RESOURCES & ENERGY GROUP LIMITED

HALF YEAR REPORT

31 DECEMBER 2017

Resources & Energy Group Limited
Contents

Resources & Energy Group Limited
Corporate Directory

Directors
Gavin Rezos
Richard Poole
Virginia Bruce
James Croser

Secretary
Warren Kember

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Auditor
LNP Audit and Assurance
Level 14, 309 Kent Street
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Stock exchange listing
Resources & Energy Group Limited's fully paid ordinary shares are listed on the Australian Securities Exchange (ASX:REZ)

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Solicitors
Steinepreis Paganin
Level 4, 16 Milligan Street
Perth, WA 6000

Bankers
National Australia Bank
255 George Street
Sydney, NSW 2000

The directors present their report together with the consolidated financial report of Resources & Energy Group Limited (Company) and its controlled entities (the Group or consolidated entity) for the half year ended 31 December 2017 and the Independent Review Report thereon.

DIRECTORS

The names of directors of the Company at any time during or since the end of the half year to the date of this report are set out below.

Mr Gavin Rezos	Appointed	22 April 2016
Mr Richard Poole	Appointed	12 July 2004
Ms Virginia Bruce	Appointed	6 December 2004
Mr James Croser	Appointed	19 May 2016

DIVIDENDS

No dividends have been paid or declared since the end of the previous financial year, nor do the directors recommend the declaration of a dividend. (2016: $Nil).

PRINCIPAL ACTIVITIES

The principal activities of the Group are to explore and develop suitable mineral deposits, including gold and silver.

The company had 7 employees at 31 December 2017 (2016: 4 employees).

OPERATING RESULTS FOR THE YEAR

Financial results
The loss after tax of the Group for the period ended 31 December 2017 was $1,719,391 (2016: $711,710).

The operating loss included the following items:

(i) the expensing of operating costs of the Radio mine of $843,439 as activity moved towards gold extraction;

(ii) an increase in finance expense of $243,677 which included a non-cash expense for the amortisation of the equity portion of the project development notes of $210,373; and

(iii) share based payment expense of $40,589 relating relating to the net movement in options granted and or lapsed, to employees under share plan scheme during the period.

During the period the Company raised equity and debt capital to facilitate the continuing development of the Radio mine in Western Australia. Funds from previous draw downs of Project Development Notes #1 (PDN1) were received of $199,000, and a further placement under the Project Development Notes #2 (PDN2) facility increased its capacity by $1,000,000 of which $750,000 was drawn during the financial period. An additional 7,421,497 share options were issued to the holders of the additional PDN2. The share options provide the financier with an opportunity to convert their loans into 7,421,497 ordinary shares at 14 cents each on and from 30 November 2018 until 30 November 2021.

Radio Gold Pty Limited

The Radio project located in the Kalgoorlie region of Western Australia continued its development in expectation of gold recovery during the financial period and to the date of this report. Sampling continued at the lowest levels of the re-opened areas at 100m below the surface. Installation of infrastructure also continued to improve the capacity to enable ore to be extracted and brought to the surface at efficent rates. By the end of the financial period these activities were at an advanced stage and initial sampling of the several previously mined rock faces continued. During September 2017, Radio Gold successfully removed its first ore from the mine and sent it to be processed at an offsite processing plant. Revenue of $57,981 has been recognised from its first batch of ore extraction.

Mount Mackenzie

The Mount Mackenzie project, located 110km northwest of Rockhampton, Queensland, under went further evaluation via a drilling program which confirmed boundaries of the currently assessed ore body. The program focussed on strategically located exploration holes to confirm resource extents in the North Knoll, enabling mine planning studies to commence. A scoping study to guide project feasibility is currently underway, which include assessment of environmental issues, mine planning and approvals, processing options and geotechnical assessment.

Tenement Schedule

State	Project	Number	Status	REZ beneficial ownership	Expiry
Queensland	Mt Mackenzie	EPM10006	Live	100.00%	28/03/2018
Queensland	Mt Mackenzie	EPM12546	Renewal in progress	100.00%	28/01/2018
Queensland	Mt Mackenzie	EMP17515	Live	100.00%	14/05/2019
Western Australia	Radio Gold	ML77/633	Live	100.00%	24/08/2036

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the financial period the Company undertook a number of capital raisings to facilitate development of its mining interests and the following significant changes occurred:

- an amount of $199,000 was received from the PDN1 owing at 30 June 2017;
- the further placement of PDN2 that raised $1,000,000, of which $750,000 was drawn. An issue of 7,421,497 share options was also made concurrently to the providers of funds under PDN2; and
- funding was also provided on a short term basis by related parties of $136,046 (net).

GOING CONCERN

The directors have prepared the financial statements on a going concern basis which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. At 31 December 2017, the Group's current assets of $422,676 (2016: $741,866) were less than current liabilities of $1,402,230 (2016: $1,447,376).

For the 6 months ended 31 December 2017 the Group recorded a loss before taxation of $1,719,391 (2016: $711,710), and net cash used by operating activities was $985,216 (2016: $790,505).

During the current phase of development the generation of sufficient funds from operating and financing activities in accordance with the Group's current business plan and growth forecasts is dependent on:

(i) the availability of equity and financing facilities to fund working capial requirements;

(ii) increases in revenue and cash flows from trading; and

(iii) the Company has received an undertaking from related parties that no repayment of at call loans due from the Group will be required unless the Group has sufficient additional financial resources to meet such repayments.

The directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied regarding the Group's ability to maintain the continued support of current financiers, creditors and shareholders.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

SIGNIFICANT EVENTS POST BALANCE DATE

Post balance date 1,230,769 ordinary shares were issued to option holders on exercise of 2,000,000 Class B share options. The shares were issued for nil consideration upon the cashless exercise of the share options. There have been no other significant events occurring after the balance date which may affect either the Group's operations, results of those operations or the Group's state of affairs.

AUDITOR INDEPENDENCE

A copy of the external auditor's declaration under Section 370C of the Corporations Act is attached to the Financial Statements.

Signed in accordance with a resolution of the directors.

Mr Gavin Rezos
Chairman
Sydney, 15 March 2018

Resources & Energy Group Limited
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2017

	Notes	31 December 2017 $	December 2016 $
Revenue from continuing operations			
Sale of gold		**57,981**	-
Mine operating costs		**(843,439)**	-
Gross profit		**(785,458)**	
Corporation maintenance expenses		**(194,284)**	(250,740)
Director fees		**(66,000)**	(67,317)
Employee benefits expense		**(130,677)**	(109,494)
Finance costs	**4**	**(329,733)**	(86,056)
Depreciation		**(31,974)**	(15,774)
Share-based payments expense		**(40,589)**	(29,120)
Other expenses		**(140,676)**	(153,209)
Loss before income tax		**(1,719,391)**	(711,710)
Income tax benefit		-	-
Loss after tax from continuing operations		**(1,719,391)**	(711,710)
Total comprehensive loss for the year attributable to the owners of Resources & Energy Group Limited		**(1,719,391)**	(711,710)
Total comprehensive loss is attributable to:			
- shareholders of Resource & Energy Group Limited		**(1,723,612)**	(698,907)
- non- controlling interests		**4,221**	(12,803)
		(1,719,391)	(711,710)
Loss per share (cents per share) – basic and diluted		**(1.80)**	(0.73)

This condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the notes to the financial statements.

Resources & Energy Group Limited

Condensed Consolidated Statement of Financial Position
As at 31 December 2017

	Notes	**31 December 2017 $**	30 June 2017 $
Assets			
Current assets			
Cash and cash equivalents		**284,288**	323,710
Trade and other receivables		**118,388**	298,156
Financial assets		**20,000**	120,000
Total current assets		**422,676**	741,866
Non-current Assets			
Property, plant and equipment		**481,250**	466,402
Exploration and evaluation assets		**1,763,107**	1,581,148
Mine development		**3,061,697**	3,033,147
Total non-current assets		**5,306,054**	5,080,697
Total assets		**5,728,730**	**5,822,563**
Liabilities			
Current liabilities			
Trade and other payables		**920,045**	373,054
Interest-bearing loans and borrowings	**5**	**456,178**	1,043,067
Provisions		**26,007**	31,255
Total current liabilities		**1,402,230**	1,447,376
Non-current liabilities			
Interest-bearing loans and borrowings	**5**	**3,541,526**	2,086,865
Total non-current liabilities		**3,541,526**	2,086,865
Total liabilities		**4,943,756**	3,534,241
Net assets		**784,974**	2,288,322
Equity			
Issued capital		**14,689,149**	14,666,238
Reserves		**1,571,405**	1,378,273
Retained earnings		**(17,852,418)**	(16,128,806)
Total equity attributable to the shareholders of Resources & Energy Group Limited		**(1,591,864)**	(84,296)
Non-controlling interests		**2,376,838**	2,372,617
Total equity		**784,974**	2,288,322

This condensed consolidated statement of financial position should be read in conjunction with the notes to the financial statements

Resources & Energy Group Limited

Condensed Consolidated Statement of Cash Flows
For the half year ended 31 December 2017

	Notes	2017 $	2016 $
Cash flows from operating activities			
Payments to suppliers and employees		**(976,846)**	(758,192)
Interest paid		**(8,879)**	(33,758)
Interest received		**509**	1,445
Net cash flows used in operating activities		**(985,216)**	(790,505)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(44,583)**	(121,944)
Exploration and evaluation costs capitalised		**(181,960)**	(881,403)
Mine development costs capitalised		**(28,550)**	-
Proceeds from security deposit upon relinquishment of geothermal license		**100,000**	-
Net cash flows used in investing activities		**(155,093)**	(1,003,347)
Cash flows from financing activities			
Proceeds from issue of project development notes		**959,000**	2,097,000
Proceeds from borrowings - related party, net		**141,887**	(87,500)
Net cash flows provided by financing activities		**1,100,887**	2,009,500
Net increase/(decrease) in cash and cash equivalents		**(39,422)**	215,648
Cash and cash equivalents at beginning of period		**323,710**	927,687
Cash and cash equivalents at end of period		**284,288**	1,143,335

This consolidated statement of cash flow should be read in conjunction with the notes to the financial statements

Resources & Energy Group Limited

Condensed Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Issued capital $	Share option reserve $	Retained earnings $	Non-controlling interests $	Total $
Balance at 1 July 2016	**14,666,238**	**450,384**	**(14,734,427)**	**2,393,805**	**2,776,000**
Total comprehensive income for the period	-	-	(698,907)	(12,803)	(711,710)
Issue of share options to employees	-	29,120	-	-	29,120
Recognition of equity component on issue of project development notes	-	678,584	-	-	678,584
Cost of raising of equity component on issue of project development notes	-	(46,291)	-	-	(46,291)
Balance at 31 December 2016	**14,666,238**	**1,111,797**	**(15,433,334)**	**2,381,002**	**2,725,703**
Balance at 1 July 2017	**14,666,238**	**1,378,273**	**(16,128,806)**	**2,372,617**	**2,288,322**
Total comprehensive income for the period	-	-	(1,723,612)	4,221	(1,719,391)
Issue of options	-	55,149	-	-	55,149
Reversal of expense on cancellation of options not vested	-	(14,560)	-	-	(14,560)
Recognition of equity component on issue of project development notes	-	245,713	-	-	245,713
Shares issued upon exercise of Class A options	22,911	(22,911)	-	-	-
Cost of raising of equity component on issue of project development notes	-	(70,259)	-	-	(70,259)
Balance at 31 December 2017	**14,689,149**	**1,571,405**	**(17,852,418)**	**2,376,838**	**784,974**

This consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements

1 Corporate informaton

Resources & Energy Group Limited (the “Company”) is a listed public company incorporated and domiciled in Australia. The consolidated financial statements for the half year ended 31 December 2017 comprise the Company and its controlled entities (together referred to as the “Group”). The principal activities of the Group are to explore and develop suitable mineral deposits, including gold and silver.
The consolidated financial statements were approved by the Board of Directors on 15 March 2018.

2 Summary of significant accounting policies

a Basis of preparation

The principal accounting policies are set out below. These policies have been consistently applied unless otherwise noted. The financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

This general purpose condensed consolidated interim financial report of the Group for the half-year ended 31 December 2017 has been prepared in accordance with *Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*. The consolidated financial statements have been prepared on the basis of historical cost, unless otherwise stated. Cost is based on the fair values of the consideration given in exchange for assets.

This consolidated half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by the Company during the half-year ended 31 December 2017 in accordance with the continuous disclosure requirements of the Corporations Act 2001 and the Australian Securities Exchange's listing rules.

b Going concern

The directors have prepared financial statements on a going concern basis which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. At 31 December 2017, the Group's current assets of $422,676 (2016: $741,866) were less than current liabilities of $1,402,230 (2016: $1,447,376).

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(i) the availability of equity and financing facilities to fund working capial requirements;

(ii) increases in revenue and cash flows from trading; and

(iii) the Company has received an undertaking from related parties that no repayment of at call loans due from the Group will be required unless the Group has sufficient additional financial resources to meet such repayments.

The directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied regarding the Group's ability to maintain the continued support of current financiers, creditors and shareholders.
The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

c Principles of consolidation

The consolidated financial statements incorporate all the assets, liabilities and results of the Company, Resources and Energy Group Limited , and all of its subsidiaries. Subsidiaries are entities the Company controls. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of subsidiaries is provided in Note 11.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the group from the date on which control is obtained by the group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the group.

d New and amended standards adopted by the Group

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant and effective for the current period. The application of these Standards has not had a material impact on the reported financial position or performance of the Group.

Impact of standards issued but not yet applied by the entity

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is applicable to financial periods commencing after 1 January 2018. The standard may affect the group's accounting for its available-for-sale financial assets, since it only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. The standard also affects the accounting for financial liabilities that are designated at fair value through profit or loss. The derecognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

AASB 15 Revenue from Contracts with Customers introduces a methodology for revenue recognition with the core principle being to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard is applicable to financial periods commencing after 1 January 2018. The changes in revenue recognition requirements may cause changes to the timing and amounts of revenue recorded in the financial statements as well as additional disclosures. The initial impact of the change on the group is not likely to be material, as historically the group has had little revenue.

AASB 16 Leases will cause the majority of leases to be capitalised onto the statement of financial position. There are exceptions relating to short-term leases and low value assets which may remain off-balance sheet. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Mineral Extraction leases are not covered by this standard and continue to be accounted for under AASB 6 Exploration for and the Evaluation of Mineral Resources. This standard is applicable to periods commencing after 1 January 2019, and the group has not quantified the effect at this time.

e **Cirtical accounting estimates and judgements**

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimated uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when

Going concern

The financial statements have been prepared on the basis that the Group is a going concern, refer to Note 2(b) for discussion on the basis of this assumption.

Carrying value of exploration and evaluation assets

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded.

The Group reclassifies exploration and evaluation expenditure to mine development assets when the Board assess that the mine has reached a point where it is certain that extraction of ore will commence in the immediate future.

Impairment of assets

An impairment exists when the carrying value of an asset or Cash Generating Unit (CGU) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. Each mine is considered to be a separate CGU. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance or the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Determination of mineral resources and ore reserves

The Group estimates its Mineral Resources and Ore Reserves in accordance with the Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves ("the JORC Code"). The information on mineral resources and ore reserves is prepared by or under the supervision of Competent Persons as defined in the JORC Code. The amounts presented are based on the Mineral Resources and Ore Reserves determined under the JORC Code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation which may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in reserves could impact depreciation and amortisation rates, asset carrying values and impairment assessments.

Share based payments

The costs of the share-based payments are calculated on the basis of the fair value of the equity instrument at grant date. Determining the fair value assumes choosing the most suitable valuation model for these equity instruments, by which the characteristics of the grant have a decisive influence. This assumes also the input into the valuation model of some relevant judgments, like the estimated expected life of the share option and the market volatility of the Company's ordinary shares.

Equity component of converting loans

The equity component that arises from the ability of loan providers to convert their loans into ordinary shares of the Company is calculated with reference to a market rate of interest. Due to the lack of a readily available debt market for the Company at its stage of development, an estimated market rate has been determined.

3 Segment information

As at the date of this report, the Group has two operating segments: gold mine exploration and development and other activities (primarily corporate costs). The Group has identified its operating segments based on internal reports that are reviewed and used by the chief operating decision maker in assessing performance. The accounting policies and amounts reported for internal reporting are consistent with the financial information in this financial report.

	Gold $	Other $	Total $
Results for the half year to 31 December 2017			
Segement revenue			
Income	57,981	-	57,981
Segment expenses			
Mine operating costs	**843,438**	**-**	**843,438**
Administration and employment costs	**-**	**572,227**	**572,227**
Depreciation, impairment and amortisation	**26,793**	**5,181**	**31,974**
Finance costs	**-**	**329,733**	**329,733**
	870,231	**907,141**	**1,777,372**
Loss after tax from continuing operations	**(812,250)**	**(907,141)**	**(1,719,391)**
Segment assets	**5,306,054**	**422,676**	**5,728,730**
Segment liabilities	**1,402,230**	**3,541,526**	**4,943,756**
Results for the half year to 31 December 2016			
Segement revenue			
Interest income	-	1,445	1,445
Segment expenses			
Administration and employment costs	-	611,325	611,325
Depreciation, impairment and amortisation	-	15,774	15,774
Finance costs	50	86,006	86,056
	50	713,105	713,155
Loss after tax from continuing operations	(50)	(711,660)	(711,710)
Segment assets - 30 June 2017	5,080,697	741,866	5,822,563
Segment liabilities - 30 June 2017	1,447,376	2,086,865	3,534,241

4 Finance costs

	31 December 2017 $	31 December 2016 $
Interest expense - Project Development Notes	**113,420**	80,116
Project Development Notes - equity component amortisation	**210,373**	-
Interest expense - related party (refer Note 5)	**5,940**	5,940
Total finance costs	**329,733**	86,056

5 Interest-bearing loans and borrowings

	31 December 2017 $	30 June 2017 $
Current - unsecured		
Borrowings - owed to related party (Note 9)	**456,178**	303,067
Borrowings - project development notes issue 1 (i)	**-**	740,000
	456,178	1,043,067
Non-current - unsecured		
Borrowings - project development notes issue 1 (i)	**1,824,090**	968,029
Borrowings - project development notes issue 2 (ii)	**1,717,436**	1,118,836
	3,541,526	2,086,865

(i) Project Development Notes - Issue 1

During the prior financial period the Project Development Note Issue 1 facility (PDN1) was established and fully drawn to an amount of $2,228,000. Interest is payable quarterly at the rate of 8.0% per annum.

Any PDN1 borrowing not repaid by the exercise of the attaching option and application of the exercise price to the repayment (refer below) is required to be repaid either at the end of 3 years from the date of draw down of each advance, or in repayments equal to 50% of the Company's positive pre-tax cash from operations (each quarter) until balance owed under the PDN1s and any outstanding interest is repaid in full.

The Company issued 18,566,667 share options concurrently with the initial draw down under PDN1 to the Financiers. The share options provide Financiers with the right to subscribe for ordinary shares of the Company (PDN1 Options). As a result the net proceeds received from the issue of the PDN1 have been split between a liability and an equity component.

The equity component represents the value of the option to convert the liability into equity of the Company.

The terms of the PDN1 Options are as follows:

(i) Right to subscribe: The Financiers have the right to subscribe for one fully paid ordinary share of the Company for each share option held at an issue price of 12 cents each anytime after 31 March 2017 and until the expiry of the share options on 31 March 2021.

(ii) Right of offset: At the election of the Financiers any amounts owed under the PDNs may be applied either in part or whole to the exercise price owed on issue of the ordinary shares.

(iii) Number of ordinary shares to be issued: If all of the PDN1 Options are exercised a maximum of 18,566,667 fully paid ordinary shares of the Company would be issued.

(iv) Right to acquire: Within 6 months prior to the expiry date of the PDN1 Options at 31 March 2021, the Company may seek to acquire the PDN1 Options from the Financiers at a volume weighted average price calculated for a 1 month period ending 3 days before the election notice is provided to the Financiers.

(v) Cancellation of options: If a Financier fails to provide funding pursuant to the PDN1s any unexercised PDN1 Options held by that Financier can be cancelled at the election of the Company.

(ii) Project Development Notes - Issue 2

During the prior financial year the Project Development Notes - Issue 2 facility (PDN2) was established and drawn to its initial commitment level of $1,540,000. During the current financial period the commitment level of PDN2 was increased by $1,000,000 (PDN2 Extension), of which $750,000 was drawn prior to 31 December 2017.
Interest is payable quarterly at the rate of 8.0% per annum.

Any PDN2s not repaid by exercise of the attached option and application of the exercise price to repayment (refer below) are repaid either at the end of 3 years from the date of draw down of each advance or, subsequent to repayment of amounts owed under PDN1, in repayments equal to 50% of the Company's positive pre-tax cash from operations (each quarter) until balance owed under the PDN2 and any outstanding interest is repaid in full.
The Company issued 11,000,000 share options concurrently with the PDN2 to the PDN2 Financier whereby the PDN2 Financier has the right to subscribe for ordinary shares of the Company (PDN2 Options). A further 7,142,857 share options were issued concurrently with the PDN2 Extension to the PDN2 Financier (PDN2 Extension Options).
As a result of the current issue of share options, the net proceeds received from the issue of the PDN2 and PDN2 Extension have been split between a liability and an equity component. The equity component represents the value of the option to convert the liability into equity of the Company.
The terms of the PDN2 Options and PDN2 Extension Options are as follows:

(i) Right to subscribe: The PDN2 Financier has the right to subscribe for one fully paid ordinary share of the Company for each share option held at an issue price of 14 cents each anytime from 30 November 2017 (30 November 2018 for the PDN2 Extension Options) and until the expiry of the share options on 30 November 2021.
(ii) Right of offset: At the election of the PDN2 Financier any amounts owed under the PDN2s may be applied either in part or whole to the exercise price owed on issue of the ordinary shares.
(iii) Number of ordinary shares to be issued: If all of the PDN2 Options are exercised a maximum of 11,000,000 fully paid ordinary shares of the Company would be issued. If all of the PDN2 Extension Options are exercised a maximum of 7,142,857 fully paid ordinary shares of the Company would be issued.
(iv) Right to acquire: Within 6 months prior to the expiry date of 30 November 2021, the Company may seek to acquire the PDN2 Options or the PDN2 Extension Options from the PDN2 Financier at a volume weighted average price calculated for a 1 month period ending 3 days before the election notice is provided to the PDN2 Financier.
(v) Cancellation of options: If the PDN2 Financier fails to provide funding pursuant to the PDN2s any unexercised PDN2 Options or PDN2 Extension Options can be cancelled at the election of the Company.

6 Issue of equity securities

During the half-year reporting period the following changes occurred in issued equity securities:
(i) 1,230,769 ordinary shares were issued to option holders on exercise of 2,000,000 Class A share options. The shares were issued for nil consideration upon the cashless exercise of the share options.

(ii) Project Development Notes - Issue 2 Extension
7,421,497 share options were issued to the financier of Project Development Notes - issue 2 (Note 5), at an exercise price of $0.14. The share options are exercisable on or from 30 November 2018 until 30 November 2021.

(iii) Employee share options
1,000,000 share options were issued to employees pursuant to an employee share option scheme, at an exercise price of $0.12. Subject to remaining employed until 18 December 2018 the share options vest on 18 December 2018 and are exercisable until 31 March 2021.
1,000,000 share options were issued to employees pursuant to an employee share option scheme, at an exercise price of $0.12. Subject to remaining employed until 18 December 2019 the share options vest on 18 December 2019 and are exercisable until 31 March 2021.

7 Asset backing and earnings per share

	31 December 2017 cents per share	30 June 2017 cents per share
Basic and diluted earnings per share (continuing operations) (cents per share)	**(1.80)**	(1.46)
Basic and diluted assets per share (continuing operations) (cents per share)	**0.82**	2.39

	31 December 2017 $	30 June 2017 $
The following reflects the income and share data used in the basic and diluted earnings per share calculations:		
Loss attributable to shareholders of the Company used in the calculation of basic and diluted earnings per share	**(1,723,612)**	(698,907)
Weighted average number of ordinary shares for basic earnings per share	**95,769,738**	95,682,306
Effect of dilution of share options on issue (i)	**30,316,667**	5,000,000
Weighted average number of ordinary shares adjusted for the effect of dilution	**126,086,405**	100,682,306

(i) Share options on issue that have been assessed as being dilutive for the purpose of calculating earnings per share have been excluded from the calculation as the Group has incurred a loss after tax. In that circumstance the inclusion of share options would reduce the earnings per share (loss) and present a misleading result.

8 Tenement lease commitments

	31 December 2017 $	30 June 2017 $
Minimum expenditure commitment on tenement leases		
The Group held three exploration mineral licences in relation to the Mount Mackenzie Mine and an exploration mineral licence in relation to the Radio mine as at 31 December 2017.		
Committed but not provided for and payable:		
Within one year	**815,281**	824,281
One year or later and no later than for five years	**1,410,619**	1,428,619
	2,225,900	2,252,900

9 Related party disclosures

Key management Personnel

Transactions with, or with persons or entities associated with, Mr Richard Poole, a director and the chief executive officer of the Company, during the financial period were as follows:

	31 December 2017 $	30 June 2017 $
Fees payable for the provision of accounting, administration, and consulting services	272,520	149,393
Fees payable for arranging of capital	101,640	233,320

An amount of $235,847 of these fees and expenses remained unpaid as at 31 December 2017 and is included in Trade and Other Payables.

A related party of Mr Richard Poole advanced $144,000 to the Group in a prior year. The unsecured borrowing bears annual interest at 8.25% and $5,940 was recognised as an expense during the period (2016: $5,940) (Note 5).

Other related parties of Mr Poole also have amounts owed to them by the Company. During the financial period amounts advanced by these entities were $239,500 (2016: $148,838), repayments were $10,000. At the end of the financial period the net amount owed by the Company to these related entities of Mr Poole was $300,398. This amount is interest free and unsecured. An undertaking has been received from related parties that no repayment of at call loans due from the Group will be required unless the Group has sufficient additional financial resources to meet such repayments.

10 Events after balance sheet date

Post balance date 1,230,769 ordinary shares were issued to option holders on exercise of 2,000,000 Class B share options. The shares were issued for nil consideration upon the cashless exercise of the share options. There have been no other significant events occurring after the balance date which may affect either the Company's operations, results of those operations or the Company's state of affairs.

11 Controlled entities

The consolidated financial statements include the financial statements of the Company and its controlled entities listed in the following table. The Company is the ultimate Australian parent entity and the ultimate parent of the Group.

Name	**Country of incorporation**	**% Equity interest 2017**	2016
Mount Mackenzie Pty Limited	Australia	100.00%	100.00%
Radio Gold Pty Limited	Australia	100.00%	100.00%
Resource & Energy Operations Pty Limited	Australia	100.00%	na
Deep Energy Pty Limited	Australia	51.85%	51.85%

In accordance with a resolution of the directors of Resources & Energy Group Limited, the directors declare that:

(a) The financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 31 December 2017 and of its performance for the period ended on that date; and

(ii) complying with Accounting Standard AASB 134: Interim Financial Reporting, and Corporations Regulations 2001.

(b) The Chief Executive Officer has declared that:

(i) the financial records of the Company for the financial period have been properly maintained in accordance with Section 286 of the Corporations Act 2001;

(ii) the financial statements and notes for the financial period comply with the Accounting Standards; and

(iii) the financial statements and notes for the financial period give a true and fair view.

(c) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board,

Mr Gavin Rezos
Chairman

Sydney, 15 March 2018

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AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF RESOURCES AND ENERGY GROUP LIMITED

As lead auditor of Resources and Energy Group Limited for the half year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

LNP Audit and Assurance

Robert Nielson
Director

Dated 15 March 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF RESOURCES AND ENERGY GROUP LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Resources and Energy Group Limited and controlled entities ('the consolidated company'), which comprises the consolidated condensed statement of financial position as at 31 December 2017, consolidated condensed statement profit or loss and other comprehensive income, consolidated condensed statement of changes in equity and consolidated condensed cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information notes and the directors' declaration.

Director's Responsibility for the Half-Year Financial Report

The directors' of Resources and Energy Group Limited 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 controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatements, 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 an 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 Resources and Energy Group Limited and controlled entities financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Resources and Energy Group Limited and controlled entities, 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.

Matters Relating to the Electronic Presentation of the Audited Financial Report

This review report relates to the financial report of the Resources and Energy Group Limited and controlled entities for the half-year ended 31 December 2017 included on the website of Resources and Energy Group Limited. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the half-year financial report identified above and it does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of this report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the reviewed financial report to confirm the information contained in this website version of the financial report.

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 Resources and Energy Group Limited and controlled entities is not in accordance with the *Corporations Act 2001* including:

i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

ii. complying with AASB 134 *Interim Financial Reporting* and *the Corporation Regulations 2001.*

Significant Uncertainty Regarding Going Concern

We draw attention to Note 2(b) of the consolidated financial report, which indicates that the Group incurred a loss before taxation of $1,719,391 (2016: $711,710) during the half year ended 31 December 2017 and as at balance date held cash of $284,288 (30 June 2017: $323,710) and had current liabilities of $1,402,231 (30 June 2017: $1,447,376). These conditions, along with other matters as set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

LNP Audit and Assurance

Robert Nielson
Director
Sydney, 15 March 2018