S2 RESOURCES LTD

ABN 18 606 128 090

Financial Report

for the

Period Ended 30 June 2016

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Corporate Directory

Directors	Jeff Dowling	Non-Executive Chairman
	Mark Bennett	Managing Director
	Anna Neuling	Executive Director
	Grey Egerton-Warburton	Non-Executive Director
Company Secretary	Anna Neuling	
Principal and Registered Office	North Wing, Level 2 1 Manning Street Scarborough, Western Australia 6019 Telephone: +61 8 6166 0240 Facsimile: +61 8 6270 5410 Website: www.s2resources.com.au	
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco, Western Australia 6008 Telephone: (08) 6382 4600	
Share Registry	Computershare Investor Services Pty Limited Level 2, 45 St Georges Terrace Perth, Western Australia 6000 Telephone: 1300 787 575	
Stock Exchange Listing	S2 Resources Ltd shares are listed on the Australian Securities Exchange.	
ASX Code	S2R	

Directors Report

The Directors of S2 Resources Ltd ("Directors") present their report on the consolidated entity consisting of S2 Resources Ltd ("the Company" or "S2") and the entities it controlled at the end of, or during, the period ended 30 June 2016 ("Group").

Directors

The names and details of the Directors in office during the financial period and until the date of this Report are as follows. Directors were in office for the entire period unless otherwise stated.

Jeff Dowling – appointed on 29 May 2015
Mark Bennett – appointed on 29 May 2015
Anna Neuling – appointed on 29 May 2015
Grey Egerton-Warburton – appointed on 29 April 2016

Principal Activities

The principal continuing activity of the Group is mineral exploration.

Dividends

No dividends were paid or proposed to be paid to members during the financial period.

Review of Operations

Operating Result

The loss from continuing operations for the period ended 30 June 2016 after providing for income tax amounted to $10,823,222.

The loss results from $4,917,968 of exploration expenditure incurred and expensed, $4,039,525 of share-based payments expenses, $1,791,086 of administration costs, $331,105 of business development costs, $114,308 depreciation costs and $370,770 of net income and foreign exchange losses. The exploration expenditure incurred and expensed mainly relates to its Scandinavian projects and to the Polar Bear project, which contains the Baloo and Nanook gold deposits and the Monsoon gold prospect.

Significant Changes in the State of Affairs

On 29 May 2015, the Company was incorporated and appointed Mr Jeff Dowling, Dr Bennett and Ms Anna Neuling as directors.

On 21 September 2015, S2 Resources Ltd and its subsidiaries, demerged from Sirius Resources NL ("Sirius", now a subsidiary of Independence Group ("IGO")). The demerger transaction comprised S2 receiving cash from IGO and acquiring Polar Metals Pty Ltd and Sirius Europa Pty Ltd ("acquired entities"). The following transactions occurred for the demerger transaction to complete on 21 September 2015:

- On 3 September 2015, the shareholders of Sirius Resources NL approved the demerger transaction.
- On 10 September 2015, subsequent to court order approval of the demerger transaction, the Company received cash of $15,854,974 and a reimbursement for Deferred Tax Assets of $4,145,026 due to exiting the Sirius Resources NL tax consolidated group (i.e. total cash received of $20,000,000).
- On 21 September 2015, 207,401,278 shares were issued to S2 shareholders. The number of shares determined on completion of the Demerger transaction was based on Sirius Resources NL shareholders receiving 1 S2 share for every 2 Sirius ordinary shares.

Directors Report (cont)

Significant Changes in the State of Affairs (continued)

- Also on 21 September 2015, the Company acquired Polar Metals and Sirius Europa Pty Ltd. The net assets acquired on this date was $9,969,347 and comprised cash which included the reimbursement for Deferred Tax Assets due to exiting the Sirius Resources NL tax consolidated group and exploration assets.

On 19 October 2015, S2 listed on the Australian Stock Exchange.

On inception, the Group held a 100% interest in Sirius Europa Pty Ltd, which in turn held a 67% interest in Norse Exploration Pty Ltd ("Norse"), which in turn held 100% of Sakumpu Exploration Oy ("Sakumpu"), a Finnish registered company that holds exploration assets in Finland and Sweden. The balance of Norse was held by the original vendors of Sakumpu. On 30 November 2015, the Group announced its acquisition of the remaining 33% interest, held by the Sakumpu vendors, in Norse which became a wholly owned subsidiary of S2. The consideration of $1,260,000 was based on issuing 8,400,000 S2 shares at 15 cents per share.

On 4 March 2016, the Group announced the initial Mineral Resource Estimate for the Baloo gold deposit comprising 1,150,000 tonnes of Indicated material at a grade of 1.9g/t gold containing 69,000 ounces and 1,030,000 tonnes of Inferred material at a grade of 1.6g/t gold containing 54,000 ounces. The total Mineral Resource Estimate for the Baloo gold deposit was 2,170,000 tonnes grading 1.8g/t gold for a contained 123,000 ounces at a cutoff grade of 0.8g/t gold.

On 29 April 2016, the Group appointed Grey Egerton-Warburton as Non-Executive Director.

On 6 May 2016 and in conjunction with the announcement made on 29 June 2016, the Group announced the initial Mineral Resource Estimate for the Nanook palaeochannel gold deposit comprising of an estimated 2,200,000 tonnes Inferred material at a grade of 1.2g/t gold containing 84,000 ounces.

After Balance Date Events

On 20 July 2016 the Group announced the results of initial metallurgical, engineering, hydrological and environmental studies for the Baloo gold deposit on its Polar Bear project.

On 21 July 2016 the Group announced the discovery of significant gold mineralisation at the Monsoon prospect, which is part of the Polar Bear project.

On 26 July 2016, the Group announced a capital raising of $9.08 million via the placement of 22.7 million shares at 40 cents per share ("Issue Price"). This was completed on 2 August 2016. Also announced on the same day was a Share Purchase Plan ("SPP") where eligible S2 shareholders were invited to subscribe for new ordinary shares in S2 at the Issue Price up to a maximum of $15,000 per shareholder. The SPP, to raise up to $3 million, closed on 15 August 2016 and was heavily oversubscribed. The shares issued under the SPP are anticipated to be allotted on Monday 22 August 2016 and quoted on the ASX on Tuesday 23 August 2016.

Other than the after balance date events stated above, there has been no matter or circumstance that has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the result of those operations in future financial years; or
- the Group's state of affairs in future financial years.

Directors Report (cont)

Likely Developments and Expected Results of Operations

In relation to the Baloo gold deposit announced on 4 March 2016, various studies have been performed on the resource for a potential future mining operation since the period ended 30 June 2016. Further exploration drilling has taken place in other areas of the Polar Bear project such as at the Monsoon prospect.

Environmental Regulation

The Group's operations are subject to the environmental regulation under the laws in Sweden, Finland, the Australian Commonwealth and the State of Western Australia. The Board of Directors ("Board") is of the view that all relevant environmental regulation requirements have been met.

Directors Report (cont)

Information on Directors

Mark Bennett – Chief Executive Officer and Managing Director

Experience and Expertise

Mark was the managing director and CEO of Sirius from its inception to its merger with Independence Group, and was non-executive director of Independence Group following the merger until June 2016.

He is a geologist with 25 years' experience in gold, nickel and base metal exploration and mining. He holds a BSc in Mining Geology from the University of Leicester and a PhD from the University of Leeds and is a Member of the Australasian Institute of Mining and Metallurgy, a Fellow of the Geological Society of London, a Fellow of the Australian Institute of Geoscientists and a Member of the Australian Institute of Company Directors.

He has worked in Australia, West Africa, Canada and Europe, predominantly for LionOre Mining International Limited and WMC Resources Limited at locations such as Kalgoorlie, Kambalda, St. Ives, LionOre's nickel and gold mines throughout Western Australia, Wiluna and most recently Nova, the Fraser Range and Polar Bear. Positions held include various technical, operational, executive and board positions including Managing Director, Chief Executive Officer, Executive Director, Exploration Manager and Chief Geologist.

Mark is a two times winner of the Association of Mining and Exploration Companies "Prospector Award" for his discoveries which include the Thunderbox Gold Mine, the Waterloo nickel mine and most recently the world class Nova-Bollinger nickel-copper mine.

In addition to his technical expertise, Mark is very experienced in corporate affairs, equity capital markets, investor relations and community engagement and has led Sirius from prior to the discovery of Nova all the way through feasibility, financing, permitting and construction, and latterly through the schemes of arrangement to merge with Independence and to demerge S2.

Other Directorships

Dr Bennett has no other directorships of any other public listed company.

Former Directorships in the Last Three Years

CEO and Managing Director of Sirius Resources NL from 31 August 2009 to 21 September 2015.
Non-Executive Director of Independence Group from 21 September 2015 to 1 June 2016.

Number of interests in shares and options held in S2 Resources Ltd

Options	12,500,000
Shares	4,595,001

Jeff Dowling – Non-Executive Chairman

Experience and Expertise

Mr Dowling was recently Sirius' Non-Executive Chairman and is a highly experienced corporate leader with 36 years' experience in professional services with Ernst & Young. Mr Dowling has held numerous leadership roles within Ernst & Young which focused on the mining, oil and gas and other industries.

Directors Report (cont)

His professional expertise centres around audit, risk and financial management derived from acting as lead partner on large public company audits, capital raisings and corporate transactions. Mr Dowling's career with Ernst & Young culminated in his appointment as Managing Partner of the Ernst & Young Western Region for a period of 5 years. He also led Ernst & Young's Oceania China Business Group, responsible for building Ernst & Young's Oceania relationships with Chinese Corporations.

Mr Dowling has a Bachelor of Commerce from the University of Western Australia and is a fellow of the Institute of Chartered Accountants, the Australian Institute of Company Directors and the Financial Services Institute of Australasia.

Mr Dowling is a member of the Group's Audit & Risk Committee and Chairman of the Remuneration & Nomination Committee which was formed on 19 July 2016.

Other Directorships

Non-Executive Director of NRW Holdings Ltd since 22 August 2013.

Former Directorships in the Last Three Years

Non-Executive Director of Atlas Iron Ltd from 8 November 2011 to 6 May 2016.
Non-Executive Director of Neptune Marine Services Ltd from 1 December 2011 to 25 June 2013.
Non-Executive Chairman of Sirius Resources NL from 28 February 2013 to 22 September 2015.
Non-Executive Chairman of Pura Vida Energy from 13 January 2014 to 17 May 2016.

Number of interests in shares and options held in S2 Resources Ltd

Options	2,500,000
Shares	500,000

Anna Neuling - Executive Director

Experience and Expertise

Ms Neuling was the Company Secretary and CFO of Sirius Resources Ltd from the company's inception in 2009 and was Sirius' Executive Director – Corporate and Commercial until its recent merger with Independence Group.

Ms Neuling worked at Deloitte in London and Perth prior to joining LionOre Mining International Limited in 2005, until its takeover by Norilsk Nickel. She holds a degree in mathematics from the University of Newcastle (UK).

She is a Fellow of the Institute of Chartered Accountants in England and Wales and has held a number of senior executive positions in the resources industry, including CFO and Company Secretarial roles at several listed companies.

She is responsible for the corporate affairs of the company, the company secretarial function, human resources, public and investor relations functions, and general commercial matters.

Ms Neuling is a member of the Group's Audit & Risk Committee and Remuneration & Nomination Committee which was formed on 19 July 2016.

Other Directorships

Ms Neuling has no other directorships of any other public listed company.

Directors Report (cont)

Former Directorships in the Last Three Years

Ms Neuling was formerly a Non-Executive Director (28 September 2012 to 22 September 2013) and Executive Director (23 September 2013 to 21 September 2015) of Sirius.

Number of interests in shares and options held in S2 Resources Ltd

Options	8,750,000
Shares	350,000

Grey Egerton-Warburton – Non-Executive Director

Experience and Expertise

Mr Egerton-Warburton is a very experienced corporate financier, with a strong background in natural resources, having spent 16 years with Hartleys Limited, including most recently as head of corporate finance. He has extensive experience in equity capital markets, acquisitions, divestments and domestic and international change of control transactions, having led a substantial number of capital raisings, takeovers and mergers for many ASX listed companies, across many sectors. Prior to a career in corporate finance, Mr Egerton-Warburton practiced at a tier one national law firm.

Grey currently serves as Deputy Chair of the Womens and Infants Research Foundation (WIRF), the charitable arm of King Edward Memorial Hospital in Perth, Western Australia.

While at Hartleys, Grey worked closely with Sirius Resources NL as its corporate advisor from mid-2012 until the completion of the merger between Sirius and Independence Group.

Mr Egerton-Warburton is the Chairman of the Group's Audit & Risk Committee and a member of the Remuneration & Nomination Committee which was formed on 19 July 2016.

Other Directorships

Mr Egerton-Warburton has no other directorships of any public listed company.

Former Directorships in the Last Three Years

Mr Egerton-Warburton had no directorships of any public listed company in the last three years.

Number of interests in shares and options held in S2 Resources Ltd

Options	1,000,000*
Shares	200,400

*Subject to shareholder approval. Please see page 14 of the Directors' report.

Company Secretary

The Company Secretary is Anna Neuling.

Directors Report (cont)

Meetings of Directors

The number of meetings of the Board and of each Board Committee held during the period ended 30 June 2016 and the number of meetings attended by each Director were:

	Directors' Meetings		Audit & Risk Committee		Remuneration & Nomination Committee	
Name	A	B	A	B	A	B
Mark Bennett	11	11	-	-	-	-
Anna Neuling	11	11	0	0	0	0
Jeff Dowling	11	11	0	0	0	0
Grey Egerton-Warburton	1	1	0	0	0	0

A Number of meetings attended (including circular resolutions)
B Number of meetings held during the time the Director held office during the period and that he/she was able to attend (including circular resolutions)
\- Not a member of the relevant Committee

The Audit & Risk Committee and Remuneration & Nomination Committee were formed on 19 July 2016 where Grey Egerton-Warburton, Jeff Dowling and Anna Neuling were appointed on both committees. As these committees were formed after the reporting period, no meetings were held for the period during 30 June 2016.

Indemnifying of Officers or Auditor

During the period the Group paid a premium in respect of insuring Directors and Officers of the Group against liabilities incurred as a Director or Officer. The insurer shall pay on behalf of the Group or each Director or Officer all losses for which the Director or Officer is not indemnified by the Group arising from a claim against a Director or Officer individually or collectively.

The Group had not, during or since the financial period, indemnified or agreed to indemnify the auditor of the Group against a liability incurred as an auditor.

Options & Rights

Unissued ordinary shares of the Company under options or rights at the date of this Report are as follows:

Options

Number	Grant Date	Expiry Date	Exercise Price $
29,250,000	14/09/2015	14/09/2019	0.31
50,000	09/10/2015	09/10/2019	0.31
400,000	23/10/2015	23/10/2019	0.31
400,000	28/11/2015	28/11/2019	0.31
800,000	18/04/2016	17/04/2020	0.31

There were no shares issued since the end of the financial period on the exercise of options.

No person entitled to exercise an option had or has any rights by virtue of the option to participate in any share issue of any other body corporate.

Directors Report (cont)

Remuneration Report (audited)

This Remuneration Report, which has been audited, outlines the Key Management Personnel (as defined in AASB 124 Related Party Disclosures) ("KMP") remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The KMP covered in this remuneration report are:

- Mark Bennett – CEO and Managing Director
- Anna Neuling – Executive Director
- Jeff Dowling – Non-Executive Chairman
- Grey Egerton-Warburton – Non-Executive Director
- Su-Mei Chan – Chief Financial Officer

The principles adopted have been approved by the Board and have been set out in this Remuneration Report. This audited Remuneration Report is set out under the following main headings:

1. Principles used to determine the nature and amount of remuneration
2. Details of remuneration
3. Service agreements
4. Share-based compensation

The information provided under headings 1 to 4 above includes remuneration disclosures that are required under Accounting Standard AASB 124, Related Party Disclosures.

1. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework which has been set out in detail under the remuneration structure in this Remuneration Report aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

(i) competitiveness and reasonableness;
(ii) aligns shareholders and executive interests;
(iii) performance based and aligned to the successful achievement of strategic and tactical business objectives; and
(iv) transparency.

Executive Directors

Remuneration to Executive Directors reflect the demands which are made on, and the responsibilities of the Executive Directors. Executive Directors' remuneration is reviewed annually to ensure it is appropriate and in line with the market. There are no retirement allowances or other benefits paid to Executive Directors other than superannuation guarantee amounts as required.

The executive remuneration and reward framework has three components:

(i) base pay;
(ii) share-based payments; and
(iii) other remuneration such as superannuation and long service leave.

The combination of these comprises the Executive Director's total remuneration.

Directors Report (cont)

Remuneration Report (audited) (cont)

Fixed remuneration, consisting of base salary and superannuation will be reviewed annually by the Remuneration & Nomination Committee, based on individual contribution to corporate performance and the overall relative position of the Group to its market peers.

Non - Executive Directors

Remuneration to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Non-Executive Directors. Non-Executive Directors' remuneration is reviewed annually. For the period ended 30 June 2016, exclusive of superannuation guarantee the annual remuneration for the Non-Executive Director was $45,000 per annum with the Chairman receiving $75,000 per annum.

Company Performance

As an exploration company the Board does not consider the operating loss after tax as one of the performance indicators when implementing an incentive based remuneration policy. The Board considers that the success of exploration and feasibility programs, safety and environmental performance, the securing of funding arrangements and responsible management of cash resources and the Company's other assets are more appropriate performance indicators to assess the performance of management at this stage of the company's development.

Short-term incentives

To align the remuneration of employees with the company aim of responsible management of cash resources, there were no short-term incentives paid or proposed to be paid for the period ended 30 June 2016. The company's approach in regards to the use of short term cash incentives will be assessed by the Remuneration & Nomination Committee on an ongoing basis as the company evolves.

Long-term incentives

To align with market practices of peer companies and to provide a competitive total remuneration package, the Board introduced a long-term incentive ("LTI") plan to motivate and reward executives and non-executive directors. The LTI is provided as options over ordinary shares of the Company under the rules of the Employee Share Option Plan and the Directors Option Plan as approved in September 2015.

The quantum offered under the LTI is determined by the Remuneration & Nomination Committee using a comparison to a peer group of companies similar to S2 Resources Ltd in terms of market capitalisation and sector. The peer group were companies in the Materials sector of the ASX with a market capitalisation of $50-$100 million that issued options in relation to the FY 2015.

Directors Report (cont)

Remuneration Report (audited) (cont)

2. DETAILS OF REMUNERATION

Period Ended 30 June 2016

The amount of remuneration paid to KMP is set out below.

2016	CASH REMUNERATION Short term payments	 Annual leave	 Post –employment benefits (superannuation)	 Total cash payments
	$	$	$	$
Directors				
M Bennett	245,000	18,845	15,193	279,038
A Neuling	67,497	5,192	6,412	79,101
J Dowling	57,981	-	5,508	63,489
G Egerton-Warburton	7,673	-	729	8,402
Other Key Management Personnel				
S Chan	71,347	5,488	6,778	83,613
	449,498	**29,525**	**34,620**	**513,643**

	2016 TOTAL REMUNERATION Total cash payments	 Appointment Options	 Total	 LTI % of remuneration
	$	$	$	
Directors				
M Bennett	279,038	1,678,275	1,957,313	86%
A Neuling	79,101	1,174,792	1,253,893	94%
J Dowling	63,489	335,655	399,144	84%
G Egerton-Warburton (i)	8,402	162,455	170,857	95%
Other Key Management Personnel				
S Chan	83,613	107,410	191,023	56%
	513,643	**3,458,587**	**3,972,230**	

(i) Mr Egerton-Warburton's options were approved by the Board of Directors on 29 April 2016 but are subject to shareholder approval at the Annual General Meeting.

As the Company was incorporated on 29 May 2015, remuneration comparatives have not been disclosed.

There were nil non-monetary benefits paid to the Directors or KMP for the period ended 30 June 2016.

Other than those disclosed above, there were no transactions with related parties to the KMP for the period ended 30 June 2016.

Directors Report (cont)

Remuneration Report (audited) (cont)

3. SERVICE AGREEMENTS

For the period ended 30 June 2016, the following service agreements were entered into for the Directors and key management personnel of S2:

On 4 September 2015, an Executive Services Agreement was entered into between the Company and Managing Director and Chief Executive Officer Mark Bennett. Under the terms of the Agreement:

- Dr Bennett was paid a remuneration package of $325,000 per annum base salary plus statutory superannuation.
- Under the general termination of employment provision, the Company may terminate the Agreement by giving Dr Bennett twelve months' notice.
- Under the general termination of employment provision, Dr Bennett may terminate the Agreement by giving the Company three months' notice.
- The Company may terminate the Agreement at any time without notice if serious misconduct has occurred. On termination with cause, the Executive is not entitled to any payment.

On 10 September 2015, a letter of appointment was entered into between the Company and Non-Executive Chairman Jeff Dowling. Under the terms of the Agreement:

- Mr Dowling was paid a remuneration package of $75,000 per annum base salary plus statutory superannuation.
- Under the general termination of employment provision, either party may terminate the Agreement by the giving of written notice.

On 4 September 2015, an Executive Services Agreement was entered into between the Company and Executive Director Anna Neuling. Under the terms of the Agreement:

- Ms Neuling was appointed as Executive Director, encompassing the role of Company Secretary;
- Ms Neuling was paid a remuneration package of $120,000 per annum comprising a base salary plus statutory superannuation (based on $300,000 full time equivalent).
- Under the general termination of employment provision, the Company may terminate the Agreement by giving Ms Neuling twelve months' notice.
- Under the general termination of employment provision, Ms Neuling may terminate the Agreement by giving the Company three months' notice.
- The Company may terminate the Agreement at any time without notice if serious misconduct has occurred. On termination with cause, the Executive is not entitled to any payment.

On 29 April 2016, a letter of appointment was entered into between the Company and Non-Executive Director Grey Egerton-Warburton. Under the terms of the Agreement:

- Mr Egerton-Warburton was paid a remuneration package of $45,000 per annum base salary plus statutory superannuation.
- Under the general termination of employment provision, either party may terminate the Agreement by the giving of written notice.

On 8 September 2015, the Company entered into an employment contract with Su-Mei Chan. Under the terms of the Agreement:

- Ms Chan was appointed in the capacity of Chief Financial Officer and paid a remuneration package of $120,000 per annum base salary plus statutory superannuation (based on $150,000 full time equivalent).

Directors Report (cont)

Remuneration Report (audited) (cont)

3. SERVICE AGREEMENTS (CONTINUED)

- The Company or Ms Chan may terminate the contract at any time by giving the other party 12 weeks' notice.
- The Company may terminate the Agreement at any time without notice if serious misconduct has occurred. On termination with cause, Ms Chan is not entitled to any payment.

4. SHARE-BASED COMPENSATION

Option holdings

The numbers of options in the Company held during the period ended by each KMP of S2, including their related parties, are set out below:

2016	Balance at the start of the period	Granted during the period	Expired during the period	Other changes	Balance for the period ended
Director					
M Bennett	-	12,500,000	-	-	12,500,000
A Neuling	-	8,750,000	-	-	8,750,000
J Dowling	-	2,500,000	-	-	2,500,000
G Egerton-Warburton (i)	-	1,000,000	-	-	1,000,000
	-	**24,750,000**	**-**	**-**	**24,750,000**
Other Key Management Personnel					
S Chan	-	800,000	-	-	800,000
	-	**25,550,000**	**-**	**-**	**25,550,000**

(i) Mr Egerton-Warburton's options were approved by the Board of Directors on 29 April 2016 but are subject to shareholder approval at the Annual General Meeting.

As at 30 June 2016, the number of options that have vested and exercisable were 23,750,000 and the number of options yet to vest and un-exercisable were 800,000. The remaining 1,000,000 options are un-exercisable as they are subject to shareholder approval.

The option terms and conditions of each grant of options over ordinary shares affecting remuneration of Directors and other KMP in the period ended or future reporting years are as follows:

Options issued	Grant Date	Expiry date	Exercise price $	Fair value per option $	Vested $
Directors Option Plan	14 Sep 2015	14 Sep 2019	0.31	0.13	100%
	29 Apr 2016	28 Apr 2020	0.35	0.16	100%
Employee Share Option Plan	14 Sep 2015	14 Sep 2019	0.31	0.13	0%*

*Options vest a year after grant date. Please refer to note 15 for more information.

Directors Report (cont)

Remuneration Report (audited) (cont)

Shareholdings

The numbers of shares in the Company held during the period ended by each KMP of S2, including their related parties, are set out below:

2016	Balance at the start of the period	Other changes during the period	Balance for the period ended
Directors			
M Bennett	-	4,595,001	**4,595,001**
A Neuling	-	350,000	**350,000**
J Dowling	-	500,000	**500,000**
G Egerton-Warburton	-	200,400	**200,400**
Other Key Management Personnel			
S Chan	-	30,000	**30,000**
	-	**5,675,401**	**5,675,401**

There were no shares granted to KMP's during the reporting period as remuneration.

Use of remuneration consultants

No remuneration consultants were engaged or used for the Group during the period ended 30 June 2016.

Voting and comments made at the Company's Annual General Meeting

As the Company was incorporated on 29 May 2015, there was no Annual General Meeting held for the period ended 30 June 2015.

Share trading policy

The trading of shares issued to participants under any of the Group's employee equity plans is subject to, and conditional upon, compliance with the Group's employee share trading policy as per the Group's Corporate Governance Policy. Executives are prohibited from entering into any hedging arrangements over unvested options under the Group's employee option plan. The Group would consider a breach of this policy as gross misconduct which may lead to disciplinary action and potentially dismissal.

This concludes the Remuneration Report, which has been audited.

Directors Report (cont)

Proceedings on behalf of the Group

No person had applied to the court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings. No proceedings had been brought or intervened in on behalf of the Group with leave of the court under section 237 of the Corporations Act 2001.

Auditor

BDO Audit (WA) Pty Ltd was appointed as auditors for the Group in office in accordance with section 327 of the Corporations Act 2001.

Audit Services

During the period ended $34,280 was paid or is payable for audit services provided by the auditors.

Auditors' Independence Declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 16 of the financial report.

Corporate Governance

The Directors support and adhere to the principles of corporate governance, recognising the need for the highest standard of corporate behaviour and accountability.

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

Mark Bennett

Mark Bennett
Director
Perth
19 August 2016

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DECLARATION OF INDEPENDENCE BY NAME OF JARRAD PRUE TO THE DIRECTORS OF S2 RESOURCES LIMITED

As lead auditor of S2 Resources Limited for the period 29 May 2015 to 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of 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.

This declaration is in respect of S2 Resources Limited and the entities it controlled during the period.

Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 19 August 2016

Annual Financial Report

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the period ended 30 June 2016

	Notes	30 June 2016 $
Other income		386,173
Salaries and wages		(776,502)
Travel expenditure		(328,171)
Consulting and legal fees		(129,088)
Share and company registry		(77,534)
Listing fees		(158,536)
Office rental and variable outgoings		(215,452)
Insurance		(44,637)
Other office related costs		(61,166)
Business development		(331,105)
Depreciation expense	10	(114,308)
Share-based payments	15	(4,039,525)
Other gain/(losses) - net		(15,403)
Exploration expenditure expensed as incurred	9	(4,917,968)
Loss before income tax		**(10,823,222)**
Income tax expense		-
Loss after income tax for the period		**(10,823,222)**
Other comprehensive income		
Items that may be classified to profit or loss		
Exchange differences on translation of foreign operations		14,421
Total comprehensive loss for the period attributable to the members of S2 Resources Ltd		**(10,808,801)**
Loss per share for loss attributable to the members of S2 Resources Ltd		
Basic loss per share	19(c)	(7.12)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Annual Financial Report (cont)

Consolidated Statement of Financial Position

as at 30 June 2016

	Notes	30 June 2016 $
CURRENT ASSETS		
Cash and cash equivalents	6	15,891,260
Restricted cash	6	244,270
Trade and other receivables	7	194,630
TOTAL CURRENT ASSETS		**16,330,160**
NON-CURRENT ASSETS		
Exploration and evaluation	9	3,335,880
Property, plant and equipment	10	405,318
TOTAL NON-CURRENT ASSETS		**3,741,198**
TOTAL ASSETS		**20,071,358**
CURRENT LIABILITIES		
Trade and other payables	11	1,129,154
Provisions	12	47,952
TOTAL CURRENT LIABILITIES		**1,177,106**
TOTAL LIABILITIES		**1,177,106**
NET ASSETS		**18,894,252**
EQUITY		
Share capital	13	40,728,688
Reserves	14	(11,011,214)
Accumulated losses		(10,823,222)
TOTAL EQUITY		**18,894,252**

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

Annual Financial Report (cont)

Consolidated Statement of Changes in Equity

for the period ended 30 June 2016

Attributable to equity holders of the Group in $ dollars	Share capital	Share based payment Reserves	Other Reserve	Acquisition Reserve	Foreign Currency Translation Reserve	Accumulated losses	Total	Non-controlling interest	Total
Balance at 29 May 2015	-	-	-	-	-	-	-	-	-
Total comprehensive loss for the period	**-**	**-**	**-**	**-**	**14,421**	**(10,823,222)**	**(10,808,801)**	**-**	**(10,808,801)**
Transactions with owners, recorded directly in equity									
Contributions by and distributions to owners									
Acquisition of commonly controlled entities	39,468,688	-	650,136	(15,214,601)	4,924	-	24,909,147	915,175	25,824,322
Share-based payment transactions	-	4,039,525	-	-	-	-	4,039,525	-	4,039,525
Purchase of Norse Exploration Pty Ltd 33% interest	1,260,000	-	-	-	-	-	1,260,000	-	1,260,000
Transactions with non-controlling interest	-	-	(505,619)	-	-	-	(505,619)	(915,175)	(1,420,794)
Total contributions by and distributions to owners	40,728,688	4,039,525	144,517	(15,214,601)	19,345	(10,823,222)	18,894,252	-	18,894,252
Balance at 30 June 2016	**40,728,688**	**4,039,525**	**144,517**	**(15,214,601)**	**19,345**	**(10,823,222)**	**18,894,252**	**-**	**18,894,252**

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

Annual Financial Report (cont)

Consolidated Statement of Cash Flows

For the period ended 30 June 2016

	Notes	30 June 2016 $
Cash flows from operating activities		
Cash paid to suppliers and employees for administration activities		(1,802,055)
Cash paid to suppliers and employees for exploration activities		(4,380,719)
Interest received		356,612
Interest and other finance costs paid		(5,709)
Foreign exchange gains/(losses)		(15,403)
Income taxes paid		(5,729)
Net cash used in operating activities	18	**(5,853,003)**
Cash flows from investing activities		
Payment of property, plant and equipment		(519,626)
Payment of exploration activities capitalised		(215,776)
Payment for stamp duty on transfer of tenements		(30,669)
Payment for costs related to purchase of Norse Exploration Pty Ltd 33% interest		(33,694)
Cash acquired upon acquisition of subsidiaries		2,765,347
Net cash used derived from (used in) investing activities		**1,965,582**
Cash flows from financing activities		
Proceeds from demerger		20,000,000
Net receipts / (payments) for cash backed guarantees		(221,320)
Net cash from financing activities		**19,778,681**
Net increase in cash and cash equivalents		15,891,260
Cash and cash equivalents at 29 May 2015		-
Cash and cash equivalents at 30 June		**15,891,260**

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

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

for the period ended 30 June 2016

S2 Resources Ltd ("Company" or "S2") is a company incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The consolidated financial statements of the Group as at and for the period ended to 30 June 2016 comprise the Company and its subsidiaries (together referred to as the "Group" or "consolidated entity" and individually as a "Group entity").

The separate financial statements of the parent entity, S2 Resources Ltd, have not been presented within this financial report as required by the Corporations Act 2001. Summary parent information has been included in note 23.

The financial statements were authorised for issue on 19 August 2016 by the Directors of the Company.

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. The financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standard Board (IASB). Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. The consolidated financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Company was incorporated on 29 May 2015 and accordingly the financials for the period ended 30 June 2016 have not disclosed comparatives.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1(a)(iii).

(i) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(ii) Adoption of new and revised Accounting Standards

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any material impact on the financial performance or position of the consolidated entity.

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

(iii) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer to note 15.

Estimation of useful lives of assets

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Exploration and evaluation costs

Exploration and evaluation costs are capitalised in an identifiable area of interest upon announcement of a JORC 2012 compliant resource and costs will be amortised in proportion to the depletion of the mineral resources at the commencement of production. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

(iv) Principles of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by S2 at the end of the reporting period. A controlled entity is any entity over which S2 has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in note 24 to the financial statements.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated Group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the Consolidated Statement of Financial Position and the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in the Australian dollar ($), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchanges rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation difference on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign currency translation (continued)

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(c) Revenue Recognition

Interest income is recognised on a time proportion basis using the effective interest method.

(d) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction.

The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Income Tax (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(e) Acquisition of entities under common control

The Group adopts the pooling of interest method to account for acquisition of entities under common control.

The pooling of interest method involves the following:

The assets and liabilities of the combining entities are reflected at their carrying amounts prior to the combination;

No adjustments are made to reflect fair values, or recognise any new assets or liabilities, that would other be done under the acquisition method. The only adjustments that are made are to harmonise accounting policies;

No 'new' goodwill is recognised as a result of the combination; and

The only goodwill that is recognised is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid/transferred (including liabilities assumed) and the entity 'acquired' is reflected within equity.

The Consolidated Statement of Profit or Loss and Other Comprehensive Income reflects the result of the combining entities from the date that the combination occurred. Financial information for the periods prior to the date the combination occurred is not restated.

(f) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value.

Any excess of the asset's carrying value over its recoverable amount is expensed to the Consolidated Statement of Profit or Loss and Other Comprehensive Income. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

(g) Cash and Cash Equivalents

For the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Trade and Other Receivables

A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of any provision is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(i) Trade and Other Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(j) Exploration and Evaluation

Exploration and evaluation assets acquired

Exploration and evaluation assets comprise of acquisition of mineral rights (such as joint ventures) and fair value (at acquisition date) of exploration and expenditure assets from other entities. As the assets are not yet ready for use they are not depreciated. Exploration and evaluation assets are assessed for impairment if:

- sufficient data exists to determine technical feasibility and commercial viability; or
- other facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the assets are demonstrable, exploration and evaluation assets are first tested for impairment and then reclassified to mine properties as development assets.

Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is expensed in respect of each identifiable area of interest until such a time where a JORC 2012 compliant resource is announced in relation to the identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development.

Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment annually in accordance with AASB 6. Where impairment indicators exist, recoverable amounts of these assets will be estimated based on discounted cash flows from their associated cash generating units.

The Statement of Profit or Loss and Other Comprehensive Income will recognise expenses arising from excess of the carrying values of exploration and evaluation assets over the recoverable amounts of these assets.

In the event that an area of interest is abandoned or if the Directors consider the expenditure to be of reduced value, accumulated costs carried forward are written off in the period in which that assessment is made. Each area of interest is reviewed at the end of each accounting period and accumulated costs are written off to the extent that they will not be recoverable in the future.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term or their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The depreciation rates used for each class of asset are:

- buildings 16.67%
- fixtures and fittings 22.5% - 40%
- leasehold improvements 20%
- plant and equipment 22.5% - 40%
- motor vehicles 20%

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

(m) Interest in Joint Ventures

The Group accounts for 100% of the assets, liabilities and expenses of joint venture activity. These have been incorporated in the financial statements.

(n) Financial Instruments

Recognition
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities
Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value
Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties.

Impairment
At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Financial Instruments (continued)

De-recognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer or non-cash assets or liabilities assumed, is recognised in profit or loss.

(o) Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Profit or Loss and Other Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(p) Employee Benefits

(i) Equity Settled Compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(ii) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Employee Benefits (continued)

(iii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Employee Option Plan.

The fair value of options granted under the Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company transfers the appropriate amount of shares to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(q) Issued Capital

Ordinary shares are classified as equity. Costs associated with capital raisings (exclusive of GST) directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds. If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable costs associated with capital raisings (net of income taxes) is recognised directly in equity.

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit / (loss) attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Issued Capital (Continued)

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(r) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(s) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

- AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle, and
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101.

As these amendments merely clarify the existing requirements, they do not affect the Group's accounting policies or any of the disclosures.

AASB 9 Financial Instruments

These amendments must be applied for financial years commencing on or after 1 January 2018. Therefore application date for the Company will be 30 June 2019. The Company does not currently have any hedging arrangements in place.

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting. There will be no impact on the Company's accounting for financial assets and financial liabilities, as the new requirements only effect the accounting for available-for-sale financial assets and the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such financial assets or financial liabilities. The new hedging rules align hedge accounting more closely with the Company's risk management practices. As a general rule it will be easier to apply hedge accounting going forward. The new standard also introduces expanded disclosure requirements and changes in presentation.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 15 Revenue from Contracts with Customers

These amendments must be applied for annual reporting periods beginning on or after 1 January 2018. Therefore application date for the Company will be 30 June 2019.

An entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This means that revenue will be recognised when control of goods or services is transferred, rather than on transfer of risks and rewards as is currently the case under IAS 18 Revenue. Due to the recent release of this standard the Company has not yet made an assessment of the impact of this standard.

AASB 16 Leases

IFRS 16 eliminates the operating and finance lease classifications for lessees currently accounted for under AASB 117 Leases. It instead requires an entity to bring most leases onto its statement of financial position in a similar way to how existing finance leases are treated under AASB 117. An entity will be required to recognise a lease liability and a right of use asset in its statement of financial position for most leases.

There are some optional exemptions for leases with a period of 12 months or less and for low value leases. The application date of this standard is for annual reporting periods beginning on or after 1 January 2019. Due to the recent release of this standard, the group has not yet made a detailed assessment of the impact of this standard.

AASB 2014-3 (issued August 2014) - Amendments to Australian Accounting Standards - Accounting for Acquisitions of Interests in Joint Operations

When an entity acquires an interest in a joint operation whose activities meet the definition of a 'business' in AASB 3 Business Combinations, to the extent of its share of assets, liabilities, revenues and expenses as specified in the contractual arrangement, the entity must apply all of the principles for business combination accounting in AASB 3, and other IFRSs, to the extent that they do not conflict with AASB 11 Joint Arrangements.

This means that it will expense all acquisition-related costs and recognise its share, according to the contractual arrangements, of:

- Fair value of identifiable assets and liabilities, unless fair value exceptions included in AASB 3 or other IFRSs, and
- Deferred tax assets and liabilities that arise from the initial recognition of an asset or liability as required by AASB 3 and AASB 112 Income Taxes.
- Goodwill will then be recognised as the excess consideration over the fair value of net identifiable assets acquired.

Annual periods beginning on or after 1 January 2016.

There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to acquisitions of interests in joint operations.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) New Accounting Standards and Interpretations not yet mandatory or early adopted (continued)

AASB 2014-3 (issued August 2014) - Amendments to Australian Accounting Standards - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Removes the inconsistency between AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures in accounting for transactions where a parent loses control over a subsidiary that is not a business under AASB 3 Business Combinations, by selling part of its interest to an associate or joint venture, or by selling down part of its interest so that the remaining investment becomes an associate or joint venture. Requires that:

- Gain or loss from measuring the retained interest in the former subsidiary at fair value, as well as gains or losses to be reclassified from other comprehensive income to profit or loss, only be recognised to the extent of the unrelated investor’s interest in that associate or joint venture, and
- Remaining gains or losses to be eliminated against the investment in associate or joint venture.

Annual periods beginning on or after 1 January 2016.

There will be no impact on the financial statements when these amendments are first adopted because they apply prospectively to sales or contributions of assets occurring after the application date.

NOTE 2. FINANCIAL RISK MANAGEMENT

The Group’s financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The Group's activities expose it to a variety of financial risks; market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Board of Directors under policies approved by the Board. The Board identifies and evaluates financial risks and provides written principles for overall risk management.

The main risks the Group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's Australian Dollar current and non-current debt obligations with floating interest rates. The Group is also exposed to interest rate risk on its cash and short term deposits.

2016 Financial Instruments	Floating interest rate	Fixed interest rate maturing in 1 year or less	Fixed interest rate maturing between 1 and 2 years	Non-interest bearing	Total	Weighted average effective interest rate
	$	$	$	$	$	%
(i) Financial assets						
Available cash on hand	2,461,588	10,000,000	-	3,429,672	15,891,260	2.68
Restricted cash	210,966	-	-	33,304	244,270	2.22
Other receivables	-	-	-	194,630	194,630	-
Total financial assets	2,672,554	10,000,000	-	3,657,606	16,330,160	
(ii) Financial liabilities						
Trade and other payables	-	-	-	1,129,154	1,129,154	-
Total financial liabilities	-	-	-	1,129,154	1,129,154	

Net Fair Values

The net fair value of financial assets and liabilities approximate carrying values due to their short term nature.

Sensitivity Analysis – Interest Rate Risk

The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at the reporting date. This sensitivity analysis demonstrates the effect on the current period results and equity which could result from a change in interest rates.

	30 June 2016 $
Change in loss:	
Increase by 1%	(108,232)
Decrease by 1%	108,232
Change in equity:	
Increase by 1%	(188,943)
Decrease by 1%	188,943

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

Foreign exchange risk

Exposure

The group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollar, was as follows:

Period ended 30 June 2016	EUR $	USD $
Cash on hand	3,353,773	75,399
Restricted cash	33,304	-
Other receivables	39,912	-
Trade payables	(174,068)	-
	3,252,921	75,399

Amounts recognised in profit or loss and other comprehensive income

During the period ended, the following foreign-exchange related amounts were recognised in profit or loss and other comprehensive income:

	2016 $
Amounts recognised in profit or loss	
Net foreign exchange gain/(loss) included in other income/other expenses	(15,403)
Total net foreign exchange (losses) recognised in loss before income tax for the period	**(15,403)**
Net gains/(losses) recognised in other comprehensive income	
Translation of foreign operations	14,421

Sensitivity

As shown in the table above, the Group is primarily exposed to changes in EUR/$exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from EUR-dollar denominated financial instruments and the impact on other components of equity arises from translation of foreign operations.

	Impact on post tax loss $	Impact on other components of equity $
EUR/$ exchange rate – increase 10%*	(1,540)	(1,934)
EUR/$ exchange rate – decrease (10%)*	1,540	1,934

*Holding all other variables constant

The Group's exposure to the USD dollar exchange rate is not disclosed in the table above because it is not material.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 2. FINANCIAL RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. Management monitors rolling forecasts of the Group's cash reserves on the basis of expected development, exploration and corporate cash flows. This ensures that the Group complies with prudent liquidity risk management by maintaining sufficient cash and marketable securities and the availability of funding through the equity markets to meet obligations when due. For the period ended 30 June 2016, the Group has no contractual financial liabilities.

Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- based on Standard and Poor's rating agency.

The credit risk on other receivables is limited as it is comprised of prepayments and GST recoverable from the Australian Taxation Office and tax authorities in Scandinavia. The credit risk on liquid funds is limited because the counter party is a bank with high credit rating. There are no receivable balances which are past due or impaired.

Price risk

The Group is not currently exposed to commodity price risk.

NOTE 3. SEGMENT INFORMATION

For management purposes, the Group has three reportable segments as follows:

- Scandinavian exploration activities, which includes exploration and evaluation of mineral tenements in Finland and Sweden.
- Australian exploration activities, which includes exploration and evaluation of mineral tenements in Australia.
- Unallocated, which includes all other expenses that cannot be directly attributed to either segments above.

Segment information that is evaluated by the CODM is prepared in conformity with the accounting policies adopted for preparing the financial statements of the Group.

Segment Results

Statement of profit or loss for the period ended 30 June 2016		**$**	
	Scandinavian exploration activities	**Australia exploration activities**	**Unallocated**
Other income	-	-	386,173
Administrative expenses	-	-	(2,122,191)
Depreciation expense	-	-	(114,308)
Share-based payments	-	-	(4,039,525)
Other gain/(losses) - net	-	-	(15,403)
Exploration expenditure expensed as incurred	(1,907,826)	(3,010,142)	-
Loss before income tax	(1,907,826)	(3,010,142)	(5,905,254)
Income tax expense	-	-	-
Loss after income tax for the period	(1,907,826)	(3,010,142)	(5,905,254)

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 3. SEGMENT INFORMATION (CONTINUED)

Segment assets

The Group's assets are mostly attributable to the unallocated segment therefore assets attributable to exploration in Scandinavia and Australia is immaterial for disclosure.

NOTE 4. OTHER INCOME

	30 June 2016 $
Interest received	386,173

NOTE 5. INCOME TAX

	30 June 2016 $
Recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	
Current tax	-
Deferred tax	-
Under (over) provided in prior years	-
Total income tax expense per Consolidated Statement of Profit or Loss and Other Comprehensive Income	-
Numerical reconciliation between tax expense and pre-tax net loss	
Net loss before tax	(10,823,222)
Income tax benefit at 30%	(2,659,328)
Income tax expense for overseas entities	(418,312)
Increase in income tax due to:	
Non-deductible expenses	1,213,570
Current year tax losses not recognised	1,864,894
Decrease in income tax due to:	
Movement in unrecognised temporary differences	(824)
	-
Unrecognised deferred tax assets	
Deferred tax assets have not been recognised in respect of the following:	
Deductible temporary differences	200,385
Tax revenue losses	1,664,509
Tax capital losses	-
	1,864,894

Net deferred tax assets have not been brought to account as it is not probable that within the immediate future tax profits will be available against which deductible temporary differences and tax losses can be utilised.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 6. CASH AND CASH EQUIVALENTS

	30 June 2016 $
Current	
Cash at bank and in hand	15,891,260
Restricted cash	244,270
	16,135,530

NOTE 7. OTHER RECEIVABLES

	30 June 2016 $
GST refund due	87,554
Accrued interest	29,562
Prepayment	73,791
Other	3,723
	194,630

The Group has no impairments to other receivables or have receivables that are past due but not impaired. Refer to note 2 for detail on the risk exposure and management of the Group's other receivables.

NOTE 8. ACQUISITION OF COMMONLY CONTROLLED ENTITIES

On 21 September 2015, S2 Resources Ltd and its subsidiaries, demerged from Sirius Resources NL (now a subsidiary of Independence Group ("IGO")). The demerger transaction comprised of S2 receiving cash from IGO and acquiring the carrying value of Polar Metals Pty Ltd and Sirius Europa Pty Ltd ("acquired entities"). The following transactions occurred for the demerger transaction to complete on 21 September 2015:

- On 3 September 2015, the shareholders of Sirius Resources NL approved the demerger transaction.
- On 10 September 2015, subsequent to court order approval of the demerger transaction, the Company received cash of $15,854,974 and a reimbursement for Deferred Tax Assets of $4,145,026 due to exiting the Sirius Resources NL tax consolidated group (i.e. total cash received of $20,000,000).
- On 21 September 2015, 207,401,278 shares were issued to S2 shareholders. The number of shares determined on completion of the Demerger transaction was based on Sirius Resources NL shareholders receiving 1 S2 share for every 2 Sirius ordinary shares.
- Also on 21 September 2015, the Company acquired the carrying value of Polar Metals and Sirius Europa Pty Ltd. The net assets acquired on this date was $9,969,347 and comprised cash which included the reimbursement for Deferred Tax Assets due to exiting the Sirius Resources NL tax consolidated group and exploration assets.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 8. ACQUISITION OF COMMONLY CONTROLLED ENTITIES (CONTINUED)

As a result of the transactions described above, the summarised financial information as at 21 September 2015 for the acquired entities is provided below:

	21 September 2015 $
CURRENT ASSETS	
Cash and cash equivalents	2,765,346
Restricted cash	74,949
Trade receivables	12,570
Other receivables	4,156,026
TOTAL CURRENT ASSETS	**7,008,891**
NON-CURRENT ASSETS	
Exploration and evaluation	3,062,848
Property, plant and equipment	73,878
TOTAL NON-CURRENT ASSETS	**3,136,726**
TOTAL ASSETS	**10,145,617**
CURRENT LIABILITIES	
Trade and other payables	172,070
Provisions	4,200
TOTAL CURRENT LIABILTIES	**176,270**
TOTAL LIABILTIES	**176,270**
NET ASSETS	**9,969,347**
EQUITY	
Share capital	23,613,713
Reserves	650,136
Foreign Currency Translation Reserve	4,924
Non-controlling interest	915,175
Acquisition Reserve	(15,214,601)
TOTAL EQUITY	**9,969,347**

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 9. EXPLORATION AND EVALUATION

	30 June 2016 $
Exploration costs	**3,335,880**
Movement during the period	
Balance at beginning of the period	-
Exploration expenditure incurred during the period (i)	5,160,331
Exploration expenditure incurred during the period and expensed (i)	(4,917,968)
Exploration expenditure relating to acquisitions (ii)	3,093,517
Balance at end of the period	**3,335,880**

(i) During the period ended 30 June 2016 the exploration expenditure incurred pertains to the following:

Baloo Project
Exploration expenditure incurred for the Baloo project was $1,777,320 with $1,543,764 expensed and $233,556 capitalised in respect of the resource announcement on 4 March 2016.

Nanook Project
Exploration expenditure incurred for the Nanook project was $8,807 and this amount was capitalised in respect of the resource announcement on 6 May 2016.

Polar Bear Project
Exploration expenditure incurred and expensed for the Polar Bear Project was $1,372,481.

Eundynie JV Project (80% interest)
Exploration expenditure incurred and expensed for the Eundynie JV was $71,610.

Norcott Project
Exploration expenditure incurred and expensed for the Norcott was $22,287.

Scandinavian Project
Exploration expenditure incurred and expensed for Scandinavia was $1,907,826.

(ii) As a result of the Demerger transaction on 21 September 2015, the Group acquired exploration assets in the Scandinavian Project valued at $2,000,000, Polar Bear Project valued at $400,000 and Eundynie JV Project valued at $662,848. During the period ended 30 June 2016, a purchase was made for transfer of tenements for the Eundynie JV of $30,669.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 10. PROPERTY, PLANT AND EQUIPMENT

2016	Property, Plant and Equipment $	Motor Vehicles $	Computer Software $	Fixtures and fittings $	Total $
Cost or deemed cost					
Balance at 29 May 2015	-	-	-	-	-
Additions	290,737	37,263	101,397	86,850	516,247
Disposals	-	-	-	-	-
Transfers	-	-	-	-	-
Exchange differences	2,426	-	208	-	2,634
Balance at 30 June 2016	293,163	37,263	101,605	86,850	518,881
Depreciation					
Balance at 29 May 2015	-	-	-	-	-
Depreciation for the period – expensed	71,520	4,968	22,276	15,544	114,308
Exchange differences	(689)	-	(56)	-	(745)
Disposals	-	-	-	-	-
Balance at 30 June 2016	70,831	4,968	22,220	15,544	113,563
Carrying amounts					
at 29 May 2015	-	-	-	-	-
at 30 June 2016	**222,332**	**32,295**	**79,385**	**71,306**	**405,318**

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 11. TRADE AND OTHER PAYABLES

	30 June 2016 $
Trade and other payables (i)	1,129,154

(i) These amounts generally arise from the usual operating activities of the Group and are expected to be settled within 12 months. Collateral is not normally obtained.

NOTE 12. PROVISIONS

	30 June 2016 $
Current	
Employee benefits	47,952
Carrying amount at start of the period	-
Provisions made during the period	47,952
Carrying amount at end of the period	**47,952**

Employee benefits are provided for all employees of the Group in line with their employment contracts and the balance for the period ended 30 June 2016 is expected to be settled within 12 months. The measurement and recognition criteria relating to employee benefits have been included in note 1 to this financial report.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 13. SHARE CAPITAL

	30 June 2016 No. of Shares	30 June 2016 $
Ordinary shares fully paid	215,801,278	40,728,688
Movement in Share Capital		
Ordinary shares fully paid		
Balance at beginning of period	-	-
Shares issued at $0.1903 per share at the completion of the Demerger on 21 September 2015.	207,401,278	39,468,688
Shares issued at $0.15 per share (i)	8,400,000	1,260,000
Balance at period end	**215,801,278**	**40,728,688**

(i) On 30 November 2015, the Group announced its acquisition of the 33% interest, held by the Sakumpu vendors, in Norse Exploration Pty Ltd and becoming a wholly owned subsidiary of S2.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

NOTE 14. RESERVES

	30 June 2016 $
Share-based payments reserve (i)	4,039,525
Other reserve (ii)	144,517
Foreign currency translation reserve (iii)	19,345
Acquisition reserve (iv)	(15,214,601)
	(11,011,214)

(i) The share-based payments reserve recognises the fair value of the options issued to Directors, employees and service providers.

Each share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends or voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

(ii) The other reserve recognises the remaining non-controlling interest (33%) that was purchased from the Sakumpu vendors on 30 November 2015. Sakumpu Exploration Oy is a registered entity in Finland.

(iii) Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 14. RESERVES (CONTINUED)

(iv) This acquisition reserve arises from the interest pooling method accounting policy for the purchase of Polar Metals Pty Ltd and Sirius Europa Pty Ltd as described in note 8 of these financials.

NOTE 15. SHARE-BASED PAYMENTS

The following share-based payments arrangements were in existence during the current reporting period:

Options

Options Series	Number	Grant Date	Expiry Date	Exercise Price $	Fair value at Grant Date $
(1) Issued at 14 September 2015	29,250,000	14/09/2015	14/09/2019	0.31	0.13
(2) Issued at 9 October 2015	50,000	09/10/2015	09/10/2019	0.31	0.13
(3) Issued at 23 October 2015	400,000	23/10/2015	23/10/2019	0.31	0.12
(4) Issued at 29 November 2015	400,000	29/11/2015	28/11/2019	0.31	0.08
(5) Issued at 18 April 2016	800,000	18/04/2016	19/04/2020	0.31	0.14
(6) Issued at 28 April 2016	1,000,000	28/04/2016	29/04/2020	0.35	0.16

(1) The 29,250,000 options in series 1 comprised 23,750,000 options issued to the Directors of the Group which vested immediately, 3,600,000 options issued to employees under the Employee Share Option Plan which vest one year from grant date and 1,900,000 options issued to service providers which vest one year from grant date. For the service provider options, the value of services received was unable to be measured reliably and therefore the value of services received was measured by reference to the fair value of options issued.

(2) The 50,000 options in series 2 which vests one year from grant date was issued to employees under the Employee Share Option Plan.

(3) The 400,000 options in series 3 which vests one year from grant date was issued to employees under the Employee Share Option Plan.

(4) The 400,000 options in series 4 which vests one year from grant date was issued to employees under the Employee Share Option Plan.

(5) The 800,000 options in series 5 comprised of 400,000 options were issued to employees under the Employee Share Option Plan which vests one year from grant date, and 400,000 options issued to service providers which vests one year from grant date. For the service provider options, the value of services received was unable to be measured reliably and therefore the value of services received was measured by reference to the fair value of options issued.

(6) The 1,000,000 options in series 6 which vested immediately were issued to a Director of the Group. These options are subject to shareholder approval.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 15. SHARE-BASED PAYMENTS (CONTINUED)

The weighted average fair value of the share options granted during the period is $0.13.

The total expense of the share based payments for the period was:

	30 June 2016 $
Options issued under Directors Option Plan	3,351,176
Options issued under Employee Share Plan	409,782
Options issued under Service Provider Plan	278,567
	4,039,525

The weighted average contractual life for options outstanding at the end of the year was 4 years.

Options were priced using a Black-Scholes option pricing model using the inputs below:

	Series 1	Series 2	Series 3	Series 4	Series 5
Grant date share price	0.21	0.19	0.19	0.14	0.22
Exercise price	0.31	0.31	0.31	0.31	0.31
Expected volatility	100.00%	100.00%	100.00%	100.00%	100.00%
Option life	4 years	4 years	4 years	4 years	4 years
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Interest rate	3.10%	3.10%	3.10%	3.35%	3.26%

	Series 6
Grant date share price	0.25
Exercise price	0.35
Expected volatility	100%
Option life	4 years
Dividend yield	0.00%
Interest rate	3.35%

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 15. SHARE-BASED PAYMENTS (CONTINUED)

The following reconciles the outstanding share options granted in the period ended 30 June 2016:

	30 June 2016 No. of Options	30 June 2016 Weighted average exercise price $
Balance at the beginning of the period	-	-
Granted during the period	31,900,000	0.31
Exercised during the period	-	-
Expired during the period (i)	-	-
Balance at the end of the period	**31,900,000**	**0.31**
Un-exercisable at the end of the period	8,150,000	0.31
Exercisable at end of the period	**23,750,000**	**0.31**

(i) *Options expired or cancelled during the period*

For the period ended 30 June 2016 no options expired or were cancelled.

No amounts are unpaid on any of the shares. No person entitled to exercise an option had or has any rights by virtue of the option to participate in any share issue of any other body corporate.

NOTE 16. DIVIDENDS

There were no dividends recommended or paid during the period ended 30 June 2016.

NOTE 17. KEY MANAGEMENT PERSONNEL DISCLOSURES

	30 June 2016 $
Short term employee benefits	449,498
Post-employment benefits	34,620
Long-term benefits	29,525
Non-monetary benefits	-
Share-based payment	3,458,587
	3,972,230

Detailed remuneration disclosures are provided in the Remuneration Report.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 18. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH USED IN OPERATING ACTIVITIES

	30 June 2016 $
Loss for the period	**(10,823,222)**
Depreciation	114,308
Equity Settled share-based payment transaction	4,039,525
Increase in trade and other payables	1,129,154
Increase in provisions	47,952
(Increase) in receivables	(360,720)
Net cash outflow from operating activities	**(5,853,003)**

NOTE 19. BASIC LOSS PER SHARE

	30 June 2016 $
(a) Reconciliation of loss used in calculating loss per share	
Basic loss per share	
Loss attributable to the ordinary equity holders used in calculating basic loss per share	**(10,823,222)**

	30 June 2016
(b) Weighted average number of shares used as the Denominator	**Number**
Ordinary shares used as the denominator in calculating basic loss per share	215,801,278
(c) Basic loss per share	**Cents**
Basic loss per share	(7.12)

Where loss per share is non-dilutive, it is not disclosed.

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 20. COMMITMENTS

The Group must meet the following operating lease and tenement expenditure commitments to maintain them in good standing until they are joint ventured, sold, reduced, relinquished, exemptions from expenditure are applied or are otherwise disposed of. These commitments, net of farm outs, are not provided for in the financial statements and are:

	30 June 2016 $
Not later than one year	766,580
After one year but less than two years	1,437,225
After two years but less than five years	1,982,220
After five years*	660,740
	4,846,765

* Per annum

NOTE 21. RELATED PARTY TRANSACTIONS

Other than the Directors and key management personnel salaries and options described in the Remuneration Report, there were no related party transactions for the period ended 30 June 2016.

NOTE 22. JOINT VENTURES

The Group has interests in the following joint venture operations:

Tenement Area	Activities	2016
Eundynie	Gold	80%

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 23. PARENT ENTITY DISCLOSURES

Financial position

	30 June 2016 $
Assets	
Current assets	15,518,868
Non-current assets	24,403,244
Total assets	**39,922,112**
Liabilities	
Current liabilities	1,000,944
Non-current liabilities	-
Total liabilities	**1,000,944**
Net assets	**38,921,168**
Equity	
Issued capital	40,728,688
Share-based payments reserve	4,039,525
Accumulated losses	(5,847,045)
Total equity	**38,921,168**

Financial performance

	30 June 2016 $
Profit/(loss) for the period	(5,847,045)
Other comprehensive income	-
Total comprehensive income	**(5,847,045)**

The parent entity has entered into an office lease agreement where the following commitments must be met:

	30 June 2016 $
Not later than one year	125,840
After one year but less than two years	115,745
	241,585

* Per Annum

Annual Financial Report (cont)

Notes to the Consolidated Financial Statements

NOTE 24. SUBSIDIARIES

Name of entity	Country of incorporation	Class of Shares	2016
Polar Metals Pty Ltd	Australia	Ordinary	100%
Sirius Europa Pty Ltd	Australia	Ordinary	100%
Norse Exploration Pty Ltd	Australia	Ordinary	100%
Sakumpu Exploration Oy	Finland	Ordinary	100%
S2 Exploration Quebec Inc.	Canada	Ordinary	100%

NOTE 25. EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 20 July 2016 the Group announced the results of initial metallurgical, engineering, hydrological and environmental studies for the Baloo gold deposit on its Polar Bear project.

On 21 July 2016 the Group announced the discovery of significant gold mineralisation at the Monsoon prospect, which is part of the Polar Bear project.

On 26 July 2016, the Group announced a capital raising of $9.08 million via the placement of 22.7 million shares at 40 cents per share ("Issue Price"). This was completed on 2 August 2016. Also announced on the same day was a Share Purchase Plan ("SPP") where eligible S2 shareholders were invited to subscribe for new ordinary shares in S2 at the Issue Price up to a maximum of $15,000 per shareholder. The SPP, to raise up to $3 million, closed on 15 August 2016 and was heavily oversubscribed. The shares issued under the SPP are anticipated to be allotted on Monday 22 August 2016 and quoted on the ASX on Tuesday 23 August 2016.

Other than the after balance date events stated above, there has been no matter or circumstance that has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years; or
- the result of those operations in future financial years; or
- the Group's state of affairs in future financial years.

NOTE 26. REMUNERATION OF AUDITORS

	30 June 2016 $
During the period the following fees were paid or payable for services provided by the auditor of the Group:	
Audit services	34,280
Total remuneration for audit services	**34,280**

Directors' Declaration

The Directors of the Group declare that:

1. The financial statements and notes as set out on pages 17 to 50 are in accordance with the Corporations Act 2001, and
   - (a) comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   - (b) give a true and fair view of the financial position of the Group as at 30 June 2016 and of its performance for the period ended on that date.
2. The financial report also complies with International Financial Reporting Standards as disclosed in note 1 to the financial statements.
3. The Director acting in the capacity of Chief Executive Officer has declared that:
   - (a) the financial records of the Company for the financial period have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   - (b) the financial statements and notes for the financial period comply with the accounting standards; and
   - (c) the financial statements and notes for the financial period give a true and fair view.
4. In the opinion of the Directors there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
5. The remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standards AASB 124 Related Party Disclosures, the Corporations Act 2001 and the Corporations Regulations 2001.

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

Mark Bennett

Mark Bennett
Director
Perth
19 August 2016

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INDEPENDENT AUDITOR'S REPORT

To the members of S2 Resources Limited

Report on the Financial Report

We have audited the accompanying financial report of S2 Resources Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period 29 May 2015 to 30 June 2016, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of S2 Resources Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of S2 Resources Limited is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the period 29 May 2015 to 30 June 2016; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 14 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of S2 Resources Limited for the period 29 May 2015 to 30 June 2016 complies with section 300A of the Corporations Act 2001.

BDO Audit (WA) Pty Ltd

BDO

J Prue

Jarrad Prue

Director

Perth, 19 August 2016