



S2 RESOURCES LTD

ABN: 18 606 128 090

HALF YEAR FINANCIAL REPORT

31 December 2017

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HALF YEAR FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2017

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S2 Resources Ltd
Half Year Financial Report
For the half year ended 31 December 2017

Corporate Directory

Directors

Jeff Dowling	<i>Non-Executive Chairman</i>
Mark Bennett	<i>Managing Director</i>
Anna Neuling	<i>Executive Director (including Company Secretary) and was Non-Executive Director from 1 July 2017 to 5 December 2017 when Anna returned from parental leave.</i>
Grey Egerton-Warburton	<i>Non-Executive Director</i>

Company Secretary

Anna Neuling

Principal and Registered Office

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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 2017 ("Consolidated Entity" or "Group").

Directors

The names and details of the Directors in office during the half year ended 31 December 2017 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 a Non-Executive Director to a Executive Director on 5 December 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 2017 after providing for income tax amounted to \$2,656,722 (2016: \$6,335,690).

The loss results from \$2,715,695 of exploration expenditure incurred and expensed, \$769,976 of share-based payments expenses, \$109,475 of other income, \$1,037,515 of administration costs, \$116,676 of business development costs, \$78,924 depreciation costs and \$1,952,586 of other gain/(losses) – net. 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 2017.

Significant Changes in the State of Affairs

On 1 August 2017, the Group entered into an agreement with Renaissance Gold Inc ("RenGold"), a TSXV listed company to earn in to three of RenGold's properties located on some of the major known gold mineralized trends in Nevada, USA. The transaction provides the Group with earn-in rights over three separate properties, each on similar terms. The key terms are as follows:

- One off payment of US\$75,000 on signing (ie US\$25,000 per property).
- Minimum spend of US\$200,000 within 2 years on each property, and ability to earn a 70% interest for expenditure of US\$3 million within 5 years on each property.
- If/when the Group earns in, RenGold can participate in exploration programs or dilute its interest, and if RenGold dilutes its interest below 10%, it reverts to a net smelter return royalty.
- If still participating (ie. above 10%) at the time of a decision to mine, RenGold can participate at its future interest level or revert to a net smelter return royalty.

The transaction satisfied the conditions precedent of the agreement on 26 September 2017.

Directors' Report

After Balance Date Events

On 13th February 2018, the Group entered into a Heads of Agreement ("HOA") with Westgold Resources Limited ("Westgold") to sell its interest in the Polar Bear Project (100%), Eundynie Joint Venture (80%) and the Norcott Project (100%) (together, the "WA Gold Projects") via the sale of all of the shares in S2's wholly owned subsidiary Polar Metals Pty Ltd ("Sale") for A\$3 million cash and 4 million Westgold shares. The sale completed on 23rd February 2018.

There has been no other matter or circumstance that has arisen since 31 December 2017 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
Mala, Sweden
13th March 2018

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

As lead auditor for the review of S2 Resources Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements 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 Limited and the entities it controlled during the period.



Jarrad Prue

Director

BDO Audit (WA) Pty Ltd

Perth, 13 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half year ended 31 December 2017

	Notes	31 December 2017 \$	31 December 2016 \$
Other income		109,478	241,176
Salaries and wages		(278,420)	(111,660)
Travel expenditure		(243,033)	(130,145)
Consulting and legal fees		(313,678)	(160,857)
ASX, ASIC and Company registry		(61,859)	(128,993)
Office related costs		(83,177)	(185,979)
Insurance		(57,348)	(45,378)
Business development		(116,676)	(88,661)
Depreciation expense		(78,924)	(74,557)
Share based payments	9	(769,976)	(2,531,899)
Gain in disposal of available for sale financial assets	5	1,893,669	-
Other gains/(losses)		58,917	(100,424)
Exploration expenditure expensed as incurred	6	(2,715,695)	(2,697,510)
Loss before income tax		(2,656,722)	(6,014,885)
Income tax (expense)/benefit	3	-	(320,805)
Loss for the period		(2,656,722)	(6,335,690)
Other comprehensive income			
<i>Items that may be classified to profit or loss</i>			
Changes in the fair value of available-for-sale financial assets	5	246,976	-
Exchange differences on translation of foreign operations		(12,864)	(1,888)
Total Comprehensive loss for the period attributable to the members of S2 Resources Ltd		(2,422,610)	(6,337,578)
Loss per share for the period attributable to the Members of S2 Resources Ltd			
Basic loss per share	12	Cents (1.08)	Cents (2.64)

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 2017

	Notes	31 December 2017 \$	30 June 2017 \$
CURRENT ASSETS			
Cash and cash equivalents		16,149,528	17,501,007
Restricted cash		328,496	306,061
Trade and other receivables	4	258,683	227,465
Available for sale financial assets	5	755,256	-
Held for sale – WA Gold Projects	5	2,651,963	-
TOTAL CURRENT ASSETS		20,143,927	18,034,533
NON-CURRENT ASSETS			
Available-for-sale financial assets	5	-	1,188,689
Exploration and evaluation	6	2,163,801	4,650,820
Property, plant and equipment		314,800	391,590
TOTAL NON-CURRENT ASSETS		42,478,062	6,231,099
TOTAL ASSETS		22,622,529	24,265,632
CURRENT LIABILITIES			
Trade and other payables	4	478,612	476,819
Provisions		346,151	338,413
TOTAL CURRENT LIABILITIES		824,763	815,232
TOTAL LIABILITIES		824,763	815,232
NET ASSETS		21,797,766	23,450,400
EQUITY			
Share capital	7	52,237,523	52,237,523
Reserves	8	(6,939,211)	(7,943,299)
Accumulated losses		(23,500,546)	(20,843,824)
TOTAL EQUITY		21,797,766	23,450,400

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 2017

Attributable to equity holders of the Group in \$ dollars	Share capital	Share based payment Reserves	Other Reserve	Acquisition Reserve	Foreign Currency Translation Reserve	Revaluation Reserve	Accumulated losses	Total
Balance at 1 July 2017	52,237,523	6,909,853	144,517	(15,214,601)	28,844	188,088	(20,843,824)	23,450,400
Total comprehensive loss for the period	-	-	-	-	(12,864)	246,976	(2,656,722)	(2,422,610)
Transactions with owners, recorded directly in equity								
<i>Contributions by and distributions to owners</i>								
Issue of share capital	-	-	-	-	-	-	-	-
Capital raising costs	-	-	-	-	-	-	-	-
Share options exercised	-	-	-	-	-	-	-	-
Share-based payment transactions	-	769,976	-	-	-	-	-	769,976
Total contributions by and distributions to owners	-	769,976	-	-	(12,864)	246,976	(2,656,722)	(1,652,634)
Balance at 31 December 2017	52,237,523	7,679,829	144,517	(15,214,601)	15,980	435,064	(23,500,546)	21,797,766

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 2016

Attributable to equity holders of the Group in \$ dollars	Share capital	Share based payment Reserves	Other Reserve	Acquisition Reserve	Foreign Currency Translation Reserve	Revaluation 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>								
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
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 Cash Flows

for the half year ended 31 December 2017

Notes	31 December 2017 \$	31 December 2016 \$
Cash flows from operating activities		
Cash paid to suppliers and employees for administration activities	(1,147,629)	(1,193,287)
Cash paid to suppliers and employees for exploration activities	(2,704,470)	(3,033,178)
Interest received	118,534	210,234
Interest and other finance costs paid	(4,713)	(3,806)
Payroll tax paid	-	(385,347)
Net cash used in operating activities	(3,801,908)	(4,405,384)
Cash flows from investing activities		
Payments for property, plant and equipment	(1,037)	(106,955)
Payment of exploration activities capitalised	(1,143)	(960,901)
Payment for exploration acquisition	(163,801)	-
Net proceeds from sale of investment in TSX-V listed entity	2,574,078	-
Net cash used in investing activities	2,408,096	(1,067,856)
Cash flows from financing activities		
Proceeds from issue of share capital	-	11,508,835
Net receipts / (payments) for cash backed guarantees	(21,296)	(61,335)
Net cash from financing activities	(21,296)	11,447,500
Net increase in cash and cash equivalents	(1,351,479)	5,974,260
Effects of exchange rate changes on cash and cash equivalents	63,630	(100,424)
Cash and cash equivalents at 1 July	17,501,007	15,891,260
Cash and cash equivalents at 31 December	16,149,528	21,765,096

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 2017

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 2017. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The only additional accounting policy required is:

Asset Acquisition

When an asset acquisition does not constitute a business combination, the assets and liabilities are assigned a carrying value amount based on their relative fair values in an asset purchase transaction and no deferred tax will arise in relation to the acquired assets and assumed liabilities as the initial recognition exemption for deferred tax under AASB 112 applies. No goodwill will arise on the acquisition and transaction costs of the acquisition will be included in the capitalised cost of the asset.

The transaction is not a business combination as the assets acquired did not meet the definition of a business defined in the Australian Accounting Standards as at the date of the acquisition. The acquisition of the net assets meets the definition of, and has been accounted for, as an asset acquisition.

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 2017 that have been applied by the Company. The 30 June 2017 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 2017.

NOTE 2: SEGMENT INFORMATION

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

- Finland exploration activities, which includes exploration and evaluation of mineral tenements in Finland.
- Sweden exploration activities, which includes exploration and evaluation of mineral tenements in Sweden.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

- Nevada exploration activities, which includes exploration and evaluation of mineral tenements in Nevada.
- 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 loss for the period ended 31 December 2017

	\$					
	Finland exploration activities	Sweden exploration activities	Nevada exploration activities	Australia exploration activities	Unallocated	Total
Other income	-	-	-	-	109,478	109,478
Corporate expenses	-	-	-	-	(1,037,515)	(1,037,515)
Business Development	-	-	-	-	(116,676)	(116,676)
Depreciation expense	-	-	-	-	(78,924)	(78,924)
Share-based payments	-	-	-	-	(769,976)	(769,976)
Other gain/(losses) - net	-	-	-	-	1,952,586	1,952,586
Exploration expenditure expensed as incurred	(432,272)	(1,407,172)	(622,189)	(254,062)	-	(2,715,695)
Loss before income tax	(432,272)	(1,407,172)	(622,189)	(254,062)	58,970	(2,656,722)
Income tax expense	-	-	-	-	-	-
Loss after income tax for the year	(432,272)	(1,407,172)	(622,189)	(254,062)	58,970	(2,656,722)

Statement of loss for the period ended 31 December 2016

	\$					
	Finland exploration activities	Sweden exploration activities	Nevada exploration activities	Australia exploration activities	Unallocated	Total
Other income	-	-	-	-	241,176	241,176
Corporate expenses	-	-	-	-	(763,013)	(763,013)
Business Development	-	-	-	-	(88,661)	(88,661)
Depreciation expense	-	-	-	-	(74,557)	(74,557)
Share-based payments	-	-	-	-	(2,531,899)	(2,531,899)
Other gain/(losses) - net	-	-	-	-	(100,424)	(100,424)
Exploration expenditure expensed as incurred	(174,574)	(1,299,549)	-	(1,223,386)	-	(2,697,509)
Loss before income tax	(174,574)	(1,299,549)	-	(1,223,386)	(3,317,377)	(6,014,886)
Income tax expense	-	-	-	-	(320,805)	(320,805)
Loss after income tax for the year	(174,574)	(1,299,549)	-	(1,223,386)	(3,638,182)	(6,335,691)

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 2: SEGMENT INFORMATION (continued)

SEGMENT ASSETS AND LIABILITIES

31 December 2017	\$				
	Scandinavian exploration activities	Nevada exploration activities	Australia exploration activities	Unallocated	Total
Total Assets	2,302,953	237,398	2,651,963	17,430,213	22,622,527
Total Liabilities	(477,916)	(75,657)	-	(271,190)	(824,763)

30 June 2017	\$				
	Scandinavian exploration activities	Nevada exploration activities	Australia exploration activities	Unallocated	Total
Total Assets	2,828,722	-	2,650,820	18,786,039	24,265,631
Total Liabilities	(433,171)	-	-	(382,061)	(815,232)

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 finalized and paid by April 2018.

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

	31 December 2017 \$	31 December 2016 \$
Income tax expense	-	320,805

NOTE 4: FAIR VALUES OF FINANCIAL INSTRUMENTS

Available for sale financial assets

	31 December 2017 \$	30 June 2016 \$
Current Assets		
Canadian listed equity securities (1)	755,256	320,805

(1) The Group holds 1,000,000 shares in TSXV listed gold explorer GT Gold (TSXV: GTT) which it obtained via a placement at C\$0.32 cents per share.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 4: FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Amounts recognised in profit or loss

During the year, the following gains/(losses) were recognised in the profit or loss and other comprehensive income.

	31 December 2017 \$	31 December 2016 \$
Gains/(losses) recognised in other comprehensive income	246,976	-

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 2017:

	Carrying Amount \$	Fair Value \$
Current Assets		
Trade and other receivables	258,683	258,683
Current Liabilities		
Trade and other payables	478,612	478,612

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. AVAILABLE-FOR-SALE FINANCIAL ASSETS and HELD FOR SALE ASSETS

Available-for-sale assets include the following classes of assets:

	31 December 2017 \$	30 June 2017 \$
Current assets – Available for sale financial assets		
Canadian listed equity securities (1)(2)	755,256	1,188,689
	755,256	1,188,689
Current assets – Held for sale		
WA Gold Projects (3)	2,651,963	-
	2,651,963	-

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 5. AVAILABLE-FOR-SALE FINANCIAL ASSETS AND HELD FOR SALE ASSETS (CONTINUED)

- (1) During the half year ended 31 December 2017, the Group sold 2,125,000 shares for AU\$ 2,579,236 in TSXV listed gold explorer GT Gold (TSXV: GTT). The initial investment was C\$1 million for 3,125,000 shares at C\$0.32 cents per share. The gain on sale was A\$1,893,669.
- (2) The available for sale financial assets were classified as non-current as at 30 June 2017 and current as at 31 December 2017.
- (3) On 13th February 2018, the Group entered into a Heads of Agreement (“HOA”) with Westgold Resources Limited (“Westgold”) to sell its interest in the Polar Bear Project (100%), Eundynie Joint Venture (80%) and the Norcott Project (100%) (together, the “WA Gold Projects”) via the sale of all of the shares in S2’s wholly owned subsidiary Polar Metals Pty Ltd (“Sale”) for A\$3 million cash and 4 million Westgold shares. The sale completed on 23rd February 2018. As such, the carrying value of the exploration assets were re-classified as held for sale as at 31st December 2017.

Amounts recognised in profit or loss

During the period, the following gains/(losses) were recognised in the profit or loss and other comprehensive income.

	31 December 2017	30 June 2017
	\$	\$
Gains/(losses) recognised in other comprehensive income	246,976	188,088

NOTE 6. EXPLORATION AND EVALUATION

	31 December 2017	30 June 2017
	\$	\$
Exploration costs	2,163,801	4,650,820
Movement during the period		
Balance at beginning of the period	4,650,820	3,335,880
Exploration expenditure incurred during the period (i)	2,715,696	6,293,930
Exploration expenditure incurred during the period and expensed (i)	(2,715,696)	(4,978,990)
Exploration re-classified as held for sale	(2,651,963)	
Exploration expenditure relating to acquisitions (ii)	164,944	-
Balance at end of the period	2,163,801	4,650,820

- (i) During the half year ended 31 December 2017 the exploration expenditure incurred pertains to the following:

Baloo Project

No exploration expenditure was incurred for the Baloo project.

Nanook Project

No exploration expenditure was incurred for the Nanook project.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 6. EXPLORATION AND EVALUATION (CONTINUED)

Polar Bear Project

Exploration expenditure incurred and expensed for the Polar Bear Project was \$149,580.

Eundynie JV Project (80% interest)

Exploration expenditure incurred and expensed for the Eundynie JV was \$ 52,931.

Norcott Project

Exploration expenditure incurred and expensed for the Norcott Project was \$ 51,551.

Finland Project

Exploration expenditure incurred and expensed for Finland was \$ 432,272.

Sweden Project

Exploration expenditure incurred and expensed for Sweden was \$ 1,407,172.

South Roberts Project

Exploration expenditure incurred and expensed for South Roberts was \$ 111,298.

Pluto Project

Exploration expenditure incurred and expensed for Pluto was \$ 390,580.

Ecru Project

Exploration expenditure incurred and expensed for Ecru was \$ 120,311.

- (ii) On 1 August 2017, the Group entered into an agreement with RenGold to earn in to three of RenGold's properties being South Roberts, Pluto and Ecru. The transaction costs to enter into this agreement totalled \$164,944 for the half year ended 31 December 2017. The transaction is not a business combination as the assets acquired did not meet the definition of a business defined in the Australian Accounting Standard as at date of acquisition. The acquisition of the assets meets the definition of, and has been accounted for, as an asset acquisition.

NOTE 7. SHARE CAPITAL

	31 December 2017 No of Shares	31 December 2017 \$
Ordinary shares fully paid	246,052,452	52,237,523
Movement in Share Capital		
Ordinary shares fully paid		
Balance at beginning of period	246,052,452	52,237,523
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.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 8. RESERVES

	31 December 2017 \$	30 June 2017 \$
Share-based payments reserve (i)	7,679,829	6,909,853
Other reserve (ii)	144,517	144,517
Foreign currency translation reserve (iii)	15,980	28,844
Acquisition reserve (iv)	(15,214,601)	(15,214,601)
Revaluation reserve (v)	435,064	188,088
	(6,939,211)	(7,943,299)

(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.

(v) The revaluation reserve recognises the change in fair value of available-for-sale financial assets. Please refer to note 5 of these financials.

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
(8) Issued 17 October 2017	11,150,000	17/10/2017	16/10/2021	0.23	0.08

(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.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 9. SHARE BASED PAYMENTS (CONTINUED)

- (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.
- (8) The 11,150,000 options in series 8 comprised 7,550,000 options issued to the Directors of the Group which vested immediately, 2,950,000 options were issued to employees under the Employee Share Option Plan which vest one year from grant date and 450,000 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 \$0.14.

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

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

	31 December 2017
Options issued under Directors Option Plan	642,717
Options issued under Employee Share Plan	89,940
Options issued under Service Provider Plan	37,319
	<u>769,976</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%

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 9. SHARE BASED PAYMENTS (CONTINUED)

	Series 6	Series 7	Series 8
Grant date share price	0.25	0.44	0.16
Exercise price	0.35	0.61	0.23
Expected volatility	100%	80%	80%
Option life	4 years	4 years	4 years
Dividend yield	0.00%	0.00%	0.00%
Interest rate	3.35%	2.87%	2.34%

The following reconciles the outstanding share options granted in the half year ended 31 December 2017:

	31 December 2017 Number of Options	31 December 2017 Weighted average exercise price \$	31 December 2016 Number of Options	31 December 2016 Weighted average exercise price \$
Balance at the beginning of the period	40,350,000	0.38	31,900,000	0.31
Granted during the period	11,150,000	0.23	11,950,000	0.61
Exercised during the period	-	-	(50,000)	0.31
Expired during the period (i)	500,000	0.40	-	-
Balance at the end of the period	51,000,000	0.36	43,800,000	0.39
Un-exercisable at the end of the period	3,400,000	0.23	6,250,000	0.36
Exercisable at end of the period	47,600,000	0.36	37,550,000	0.36

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

For the half year ended 31 December 2017, 300,000 service provider options and 200,000 employee share options were cancelled.

NOTE 10. RELATED PARTIES

During the half year ended 31 December 2017, options were issued to the following Directors and Key Management Personnel:

	Grant Date	Number of Options	Share Based Payments \$
Directors			
Mark Bennett	17/10/2017	4,000,000	331,725
Anna Neuling	17/10/2017	1,250,000	103,664
Jeff Dowling	17/10/2017	1,250,000	103,664
Grey Egerton-Warburton	17/10/2017	1,250,000	103,664
Management			
Su-Mei Chan	17/10/2017	300,000	24,879
		8,050,000	667,596

Other than the Key Management Personnel stated above, there were no new related party transactions for the half year ended 31 December 2017.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 11. EVENTS OCCURRING AFTER THE REPORTING DATE

On 13th February 2018, the Group entered into a Heads of Agreement (“HOA”) with Westgold Resources Limited (“Westgold”) to sell its interest in the Polar Bear Project (100%), Eundynie Joint Venture (80%) and the Norcott Project (100%) (together, the “WA Gold Projects”) via the sale of all of the shares in S2’s wholly owned subsidiary Polar Metals Pty Ltd (“Sale”) for A\$3 million cash and 4 million Westgold shares. The sale completed on 23rd February 2018.

There has been no other matter or circumstance that has arisen since 31 December 2017 that has significantly affected, or may significantly affect:

- the Group’s operations in future financial years;
- the result of those operations in future financial years;
- 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 2017 \$	31 December 2016 \$
(2,656,722)	(6,335,690)

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

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

31 December 2017 Number	31 December 2016 Number
246,052,452	239,920,151

(c) Loss per share

Basic loss per share

31 December 2017 Cents	31 December 2016 Cents
(1.08)	(2.64)

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 2017 \$	31 December 2016 \$
Not later than one year	952,476	777,033
After one year but less than two years	887,361	1,337,680
After two years but less than five years	2,419,811	1,982,220
After five years (per annum)	806,604	660,740
	5,066,251	4,757,673

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2017

NOTE 13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

For the half year ended 31 December 2017, there were no contingencies to disclose for the Group.

NOTE 14. SUBSIDIARIES

Name of entity	Country of incorporation	Class of Shares	2017	2016
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%	100%
S2RUS LLC	USA	Ordinary	100%	-
Nevada Star Exploration LLC	USA	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 2017 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
Mala, Sweden
13th March 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of S2 Resources Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of S2 Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, 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 then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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 Group's financial position as at 31 December 2017 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

A handwritten signature in blue ink. The word 'BDO' is written in a simple, blocky font. Below it, the name 'J Prue' is written in a cursive, handwritten style.

Jarrad Prue

Director

Perth, 13 March 2018