



S2 RESOURCES LTD

ABN: 18 606 128 090

HALF YEAR FINANCIAL REPORT

31 December 2016

**S2 RESOURCES LTD
ABN: 18 606 128 090**

**HALF YEAR FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

CONTENTS

Corporate Directory	3
Directors' Report.....	4
Auditor's Independence Declaration	6
Consolidated Statement of Profit or Loss and Other Comprehensive Income.....	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Changes in Equity	9
Consolidated Statement of Cash Flows	11
Notes to the Consolidated Financial Statements	12
Directors' Declaration	23
Independent Auditor's Review report to the Members	24

S2 Resources Ltd
Half Year Financial Report
For the half year ended 31 December 2016

Corporate Directory

Directors

Jeff Dowling	<i>Non-Executive Chairman</i>
Mark Bennett	<i>Managing Director</i>
Anna Neuling	<i>Non-Executive Director</i>
Grey Egerton-Warburton	<i>Non-Executive Director</i>

Company Secretary

Tony Walsh

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 - ordinary shares

Directors' Report

The Directors of S2 Resources Ltd ("Directors") present their report on S2 Resources Ltd ("Company" or "S2") and the entities it controlled at the end of, or during, the half year ended 31 December 2016 ("Consolidated Entity" or "Group").

Directors

The names and details of the Directors in office during the half year ended 31 December 2016 and until the date of this financial report are as follows. The Directors were in office for the entire period unless otherwise stated.

Jeff Dowling

Mark Bennett

Anna Neuling – changed from being an Executive Director to a Non-Executive Director on 3 January 2017

Grey Egerton- Warburton

Principal Activities

The principal continuing activity of the Group is mineral exploration.

Review of Operations

Operating Result

The loss from continuing operations for the half year ended 31 December 2016 after providing for income tax amounted to \$6,335,690 (2015: \$6,328,957).

The loss results from \$2,697,510 of exploration expenditure incurred and expensed, \$2,531,899 of share-based payments expenses, \$763,013 of administration costs, \$88,661 of business development costs, \$74,557 depreciation costs, \$140,755 other income and net foreign exchange losses and income tax expense of \$320,805. The exploration expenditure incurred and expensed mainly relates to the Polar Bear and Scandinavian projects.

Dividends

No dividends were paid or proposed to be paid to members during the half year ended 31 December 2016.

Significant Changes in the State of Affairs

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 were allotted on Monday 22 August 2016 and quoted on the ASX on Tuesday 23 August 2016.

After Balance Date Events

On 3 January 2017, Anna Neuling resigned as Company Secretary and Executive Director to take maternity leave. Ms Neuling will remain with the Company as Non-Executive Director of the Group. On the same day, Tony Walsh was appointed Company Secretary for the Group.

On 31 January 2017, the Company received a payroll tax refund of \$398,898 from the Office of State Revenue as a result of an audit undertaken in December 2016. The refund was disclosed as a trade and other receivable for the half year ended 31 December 2016.

Directors' Report

After Balance Date Events (continued)

There has been no matter or circumstance that has arisen since 31 December 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.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of *the Corporations Act 2001* is set out on page 6 of the interim financial report.

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



Mark Bennett
Director
Toronto
7 March 2017

DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF S2 RESOURCES LTD

As lead auditor for the review of S2 Resources Ltd for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 7 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half year ended 31 December 2016

	Notes	31 December 2016 \$	31 December 2015 \$
Other income		241,179	153,347
Salaries and wages		(111,660)	(428,161)
Travel expenditure		(130,145)	(187,598)
Consulting and legal fees		(160,857)	(32,664)
Share and company registry		(112,642)	(46,143)
Listing fees		(16,351)	(121,181)
Office rental and variable outgoings		(120,157)	(96,558)
Insurance		(45,378)	(14,025)
Other office related costs		(65,823)	(45,278)
Business development		(88,661)	(163,113)
Depreciation expense		(74,557)	(22,287)
Share based payments	9	(2,531,899)	(3,487,988)
Foreign exchange gains/(losses)		(100,424)	12,056
Exploration expenditure expensed as incurred	6	(2,697,510)	(1,849,366)
Loss before income tax		(6,014,885)	(6,328,957)
Income tax (expense)/benefit	3	(320,805)	-
Loss for the period		(6,335,690)	(6,328,957)
Other comprehensive income			
Exchange differences on translation of foreign operations		(1,888)	(13,651)
Total Comprehensive loss for the period attributable to the members of S2 Resources Ltd		(6,337,578)	(6,342,608)
Loss per share for the period attributable to the Members of S2 Resources Ltd			
Basic loss per share	12	Cents (2.64)	Cents (7.14)

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

Consolidated Statement of Financial Position

as at 31 December 2016

	Notes	31 December 2016 \$	30 June 2016 \$
CURRENT ASSETS			
Cash and cash equivalents		21,765,096	15,891,260
Restricted cash		305,604	244,270
Trade and other receivables	4	724,817	194,630
TOTAL CURRENT ASSETS		22,795,517	16,330,160
NON-CURRENT ASSETS			
Exploration and evaluation	6	4,276,868	3,335,880
Property, plant and equipment		435,186	405,318
TOTAL NON-CURRENT ASSETS		4,712,054	3,741,198
TOTAL ASSETS		27,507,571	20,071,358
CURRENT LIABILITIES			
Trade and other payables	4	534,035	1,129,154
Provisions		376,128	47,952
TOTAL CURRENT LIABILITIES		910,163	1,177,106
TOTAL LIABILITIES		910,163	1,177,106
NET ASSETS		26,597,408	18,894,252
EQUITY			
Share capital	7	52,237,523	40,728,688
Reserves	8	(8,481,203)	(11,011,214)
Accumulated losses		(17,158,912)	(10,823,222)
TOTAL EQUITY		26,597,408	18,894,252

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

Consolidated Statement of Changes in Equity

for the half year ended 31 December 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
Balance at 1 July 2016	40,728,688	4,039,525	144,517	(15,214,601)	19,345	(10,823,222)	18,894,252
Total comprehensive loss for the period	-	-	-	-	(1,888)	(6,335,690)	(6,337,578)
Transactions with owners, recorded directly in equity							
<i>Contributions by and distributions to owners</i>							
Acquisition of commonly controlled entities	-	-	-	-	-	-	-
Issue of share capital	12,080,470	-	-	-	-	-	12,080,470
Capital raising costs	(587,135)	-	-	-	-	-	(587,135)
Share options exercised	15,500	-	-	-	-	-	15,500
Share-based payment transactions	-	2,531,899	-	-	-	-	2,531,899
Purchase of Norse Exploration Pty Ltd 33% interest	-	-	-	-	-	-	-
Total contributions by and distributions to owners	11,508,835	2,531,899	-	-	(1,888)	(6,335,690)	7,703,156
Balance at 31 December 2016	52,237,523	6,571,424	144,517	(15,214,601)	17,457	(17,158,912)	26,597,408

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

Consolidated Statement of Changes in Equity

for the period ended 31 December 2015

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	-	-	-	-	(13,651)	(6,328,957)	(6,342,608)	-	(6,342,608)
Transactions with owners, recorded directly in equity									
<i>Contributions by and distributions to owners</i>									
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	-	3,487,988	-	-	-	-	3,487,988	-	3,487,988
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	3,487,988	144,517	(15,214,601)	(8,727)	(6,328,957)	22,808,908	-	22,808,908
Balance at 31 December 2015	40,728,688	3,487,988	144,517	(15,214,601)	(8,727)	(6,328,957)	22,808,908	-	22,808,908

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

Consolidated Statement of Cash Flows

for the half year ended 31 December 2016

	Notes	31 December 2016 \$	31 December 2015 \$
Cash flows from operating activities			
Cash paid to suppliers and employees for administration activities		(1,193,287)	(919,496)
Cash paid to suppliers and employees for exploration activities		(3,033,178)	(1,699,254)
Interest received		210,234	117,334
Interest and other finance costs paid		(3,806)	(1,373)
Payroll tax paid	4	(385,347)	-
Net cash used in operating activities		(4,405,384)	(2,502,789)
Cash flows from investing activities			
Payments for property, plant and equipment		(106,955)	(439,791)
Payment of exploration activities capitalised		(960,901)	-
Payment for costs related to purchase of Norse Exploration Pty Ltd 33% interest		-	(33,694)
Cash acquired upon acquisition of subsidiaries	5	-	2,765,347
Net cash used in investing activities		(1,067,856)	2,291,862
Cash flows from financing activities			
Proceeds from issue of share capital		11,508,835	-
Proceeds from demerger	5	-	20,000,000
Net receipts / (payments) for cash backed guarantees		(61,335)	(221,454)
Net cash from financing activities		11,447,500	19,778,546
Net increase in cash and cash equivalents		5,974,260	19,567,619
Cash and cash equivalents at 29 May 2015		-	-
Cash and cash equivalents at 1 July 2016		15,891,260	-
Foreign exchange gains/(losses)		(100,424)	-
Cash and cash equivalents at 31 December		21,765,096	19,567,619

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

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and *AASB 134 Interim Financial Reporting*. Compliance with Australia Accounting Standards ensures compliance with International Financial Reporting Standard *IAS 34 Interim Financial Reporting*. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report and any public announcements made during the half year.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's annual financial report for the financial year ended 30 June 2016. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Company was incorporated on 29 May 2015 and accordingly the financials for the period ended 31 December 2016 have disclosed a comparative period from 29 May 2015 to 31 December 2015.

New and amended standards adopted by the entity

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. There may be some changes to the disclosures in the 30 June 2017 annual report as a consequence of these amendments.

Impact of standards issued but not yet applied by the entity

There were no new standards issued since 30 June 2016 that have been applied by the Company. The 30 June 2016 annual report disclosed that the Company anticipated no material impacts (amounts recognised and/or disclosed) arising from initial application of those standards issued but not yet applied at that date, and this remains the assessment as at 31 December 2016.

NOTE 2: 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.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 2: SEGMENT INFORMATION (CONTINUED)

Segment Results

\$

Statement of profit or loss for the period ended 31 December 2016

	Scandinavian exploration activities	Australia exploration activities	Unallocated
Other income	-	-	241,179
Administrative expenses	-	-	(851,674)
Depreciation expense	-	-	(74,557)
Share-based payments	-	-	(2,531,899)
Other gain/(losses) - net	(14,834)	-	(85,590)
Exploration expenditure expensed as incurred	(1,474,123)	(1,223,387)	-
Loss before income tax	(1,488,957)	(1,223,387)	(3,302,541)
Income tax expense	-	-	(320,805)
Loss after income tax for the period	(1,488,957)	(1,223,387)	(3,623,346)

Segment assets

\$

Statement of Financials Position as at 31 December 2016

	Scandinavian exploration activities	Australia exploration activities	Unallocated
Assets			
31 December 2016	2,605,258	2,276,868	22,625,445
30 June 2016	2,908,607	1,335,880	15,826,870
Liabilities			
31 December 2016	500,786	-	409,377
30 June 2016	176,162	-	1,000,944

NOTE 3: INCOME TAX

The Group has estimated an income tax expense resulting from of a transfer of assets on 31 October 2016 between its Swedish subsidiaries being Sakumpu Exploration Filial and S2 Sverige AB. For tax purposes, this transfer was considered a sale between the two entities and a profit was made by Sakumpu Exploration Filial. This profit is subject to tax under Swedish and Finnish tax laws and regulations as Sakumpu Exploration Filial is registered in Sweden and is owned by Sakumpu Exploration Oy (registered in Finland). The tax return for the Sakumpu entities will be completed for the financial year end 30 June 2017.

The income tax expense disclosed in the Consolidated Statement of Profit or Loss and Other Comprehensive Income is as follows:

	31 December 2016 \$	31 December 2015 \$
Income tax expense	320,805	-

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 4: FAIR VALUES OF FINANCIAL INSTRUMENTS

Recurring fair value measurements

The Group does not have any financial instruments that are subject to recurring or non-recurring fair value measurements.

Fair values of financial instruments not measured at fair value

The following instruments are not measured at fair value in the Consolidated Statement of Financial Position.

These had the following fair values at 31 December 2016:

	Carrying Amount \$	Fair Value \$
Current Assets		
Trade and other receivables (1)	724,817	724,817
Current Liabilities		
Trade and other payables	534,035	534,035

(1) This includes a payroll tax refund of \$385,347 from the Office of State Revenue resulting from a payroll tax audit. The audit findings concluded that the payroll tax treatment on options issued during the financial year end 30 June 2016 and half year end 31 December 2016 was inconsistent with the guidelines of the Office of State Revenue. Refer to note 11 regarding the refund of payroll tax from the Office of State Revenue.

Due to their short-term nature, the carrying amounts of current receivables and current trade and other payables are assumed to equal their fair value.

NOTE 5: 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 NL ("IGO")). The demerger transaction comprised 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.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 5: 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 LIABILITIES	176,270
TOTAL LIABILITIES	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

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 6. EXPLORATION AND EVALUATION

	31 December 2016 \$	30 June 2016 \$
Exploration costs	4,276,868	3,335,880
Movement during the period		
Balance at beginning of the period	3,335,880	-
Exploration expenditure incurred during the period	3,638,498	5,160,330
Exploration expenditure incurred during the period and expensed (i)	(2,697,510)	(4,917,967)
Exploration expenditure relating to acquisitions (ii)	-	3,093,517
Balance at end of the period	4,276,868	3,335,880

- (i) During the half year ended 31 December 2016 the exploration expenditure incurred pertains to the following:

Baloo Project

Exploration expenditure incurred and capitalised for the project was \$940,988 as per the announcement made on 13 February 2017 in relation to the new Mineral Resource estimate for the Baloo gold deposit. The revised Indicated and Inferred Mineral Resource estimate for the Baloo gold deposit comprises 4.22 million tonnes grading 2.0 g/t gold for a contained 264,000 ounces of gold at a lower cutoff grade of 0.8 g/t gold.

Nanook Project

No exploration expenditure was incurred for the Nanook project.

Polar Bear Project

Exploration expenditure incurred and expensed for the Polar Bear Project was \$1,110,783.

Eundynie JV Project (80% interest)

Exploration expenditure incurred and expensed for the Eundynie JV was \$55,266.

Norcott Project

Exploration expenditure incurred and expensed for the Norcott Project was \$57,338.

Scandinavian Project

Exploration expenditure incurred and expensed for Scandinavian Exploration was \$1,474,123.

- (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, the Polar Bear Project valued at \$400,000 and the Eundynie JV Project valued at \$662,848.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 7. SHARE CAPITAL

	31 December 2016 No of Shares	31 December 2016 \$
Ordinary shares fully paid	246,052,452	52,237,523
Movement in Share Capital		
Ordinary shares fully paid		
Balance at beginning of period	215,801,278	40,728,688
Placement at \$0.40 per share for cash	30,201,174	12,080,470
Options exercised at \$0.31	50,000	15,500
Cost of issues of shares	-	(587,135)
Balance at period end	246,052,452	52,237,523

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 8. RESERVES

	31 December 2016 \$	30 June 2016 \$
Share-based payments reserve (i)	6,571,424	4,039,525
Other reserve (ii)	144,517	144,517
Foreign currency translation reserve (iii)	17,457	19,345
Acquisition reserve (iv)	(15,214,601)	(15,214,601)
	(8,481,203)	(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 nor 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.

(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 6 of these financials.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 9. SHARE BASED PAYMENTS

The following share-based payments arrangements were in existence during the current and prior 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	17/04/2020	0.31	0.14
(6) Issued at 28 April 2016	1,000,000	29/04/2016	28/04/2020	0.35	0.16
(7) Issued at 7 October 2016	11,950,000	07/10/2016	06/10/2020	0.61	0.23

- (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. These options were fully exercised during the half year ended 31 December 2016.
- (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 400,000 options issued to employees under the Employee Share Option Plan which vests from one year from grant date and 400,000 options issued to service providers which vests on 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.
- (7) The 11,950,000 options in series 7 comprised 6,500,000 options issued to the Directors of the Group which vested immediately, 2,700,000 options were issued to employees under the Employee Share Option Plan which vest one year from grant date and 2,750,000 options were 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.

The weighted average fair value of the share options granted during the period is \$0.23.

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

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 9. SHARE BASED PAYMENTS (CONTINUED)

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

	31 December 2016
	\$
Options issued under Directors Option Plan	1,518,037
Options issued under Employee Share Plan	371,616
Options issued under Service Provider Plan	642,246
	<u>2,531,899</u>

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	Series 7
Grant date share price	0.25	0.44
Exercise price	0.35	0.61
Expected volatility	100%	80%
Option life	4 years	4 years
Dividend yield	0.00%	0.00%
Interest rate	3.35%	2.87%

The following reconciles the outstanding share options granted in the half year ended 31 December 2016:

	31 December 2016	31 December 2016	31 December 2015	31 December 2015
	Number of Options	Weighted average exercise price \$	Number of Options	Weighted average exercise price \$
Balance at the beginning of the period	31,900,000	0.31	-	-
Granted during the period	11,950,000	0.61	30,100,000	0.31
Exercised during the period	(50,000)	0.31	-	-
Expired during the period (i)	-	-	-	-
Balance at the end of the period	43,800,000	0.39	30,100,000	0.31
Un-exercisable at the end of the period	6,250,000	0.36	6,350,000	0.31
Exercisable at end of the period	37,550,000	0.36	23,750,000	0.31

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

For the half year ended 31 December 2016 no options expired or were cancelled.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 10. RELATED PARTIES

On 6 October 2016, a consulting agreement was entered into between the Company and Company Secretary, Tony Walsh. Under the terms of the Agreement:

- Mr Walsh's commencement date was 12 December 2016.
- Mr Walsh's fees are paid to Tony Walsh Corporate Services.
- Mr Walsh is paid a monthly fee of \$5,000 per month (plus GST) for an average of one business day per week or \$10,000 per month (plus GST) for an average two business days per week.
- The Company or Mr Walsh can terminate this agreement by giving one month's written notice.

Mr Walsh incurred fees of \$2,500 and holds 50,000 shares in the Company for the half year ended 31 December 2016.

Mr Walsh has other positions in listed companies being Company Secretary for Atlas Iron Ltd (from 12 October 2015) and Legend Mining Ltd (from 12 December 2016).

During the half year ended 31 December 2016, options were issued to the following Directors and Key Management Personnel:

	Grant Date	Number of Options	Share Based Payments \$
Directors			
Mark Bennett	07/10/2016	3,000,000	700,632
Anna Neuling	07/10/2016	1,500,000	350,316
Jeff Dowling	07/10/2016	1,000,000	233,544
Grey Egerton-Warburton (1)	07/10/2016	1,000,000	233,544
Management			
Tony Walsh (2)	07/10/2016	300,000	70,063
Su-Mei Chan	07/10/2016	300,000	70,063
		7,100,000	1,658,162

(1) Mr Egerton-Warburton was also issued 1,000,000 appointment options during the half year ended 31 December 2016 that were accounted for at 30 June 2016 and approved by shareholders at the Annual General Meeting in October 2016.

(2) Mr Walsh's options were issued under the Service Provider Option Plan.

Other than the Key Management Personnel stated above, there were no related party transactions for the half year ended 31 December 2016.

NOTE 11. EVENTS OCCURRING AFTER THE REPORTING DATE

On 3 January 2017, Anna Neuling resigned as Company Secretary and Executive Director to take maternity leave. Ms Neuling will remain with the Company as Non-Executive Director of the Group. On the same day, Tony Walsh was appointed Company Secretary for the Group.

On 31 January 2017, the Company received a payroll tax refund of \$398,898 from the Office of State Revenue as a result of an audit undertaken in December 2016. The refund was disclosed as a trade and other receivable for the half year ended 31 December 2016.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 11. EVENTS OCCURRING AFTER THE REPORTING DATE (CONTINUED)

There has been no matter or circumstance that has arisen since 31 December 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 12. LOSS PER SHARE

(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

31 December 2016 \$	31 December 2015 \$
(6,335,690)	(6,328,957)

(b) Weighted average number of shares used as the Denominator

Ordinary shares used as the denominator in calculating basic loss per share

31 December 2016 Number	31 December 2015 Number
239,920,151	88,690,156

(c) Loss per share

Basic loss per share

31 December 2016 Cents	31 December 2015 Cents
(2.64)	(7.14)

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

NOTE 13. COMMITMENTS AND CONTINGENCIES

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:

	31 December 2016 \$	31 December 2015 \$
Not later than one year	777,033	681,580
After one year but less than two years	1,337,680	681,580
After two years but less than five years	1,982,220	1,667,220
After five years*	660,740	555,740
	4,757,673	3,586,120

* Per annum

Contingencies

For the half year ended 31 December 2016, there were no contingencies to disclose for the Group.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2016

NOTE 14. SUBSIDIARIES

Name of entity	Country of incorporation	Class of Shares	2016	2015
Polar Metals Pty Ltd	Australia	Ordinary	100%	100%
Sirius Europa Pty Ltd	Australia	Ordinary	100%	100%
Norse Exploration Pty Ltd	Australia	Ordinary	100%	100%
Sakumpu Exploration Oy	Finland	Ordinary	100%	100%
Sakumpu Exploration Filial	Sweden	Ordinary	100%	100%
S2 Sverige AB	Sweden	Ordinary	100%	-

Directors' Declaration

The Directors of the Company declare that:

1. The interim financial statements and notes set out on pages 7 to 22 are in accordance with the Corporations Act 2001 and other professional reporting requirements including:
 - (a) complying with Accounting Standard AASB 134: Interim Financial Reporting; and
 - (b) giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and of its performance for the period then ended.
2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Mark Bennett
Director
Toronto
7 March 2017

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of S2 Resources Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of S2 Resources Ltd, which comprises the consolidated statement of financial position as at 31 December 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 half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of S2 Resources Ltd, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of S2 Resources Ltd is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink, consisting of the letters 'BDO' on the top line and 'J Prue' on the bottom line.

Jarrad Prue

Director

Perth, 7 March 2017