure; sale of the Kodiak Project; acquisition and development of external funding for the Kodiak Project; or the issue of further shares, debt or a combination of debt and equity or a refinance/restructure of the convertible notes. The form and value of such transactions is yet to be determined but the Directors are confident that adequate funding can be put in place. In the event the Group is unable to satisfy the convertible note liability, the note holders have the ability to take control of the Kodiak asset.

Note 1: Summary of significant accounting policies (continued)

- The Group proposes acquiring and developing the Century Zinc Mine and associated infrastructure as detailed in note 9. With this acquisition the Group will need considerable capital raising to fund development as well as other ongoing expenditures. This capital raising will need to take place approximately in May 2017 and will be subject to shareholder approval.

The Directors have prepared a cash flow forecast, which includes the completion of the above activities that indicates that the Consolidated Entity will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report.

In the event the above matters are not achieved, the Consolidated Entity will be required to raise funds of approximately $5 million for working capital. The Group reasonably expects that the noteholders will convert all convertible notes into shares once the acquisition of the Century Zinc Mine is completed.

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

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

Functional and Presentation Currency

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

Transactions and balances

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

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge. Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Property, plant and equipment

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

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

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

Note 1: Summary of significant accounting policies (continued)

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

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

Depreciation

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

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

Land is not depreciated. Buildings and mining plant are only depreciated when in use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Exploration and Evaluation Expenditure

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

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

Accumulated costs in relation to an abandoned area are written off in full against profit or loss in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to capitalise costs in relation to that area of interest.

Borrowings

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

Provisions

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

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

Note 2. Operating segments

(i) Segment performance

	Australia		United States		Eliminations		Consolidated Group	
	Half year ended 31 December		Half year ended 31 December		Half year ended 31 December		Half year ended 31 December	
	2016	2015	2016	2015	2016	2015	2016	2015
	$	$	$	$	$	$	$	$
Other income								
Interest Income	7,999	8,661	1,303	380	-	-	9,302	9,041
Total Income	**7,999**	**8,661**	**1,303**	**380**	**-**	**-**	**9,302**	**9,041**
Segment Result								
Loss after Income Tax	(1,411,077)	(1,171,129)	(92,537)	(693,515)	-	-	(1,503,614)	(1,864,644)

(ii) Segment assets

	As at 31 Dec 2016	As at 30 June 2016	As at 31 Dec 2016	As at 30 June 2016	As at 31 Dec 2016	As at 30 June 2016	As at 31 Dec 2016	As at 30 June 2016
	$	$	$	$	$	$	$	$
Assets								
Segment assets	17,659,945	17,933,679	19,190,431	18,573,891	(17,076,960)	(16,592,239)	19,773,416	19,915,331

(iii) Segment Liabilities

	As at 31 Dec 2016	As at 30 June 2016	As at 31 Dec 2016	As at 30 June 2016	As at 31 Dec 2016	As at 30 June 2016	As at 31 Dec 2016	As at 30 June 2016
	$	$	$	$	$	$	$	$
Assets								
Segment Liabilities	(17,599,682)	(16,462,339)	(21,389,989)	(21,130,768)	19,600,020	19,115,297	(19,389,651)	(18,477,810)

Note 3: Property, plant and equipment

	Consolidated	
	Half-Year ended 31 December 2016	**Year ended 30 June 2016**
	$	**$**
Opening balance	14,323,361	13,881,582
Additions	-	2,197
Disposals	-	(18,972)
Exchange Differences	375,759	475,915
Depreciation for the period	(7,888)	(17,361)
Closing balance	**14,691,232**	**14,323,361**

Note 4: Deferred exploration and evaluation expenditure

Opening balance	3,053,375	2,291,577
Tenement acquisition costs	171,104	1,095,022
Impairment of relinquished exploration interests	-	(398,188)
Exchange Differences	87,504	64,964
Total	**3,311,983**	**3,053,375**

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

Note 5: Convertible Notes

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

Secured		
Face value of notes on issue	14,307,781	14,307,781
Accrued interest expense	3,073,482	1,891,024
	17,381,263	**16,198,805**
This liability is presented as:		
Current liability	17,381,263	16,198,805
Total carrying value of liability	**17,381,263**	**16,198,805**

No convertible notes (Notes) were issued or converted during the half year ended 31 December 2016.

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

In place of interest, a "Redemption Premium" is payable as follows:

(a) during the period from 26 June 2015 to 26 June 2016: 15% of the total amount owing under each note; or

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

If the Notes are not converted into shares on or before the Maturity Date, the Redemption Premium must be paid by the Company: 50% in cash and 50% in shares (at a share price of 85% of the volume weighted average price of shares in the Company on ASX over the 20 trading days immediately preceding the payment date).

If the Notes are converted on or before the Maturity Date, at the noteholders' option, the Redemption Premium is not payable. The conversion price was adjusted to $0.20 per share following shareholder approval on 30 November 2015.

Note 5: Convertible Notes (continued)

The change in terms of the Notes on 26 June 2015 was sufficient to constitute new Notes, for accounting purposes, with the terms detailed. The face value of the new Notes of $14,837,699 is the original $14,000,000 subscription amount for the previous Notes plus $837,699 of capitalised interest that would have been payable on 26 June 2015 on the previous Notes. The new Notes were valued and classified as a current liability based on the Directors' best expectation that they would be repaid within one year with the 15% Redemption Premium payable. Unamortised capitalised transaction costs of $229,682 were expensed at 26 June 2015.

The new Notes were valued at initial recognition based on the difference between the face value of the Notes and the present value of the liability component at a market yield of 15% - the rate that could be earned on a similar debt instrument without the conversion feature. The nil value of the equity component was calculated as the residual difference between the liability component calculated without the conversion feature and the face value of the Notes.

During the year ended 30 June 2016, 2 Notes with a total face value of $529,918 were converted to a total 2,649,590 shares at the conversion price of $0.20 per share.

During the year ended 30 June 2016, the Company elected to extend the Maturity Date of remaining notes to 26 June 2017. To reflect this extension in maturity date, the notes are valued at 31 December 2016 as the present value of the expected $18,600,115 payable on redemption of the remaining notes on 26 June 2016, including the 30% Redemption Premium, discounted back at a discount rate of 15% to calculate the present value at 31 December 2016. This is consistent with the treatment at 30 June 2016.

Notes and future interest coupon payments are classified as current when the liabilities are due to be settled within 12 months of the balance date.

The Notes are secured by a security interest over all assets of the US subsidiaries of the Group. During the half year ended 31 December 2015, the Group and Noteholders agreed to amend the terms of the Convertible Note Agreement such that all payment obligations were transferred to the Group's wholly owned subsidiary, Attila Resources (US) Pty Ltd. Attila Resources (US) Pty Ltd was already the guarantor under the Convertible Note Agreement. Attila Resources (US) Pty Ltd holds 100% of the shares in Attila Resources Holdings US Ltd, which in turn holds the 70% interest in the Kodiak Project. The shareholding of Attila Resources (US) Pty Ltd in Attila Resources Holdings US Ltd is the security granted in favour of the Noteholders under the Convertible Note Agreement.

Note 6: Non current provisions

	Consolidated	
	Half-Year ended 31 December 2016	**Year ended 30 June 2016**
Non current provision for mine site restoration	**$**	**$**
Opening balance	1,045,835	1,011,246
Reduction in provision required	(275,364)	-
Exchange Differences	15,664	34,589
Total	**786,135**	**1,045,835**

The reduction in the provision required has been reflected in the balance of Exploration and evaluation expenditure, consistent with the treatment in prior years. The provision has been valued based on calculations prepared by the Alabama Surface Mining Commission, the responsible regulator, for the full cost of mine site restoration.

Note 7: Issued Capital

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

	Half-Year ended 31 December 2016		Year ended 30 June 2016	
	Number of shares	$	Number of shares	$
Opening balance	186,519,186	26,715,502	86,934,798	24,315,800
Shares expected to be issued due to short term bonus payment that was committed to on 25 June 2015, but reversed in 2016				(36,000)
Shares issued 7 January 2016 @ $0.02 per share following a rights issue	-	-	41,455,622	829,112
Shares issued 3 February 2016 @ $0.20 per share on conversion of convertible note	-	-	1,324,795	264,959
Shares issued 24 February 2016 @ $0.20 per share on conversion of convertible note	-	-	1,324,795	264,959
Shares issued 1 March 2016 @ $0.02 for shortfall of rights issue	-	-	45,479,176	909,584
Shares issued 1 March 2016 @ $0.02 in placement	-	-	10,000,000	200,000
Less:				
Costs arising from issue	-	-	-	(32,912)
	186,519,186	**26,715,502**	**186,519,186**	**26,715,502**

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

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

b. Options Over Ordinary Shares

Type of option	Number	Exercise price	Exercise date
Unquoted options	1,000,000	$0.5888	11 March 2017
Unquoted options	500,000	$0.7247	11 March 2017
	1,500,000		

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

There were no options issued during the half-years ended 31 December 2016 or 31 December 2015.

Total options issued by the Company as at 31 December 2016 are 1,500,000 (30 June 2016: 1,500,000). There are no listed options over ordinary shares.

c. Other equity securities

	Consolidated	
	Half-Year ended 31 December 2016	Year ended 30 June 2016
	$	$
Conversion rights (note 5)	404,548	404,548
Total	**404,548**	**404,548**

Note 8: Contingent assets and liabilities

The Group has no outstanding contingent assets or contingent liabilities at 31 December 2016, other than a statement of claim received by the Group in October 2012 filed at the Circuit Court of Shelby County, Alabama relating to an alleged unfair dismissal claim by Mr Don Brown. The claim is for approximately US$1,000,000. The Company intends to defend this matter and the Directors are of the opinion that the claim can be successfully defended. Accordingly, no liability has been recorded in relation to this matter.

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

Note 9: Events subsequent to reporting date

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

- On 28 February 2017 the Company entered into agreements to progressively acquire the Century Zinc Mine and all associated infrastructure (Century) from an entity controlled by MMG Limited (ASX: MMG) (MMG). Key details are:
    - MMG agreed with Century Bull Pty Ltd (Century Bull) for Century Bull's 100% owned and controlled subsidiary Century Mine Rehabilitation Pty Ltd (CMRP) to acquire Century. Mr Evan Cranston, a director of the Company, has a 25% shareholding in Century Bull.
    - MMG would contribute $34,500,000 over three years to fund rehabilitation and care and maintenance expenditures.
    - MMG would contribute $12,100,000 to a special purpose trust to meet existing community and stakeholder commitments.
    - MMG would provide bank guarantees to meet a financial assurance bond of $193,731,600 lodged with the Queensland government for up to 10 years. This bank guarantee is to be progressively repaid to MMG by 31 December 2026, with an annual fee of 1.35% of the outstanding balance also paid.
    - The Company, jointly with Century Bull and CMRP, guarantees to MMG that the bank guarantee will not be called on and the progressive repayments of the bank guarantee will be made.
    - The Group will initially acquire a 70% interest in CMRP from Century Bull in consideration for:
        - 30,000,000 unquoted options in the Company with an exercise price of $0.25 each and an expiry date 5 years from the issue date.
        - A 2% net smelter royalty from Century operations.
        - sole funding $10,000,000 of project expenditure for the first 3 years.
    - Following the sole funding of $10,000,000 of project expenditure, the Group will have an option to acquire the remaining 30% of the project based on 30% of the fully diluted enterprise value of the Company, payable at the Company's sole election in cash and shares in the Company, as permissible by ASX listing rules and any required shareholder approvals.
    - The Group's completion of this transaction and joint guarantees are subject to shareholder approval.

Note 10: Commitments

Milestone Agreements

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

Gurnee Property

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

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

- Term of the lease: 3 year rolling terms until exhaustion of any discovered coal reserves subject to certain minimum production milestones per 3 year term; and
- Royalty of 8% on net coal sales with a minimum monthly payment of US$15,000 (AUD$20,730) per month commencing in December 2014. The minimum royalty payments will be offset against future actual production royalty payments.

This lease was extended to 26 December 2018 in consideration for the Group agreeing to pay $US750,000 (AUD$1,036,484) on 26 December 2018 or earlier in the event of:

- Sale of coal mined from the leased area;
- Sale, transfer or assignment of the lease; or
- Sale, transfer or assignment of Kodiak Mining Company LLC, the subsidiary of the Group that is the party to the lease.

This agreement to pay $US750,000 (AUD$1,036,484) was recognised as a noncurrent liability of the group at 30 June 2016.

Project X – Gholson and Clark Coal Seams Lease

On 23 September 2013, the Group announced that its 70% owned subsidiary, Kodiak Mining Company, had entered into a lease agreement with RGGS to mine the Gholson and Clark coal seams at an area known as Project X, which is also located on the Company's Gurnee Property.

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

- Upfront leasing fee of US$25,000 paid in 2014;
- Term of the lease has been revised to be until 22 August 2019; and
- Royalty of 8% on net coal sales at mine gate with a minimum monthly royalty of $US3,000 (AUD$4,146) from August 2014 to January 2016. This Minimum royalty payment reduced to $US1,000 (AUD$1,382) from February 2016 to August 2016, before increasing to $US2,000 (AUD$2,764) per month from September 2016 until expiry on 22 August 2019. Minimum royalty payments cannot be offset against future actual production royalty payments.

Note 11: Related Party Transactions and Balances

Kingslane Pty Ltd and associated entities (Kingslane) is a substantial shareholder in the Company and held 22,090,028 ordinary shares in the Company at 31 December 2016 (30 June 2016: 22,090,028). Entities controlled by Kingslane also:

- held a 10% non-controlling interest in the Kodiak project and Kodiak Mining Company LLC through a non-controlling shareholding in 70% owned Attila Resources US LLC;
- held convertible notes with face values of $4,504,301 (30 June 2016: $4,504,301) convertible into 22,521,505 (30 June 2016: 22,521,505) shares, which were recognised as a liability of $5,471,879 at 31 December 2016 (30 June 2016: $5,099,624) with $372,255 (31 December 2015: $255,697) recognised as an expense for the half year; and
- received $24,000 (31 December 2015: owed $18,000) during the half year for office rent.

Evan Cranston is a director of Konkera Corporate. Konkera Corporate received $60,000 (31 December 2015: $60,000) for administrative, bookkeeping and accounting services for the half year. The company secretarial fees of $15,000 (31 December 2015: $15,000) for Oonagh Malone and Director fees of $12,000 (31 December 2015: $60,000) for Evan Cranston were also payable to Konkera Corporate. $36,000 was outstanding to Konkera for director fees at 31 December 2016.

Bryn Hardcastle is a director of Bellanhouse Legal which provided legal services totalling $30,000 (31 December 2015: $30,000) in for the half year. $165,000 is outstanding to Bellanhouse Legal at 31 December 2016 (31 December 2015: $165,000) for legal services provided in 2015.

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

DIRECTORS' DECLARATION

The Directors of the Company declare that:

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

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

    b. giving a true and fair view of the financial position as at 31 December 2016 and of the performance for the half-year ended on that date of the Group;

2.. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Evan Cranston
Non Executive Director

Dated this 14th day of March 2017

Bentleys
THINKING AHEAD

Bentleys Audit & Corporate (WA) Pty Ltd
London House
Level 3,
216 St Georges Terrace
Perth WA 6000

PO Box 7775
Cloisters Square WA 6850

ABN 33 121 222 802

T +61 8 9226 4500
F +61 8 9226 4300

bentleys.com.au

Independent Auditor's Review Report

To the Members of Attila Resources Limited

We have reviewed the accompanying half-year financial report of Attila Resources Limited ("the Company") and Controlled Entities ("the Consolidated Entity") which comprises the condensed consolidated statement of financial position as at 31 December 2016, 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 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 control as the directors determine is necessary to enable the preparation of the half-year 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 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 2016 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 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.

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 Attila 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 2016 and of its performance for the half-year ended on that date; and

b. Complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of Matter – Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the half-year financial report which indicates that the Consolidated Entity incurred a net loss of $1,503,614 during the half-year ended 31 December 2016. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Consolidated Entity to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the half-year financial report

Bentleys

BENTLEYS
Chartered Accountants

Chris Nicoloff

CHRIS NICOLOFF CA
Director

Dated at Perth this 14th day of March 2017