
Hawthorn Resources Limited

ABN 44 009 157 439

FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2017

**THIS REPORT SHOULD BE READ IN CONJUNCTION WITH
THE JUNE 2017 ANNUAL FINANCIAL REPORT AND
THE SEPTEMBER AND DECEMBER 2017 QUARTERLY ACTIVITY STATEMENTS**

These reports can be viewed on the Company's website at:
www.hawthornresources.com

Hawthorn Resources Limited

Table of Contents

1	Corporate Directory	3
2	Directors' Report	4
3	Auditor's Independence Declaration	13
4	Financial Statements	14
5	Statement of Profit or Loss and Other Comprehensive Income	15
6	Statement of Financial Position	16
7	Statement of Cash Flows	17
8	Statement of Changes in Equity	18
9	Notes to the Financial Statements	19
10	Directors' Declaration	24
11	Independent Auditor's Review Report	25

Directors

Mark G Kerr (Chairman and Non-Executive Director)
Christopher D Corrigan (Non-Executive Director)
Liao, Yongzhong (Non-Executive Director)
Li, Yijie (Non-Executive Director)
Liu, Zhensheng (Non-Executive Director)
David S Tyrwhitt (Non-Executive Director)

Company Secretary

Mourice Garbutt

Mines Operations Manager

William Lloyd

Exploration Manager

Ian Moody

Chief Financial Officer

Tony Amato

Registered Office and Domicile

Level 2, 90 William Street, Melbourne, Victoria 3000 Australia
Telephone: +61 3 9605 5901
Facsimile: +61 3 9605 5999
E-mail: info@hawthornresources.com
Internet: <http://www.hawthornresources.com>

Legal Form

A public company - Liability Limited by Shares

Country of Incorporation

Australia

Share Registry

Link Market Services Ltd,
Tower Four, 727 Collins Street, Melbourne Victoria 3008, Australia
Telephone: +61 1300 554 474 (toll free within Australia)

Auditors

BDO East Coast Partnership
Collins Square, Tower Four, Level 18, 727 Collins Street
Melbourne VIC 3008, Australia

Australian Securities Exchange Listing Code

HAW Ordinary shares

Bankers

National Australia Bank Limited
Level 1, 99 Bell Street
Preston Victoria 3072 Australia

Solicitors

Minter Ellison Lawyers
Rialto Towers, 525 Collins Street
Melbourne Victoria 3000, Australia

Hawthorn Resources Limited

Directors' Report

The Directors of Hawthorn Resources Limited present their report for the half year ended 31 December 2017.

1 DIRECTORATE

The Directors of the Company in office since 1 July 2017 and up to the date of this Report are:

Mr Mark G Kerr - LL.B
Chairman and Non-Executive Director
Appointed 22 November 2007; last re-elected 2014 AGM

Mr Kerr was appointed as a Director and as Chairman of the Board of Directors of Hawthorn Resources Limited in November 2007, which merged with Ellendale Resources N.L in June 2008. In June 2016 the Board of Directors resolved to appoint Mr Kerr to be Managing Director and Chief Executive Officer with immediate effect from 24 June 2016.

Mr Kerr is an experienced director and advisor to listed and private companies and is a director of Berkeley Consultants Pty Ltd which specialises in public relations and reputation management consultancy. In addition to his business activities Mr Kerr's community involvement currently extends to being a member of the Victorian Committee for Juvenile Diabetes Research Foundation; a committee member of the St Vincent's Institute Charity Golf Day Committee and a board member of International Specialised Skills Institute Inc.

Mr Kerr holds current directorships as non-executive director of Contango Income Generator Ltd (ASX: CIE); non-executive chairman of Think Childcare Limited (ASX: TNK) and non-executive director of Alice Queen Ltd (ASX: AQX).

Former directorships of listed entities during the past three year period being: non-executive chairman of Contango Microcap Limited (ASX: CTN) - resigned 13 October 2017.

Mr Kerr is a member of the Company's Audit Committee.

Mr Christopher D Corrigan - BEc
Non-Executive Director
Appointed 5 October 2017; and elected by shareholders 29 November 2017

Mr C D Corrigan was appointed as a non-executive director of the Company with effect from 5 October 2017.

Mr Corrigan has had some earlier involvement in Hawthorn's Anglo Saxon project where Hawthorn, in August 2017, announced its decision to mine.

Mr Corrigan, indirectly, by his associate Belfort Investment Advisors Limited, has also recently become a substantial shareholder in Hawthorn Resources.

Mr Corrigan is a member of the Company's Audit Committee.

Prior to his appointment to the Board of Directors of Hawthorn Resources Limited Mr Corrigan has during the past three years held directorships in listed entities:

- Qube Holdings Group – Chairman from September 2011 to June 2017
- Webster Limited – Executive Chairman from February 2016 to December 2017. Mr Corrigan remains a non-executive Director of Webster Limited

Dr David S Tyrwhitt - PhD(Geology) BSc(Hons) FSEG(USA) FAusIMM CPGeo
Non-Executive Director
Appointed 14 November 1996; last re-elected 2016 AGM

Dr Tyrwhitt has been a Director of the Company since 1996. He has more than 50 years of experience in the mining industry.

Dr Tyrwhitt holds current directorships of Merlin Diamonds Limited (December 2011 to current) and Northern Capital Resources Incorporated (January 2008 to current).

Former directorships being Top End Minerals Limited (April 2015 to June 2017); Quantum Resources Limited (November 1999 to April 2015), Golden River Resources Corporation (November 1996 to April 2015), Legend International Holdings Inc. (March 2005 to November 2015), Bassari Resources Limited and Astro Diamond Mines NL.

Hawthorn Resources Limited

Directors' Report

Dr Tyrwhitt worked for over 20 years with Newmont Mining Corporation in Australia, South East Asia and the United States. During this time, he was responsible for the discovery of the Telfer Gold Mine in Western Australia. He was Chief Executive of Newmont Australia Limited between 1984 and 1988 and Chief Executive Officer of Ashton Mining Limited between 1988 and 1991. He established his own consultancy business in 1991 and worked with Normandy Mining Limited on a number of mining projects in South East Asia.

Dr Tyrwhitt is the Chairman of the Company's Audit Committee.

Mr Liao, Yongzhong – MBA
Non-Executive Director
Appointed 30 October 2012; last re-elected 2015 AGM

Mr. Liao, Yongzhong has served Guangdong Fenghua Advanced Technology (Holding) Co., Ltd. for 20 years. Since joining it in 1993, he has held the following significant posts: Vice General Manager and Secretary of the Board of Directors from October 2003 to July 2007, Director and Vice General Manager from January 2007 to August 2008, Vice General Manager from August 2008 to date.

He holds concurrent posts of Chairman of the Board of Guangzhou Fenghua Venture Investment Co., Ltd and Fenghua Mining Investment Holding (HK) Limited; Deputy Chairman of the Board of Changchun Up Optotech Co., Ltd, Director of Netron Soft-Tech (Zhuhai) Co., Ltd and Fenghua Advanced Technology.

Mr Li, Yijie
Non-Executive Director
Appointed 30 October 2012; last re-elected 2015 AGM

Mr. Li Yijie is the Chairman of the Board of Lite Smooth Investment Limited. Mr. Li has been the President of Guangdong Carriton Real Estate Co., Ltd. since 2001, which is focused on real estate development, which has total assets of RMB 5 billion.

Mr Liu, Zhensheng
Non-Executive Director
Appointed 9 December 2015; elected as a Director 2016 AGM

Mr Liu, is a Geological professor-level senior engineer and a mineral processing senior engineer. He has worked on prospecting, exploration, mine construction, gold mine production and operation management for more than 30 years. He has extensive experience in prospecting, exploration, gold smelting, gold refining and mine management.

He has held the following significant posts: Technician and Mining Technical Manager of 719 geological brigade of Guangdong Geological and Mineral Bureau from December 1983 to August 1989, participating in and presiding over a large gold prospecting and exploration operation respectively; Geological Section Vice Chief and Mine Assistant of Guangdong Gaoyao Hetai Gold Mine from August 1989 to October 1991, in charge of construction and management of mines; Director and Vice Manager of Mine of Guangdong Gaoyao Hetai Gold Mine from October 1991 to March 2010, in charge of construction, production technology and operation management of mines; Director, General Manager and Chief Engineer of Guangdong Jinding Gold Co., Ltd from March 2010 to December 2013; Director and Vice General Manager of Guangdong Rising Mining Investment Ltd from December 2013 to July 2016; Director of Fenghua Mining Investment Holding (HK) Limited and Guangdong Rising Holding (HK) Limited from 2014 to 2015; Director and General Manager of Guangdong Rising Mining Investment Ltd from July 2016 to the present.

In addition, he was a member of the National Technical Committee on Gold of Standardization Administration of China and the Membership Committee of the Shanghai Gold Exchange. Currently, he serves as a chief of the Technical Committee on Precious Metals of Standardization Administration of Guangdong Province and a member of Senior Engineer (professor level) Commission on Accrediting of Guangdong Province.

Other Directorships

Other than the directorships noted above there have been no other directorships of listed entities held in the past three years.

2 REVIEW AND RESULTS OF OPERATIONS

2.1 Objectives

The Company's objective is to increase shareholder wealth through successful exploration and mining development activities whilst providing a safe workplace and ensuring best practice in relation to its environmental obligations.

Hawthorn Resources Limited

Directors' Report

2.2 Results

After allowing for the write-off and impairment of prior and current year's exploration and development expenditures of \$1,031,538 (2016: \$799,316) the Company recorded a consolidated net loss of \$2,297,533 for the half-year ended 31 December 2017 (2016: loss \$1,394,317).

Statement of Profit or Loss and Other Comprehensive Income

As an exploration company, the Company does not have an ongoing source of revenue. Its revenue stream is normally from ad-hoc tenement/plant and equipment disposals and interest received. In the 2017 half-year revenue amounted to \$16,316 (2016: \$54,392).

Total consolidated expenses for the period amounted to \$2,313,849 (2016: \$1,448,709) inclusive of exploration and development expenditure written-off and impaired of \$1,031,538 in 2017 (2016: \$799,316), a decision to mine payment of \$733,950 (2016: nil) and administration and depreciation expenses of \$548,361 (2016: \$649,393).

As a result, the consolidated loss for the period from continuing activities after income tax expense was \$2,297,533 in the 2017 half-year compared to a loss of \$1,394,317 in 2016.

Statement of Financial Position

At 31 December 2017, the consolidated entity had working capital of \$3,138,961 (30 June 2017: \$1,444,053) made up of cash at bank of \$4,237,377 (30 June 2017: \$1,298,430), receivables of \$590,877 (30 June 2017: \$491,647), other current assets of \$22,665 (30 June 2017: \$nil) and current liabilities of \$1,711,958 (30 June 2017: \$346,024).

Non-current assets totaled \$11,591,466 (30 June 2017: \$9,463,212) primarily made up of carried forward exploration and development expenditure of \$11,570,801 (30 June 2017: \$9,438,389).

Net assets at 31 December 2017 amounted to \$14,730,427 (30 June 2017: \$10,907,265).

Cash Flow

During the half-year, the consolidated entity's cash and cash equivalents increased by \$2,938,947 (2016: decreased \$2,011,064) having paid \$537,927 (2016: \$643,736) in the normal course of operations and \$2,060,137 (2016: \$1,421,720) for exploration and development expenditure.

In August 2017 the Company announced an underwritten pro rata accelerated non-renounceable rights issue seeking to raise approximately \$6 million in new equity to primarily fund the Company's share of the development of the Anglo Saxon Gold Project (HAW 70%: GEL Resources Pty Ltd 30%). Eligible shareholders were invited to take up the new shares at a ratio of 1 new share for each 1.14 shares held as at 28 August 2017. Refer to item 2.3 Corporate Activities – *Funding* below. The Company received \$5,520,695 (2016: nil) from financing activities, after payments of share issue costs.

Cash and cash equivalents in hand at 31 December 2017 totalled \$4,237,377 (2016: \$2,277,516).

2.3 Corporate Activities

Funding

As a result of the invitation to shareholders to participate in the underwritten pro rata accelerated non-renounceable rights issue referred to above in section 2.2 – *Cash Flow* and after allowing for rounding the Company raised \$6,000,079 through the issue of 150,001,969 new shares at \$0.04 a share.

Issued Securities

As at 31 December 2016 and as at the date of this report the number of securities on issue is represented solely by 321,265,613 ordinary fully paid shares (31 December 2016: 171,263,644).

Net Asset Backing per Share

As at 31 December the Net Asset Backing per one ordinary fully paid share:

2017	\$0.0447
2016	\$0.0733

2.4 Dividends

No dividends were paid or declared during the period and no dividends are recommended in respect of the financial half-year ended 31 December 2017 (2016: \$nil)

2.5 Earnings per Share

	2017	2016
Basic loss per share	(\$0.00791)	(\$0.00814)
Diluted loss per share	(\$0.00791)	(\$0.00814)

2.6 Exploration and Development

The following covers activities undertaken in the half-year to 31 December 2017 and includes interpreted results and activities up to the date of this Report.

Gold Exploration - Western Australia incorporating: **Yundamindera, Trouser Legs-Pinjin, and Belize-Deep South Projects** - Tenements held by Hawthorn 100%, Hawthorn 80%-Metals X Limited 20%, Hawthorn 70%-GEL Resources 30%

Gold Projects - Western Australia incorporating: **Trouser Legs-Pinjin, Yundamindera and Belize-Deep South Projects** - Tenements held by Hawthorn 100%, Hawthorn 80%-Westgold Resources Limited 20%, Hawthorn 70%-GEL Resources 30%

Hawthorn Resources' South Laverton Exploration Zone has been classified as a major area of interest and incorporates three major project areas which Hawthorn holds tenure in its own right, has earned or is earning equity from joint venture partners in granted exploration, mining, prospecting licenses and applications. Management believe the zone is within one geological area.

The tenements in these three project areas cover portions of the Eastern Goldfields of Western Australia extending from the south shore of Lake Carey, 30 km to the south of Laverton, to the historic Pinjin Mining Centre - a strike extent of approximately 125 km.

Geologically the area is positioned on or adjacent to, major regional geological structures in a granite-greenstone corridor extending south from the town of Laverton. This geological zone has a known gold endowment of approximately 25 million ounces of gold and includes the major gold deposits of Sunrise Dam, Wallaby, Granny Smith, Carosue Dam, Red October, Mt Morgans and Jupiter-Heffernans.

Much of the geology of the tenement areas held by Hawthorn is covered by residual soils and colluvium of varying thickness, however the rock types and structures known throughout the project areas are considered prospective with some potential for development of existing resources and further resources to be estimated in the upcoming year.

Highlights for the December 2017 half-year being:

MINE DEVELOPMENT

*Mining Commences at the **Trouser Legs Joint Venture (TLMJV) Gold Project** – ramp up to full production proceeding.*

- *Initial Grade Control Drilling at TLMJV Gold Project completed in northern portion of Mine footprint;*
- *Haul Road Construction completed – initial ore parcel being hauled to Carosue Dam Mill;*
- *8,724 tonnes of gold ore on TLMJV Run Of Mine pad as of 31 December 2017;*

Since year end the TLMJV has continued mining operations and, despite heavy seasonal rains in the Eastern Goldfields areas, the first shipment of ore for processing has now been completed. The ore will be processed in March to be followed by the receipt of the first tranche of ore sales proceeds.

EXPLORATION

RAB Drilling of Phase 1 targets along strike of Box Well Gold Resource results

Hawthorn Resources' gold development and exploration programs are focussed in four major project areas where Hawthorn Resources holds in its own right or has earned equity from joint venture partners in 43 granted exploration, mining, prospecting licences and applications.

During 2017, Hawthorn Resources Limited announced an updated Resource estimate and Initial Ore Reserve statement at the Trouser Legs Mining Joint Venture mine site.

Hawthorn Resources Limited

Directors' Report

As noted above mining operations on this deposit commenced during the December 2017 quarter.

Follow up drilling at **Box Well Resource (130,000 ounces Au)** was carried out during the quarter designed to identify potential strike extensions of the resource, with further programs planned for the **Box Well** and the **Deep South Resource area (78,000 ounces Au)** in the upcoming quarter.

Hawthorn Resources gold projects have a combined Resource base of over **500,000 ounces of gold (396,000 ounces of gold)** attributable).

Mining and Production:

Anglo Saxon Gold Project

(Trouser Legs Mining JV) - Hawthorn Resources 70%, GEL Resources 30%

The December 2017 quarter marks an exciting period for Hawthorn Resources with open pit mining commencing at the **Anglo Saxon Gold Project ("ASGP")**.



Figure 1. Mining at the Trouser Legs JV Gold Project – 2 x 120 Tonne Excavators, 4 x Cat 777 Dump Trucks in Pit

The Project area, 140 km north east of Kalgoorlie and 35 kilometres to the east of the Carosue Dam Mill of Saracen Mineral Holdings Limited, is a contributory Joint Venture with **GEL Resources Pty Ltd**.

An Ore Reserve estimate for the deposit was announced during 2017 of:

Table 1. Anglo Saxon Gold Project Ore Reserve

Classification	Tonnage (t)	Au (g/t)	Ounces
Proven Ore Reserve	-	-	-
Probable Ore Reserve	730,000	2.66	62,000
Total Ore Reserve	730,000	2.66	62,000

Following construction of minesite infrastructure and completion of an initial round of grade control in early December, mining activities continue to ramp up towards scheduled production levels, with 2 ore grade stockpiles under construction on the Anglo Saxon Mine ROM ("Run Of Mine") pad.

During the December 2017 quarter:

- o **56,734 BCM** of material was moved from the northern portion of the deposit.
- o **7,370 tonnes** of low grade ore was excavated and used to sheet the ROM pad surface.
- o Haulage of this ore to the Carosue Dam mill has commenced. A further **14,700 tonnes** of ore was excavated during January.



Figure 2. Initial Ore Loaded for haulage from Trouser Legs JV Gold Project

Hawthorn Resources Limited

Directors' Report

Sale of an initial ore parcel to Saracen Mineral Holdings Limited of approximately 20,000 dry tonnes is expected during the March 2018 quarter following the processing of the ore at the Carosue Dam mill.

There were no LTI's (Lost Time Injuries) recorded for the project during the period.

In order to maintain and secure safe and timely project operation, the Trouser Legs Joint Venture has been granted through the Wardens Court an interim injunction against persons interfering with works on the Trouser Legs Mining Joint Venture Mine tenements. The Wardens Court injunction remains in place at the date of this report with the matter again adjourned to a later date.

In the **Yundamindera Project** area, located approximately 175 kilometres to the north east of Kalgoorlie, Western Australia exploration has focused on the discovery of gold associated with mineralised syenitic porphyry dykes, BIF's and shears. Significant gold mineralisation continues to be discovered within the project area both in outcrop and more importantly, beneath extensive and pervasive, transported cover sequences.

Exploration in the **Yundamindera Project** area has been focused towards the discovery of shear and porphyry associated gold mineralisation – the host of major gold resources in the North East Goldfields of Western Australia at the **Wallaby (>7 Moz Au)**, **Jupiter – Heffernans (1.4 Moz Au)** and **Butcher Well (0.3 Moz)** mining centres.

At the **Box Well Prospect**, a strongly gold mineralised, silicified shear zone has been discovered within a broader, altered, gold mineralised, stockwork altered quartz veined package of felsic volcanics and volcanoclastic sediments. Despite an extensive history of modern exploration in the prospect area these newly identified mineralised units had not previously been identified or drilled, prior to Hawthorn's current exploration program.

At the **Deep South-Belize Project** area substantial RC drilling programs have been completed during previous periods. The project area lies directly along strike to the south of Deep South Mine (owner Saracen Mineral Holdings Limited, or "Saracen") approximately 170 km to the north east of Kalgoorlie in Western Australia. Following a successful campaign of open cut mining of the resource, Saracen has commenced mining of the underground Probable Reserve at the deposit of 125,000 ounces of gold in a Mining Inventory of 174,000 ounces of gold.

Hawthorn holds tenements in this project area in Joint Venture with Westgold Resources (formerly Metals X Limited). Hawthorn has identified a gold mineralised horizon analogous to the adjacent Saracen - **Deep South** gold orebodies within its tenement package.

Iron Ore / Base Metals Projects - Western Australia incorporating:

Mount Bevan Project – Western Australia
(Hawthorn Resources 40%- Legacy Iron Ore Limited 60%)

The **Mount Bevan Project** (EL 29/510) is located approximately 100 km west of the Leonora township in the central Yilgarn region of Western Australia.

The tenement covers the northern portions of the Mt Ida Greenstone belt and is situated in close proximity to a number of historic and current gold mines in the Copperfield – Timoni and Bottle Creek area.

Iron Ore

Geology mapping and sampling, following a tenement wide aeromagnetic survey, confirmed the presence of three substantial BIF horizons within the tenement extending in a north-northwest direction for a strike distance of more than 25 km. High grade intercepts of haematite mineralisation were intercepted in the southernmost drilling within the Project area. Follow up drilling by Hawthorn confirmed these to be the strike extension of the Mt Mason Iron Ore Inferred Resource of non-listed company Jupiter Mines Limited ("Jupiter").

A Joint Venture covering the Mt Bevan Project Area is in place with ASX listed company Legacy Iron Ore Limited ("Legacy"). This joint venture has seen Legacy earn 60% of the Mt Bevan Project by expenditure. Hawthorn accepted Legacy Iron Ore Limited's claim to have met the expenditure covenant in July 2012 and initiated transfer of a 60% interest in the Joint Venture tenements to Legacy. Exploration expenditure has been on a pro-rata contributory basis since this period.

Three substantial BIF horizons have been identified within the tenement that extend in a north-northwest orientation throughout the entire length of the tenement; a strike distance of more than 25 kilometres. The westernmost of these horizons hosts the substantial **Mt Bevan Indicated Magnetite Resource of 322Mt @ 34.7% Fe** within a larger **Inferred Magnetite Resource of 1,117 Mt @ 34.9% Fe**. The mass recovery of the Indicated Resource is at 44% - indicative of the relative high Fe content of the magnetite in the host BIF. With the sustained reduced iron ore price the Joint Venture has decided to limit exploration expenditure on the project.

Base Metals

The Joint Venture has commenced exploration to determine whether repetitions of encouraging nickel and copper results reported to within 700 metres north of joint venture tenements by **St George Mining Limited** (ASX: SGQ) occur within the Joint Venture area.

The value of the Project area remains, as the identification of sub-economic, but valuable, iron ore mineralisation within the Project area indicates the potential for stand-alone development by the Joint Venture following further exploration solely or in joint venture with competitor companies. The potential for other styles of mineralisation, particularly the nickel copper mineralisation identified by other companies immediately north of the tenement remains to be examined in the upcoming period.

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr Ian Moody, who is a member of the Australasian Institute of Mining and Metallurgy and a full time consultant geologist with First Principle Mineral Exploration Company Pty Ltd. Mr Moody has sufficient experience as a geologist which is relevant to the style of mineralization and the type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 edition of the Australasian Code of Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Moody consents to the inclusion in this report of the matters based on his information in the form and context in which it appears.

2.7 Subsequent Events

Mining Operations

As noted above and as reported in the Company's December 2017 Quarterly Activities Report the Trouser Legs Mining Joint Venture (the Company 70% and GEL Resources Pty Ltd 30%) ["TLMJV"] had commenced mining operations at the Anglo Saxon Gold Project mine site.

Since the half-year balance date the TLMJV has continued mining operations and despite heavy seasonal rains has now completed the first haulage of ore to the Saracen owned Carosue Dam mill facility for processing. The TLMJV expects the ore processing to be completed in March followed by the receipt of the first tranche of ore sales proceeds.

There has not been any matters or circumstances, other than those referred to in the financial statements, the notes thereto or referred to elsewhere in this Directors' Report, that have arisen since the end of the financial half-year, that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

2.8 Material Business Risks

Hawthorn Resources is in the minerals exploration and mining sectors. Its objective is to undertake both exploration and mine development, which by their nature are high-risk. The group is subject to normal business risks, including but not limited to government policies, infrastructure, commodity price and exchange rate fluctuations, labour market conditions and other factors which are outside the control of the Board and management. Material risks specific to the group include, but are not limited to:

- *Exploration and Development* – exploration for and identification of economic mineral resources product development requires a high level of technical investigation, the outcomes of which cannot be known beforehand. Activities are exploratory in nature so risk of failure or delay is a real possibility.
- *Commercialisation* – the Company's strategy is to explore for, identify, evaluate and mine economically viable mineral resources either on its own account or through joint venture agreements.
- *Environmental Approval* – approvals such as referred to under item 2.10 below - **Environmental Regulation** may not be received.
- *Financial* – the Company does not receive sufficient income to cover its operating expenses. Although there are sufficient current cash reserves, there is no certainty that additional capital funding will not be required and there is no certainty that capital funding will be available.
- *Commodity Prices* – the timing and extent of fluctuations in global commodity prices can significantly affect the economic viability of the extraction and exploitation of mineral resources.
- *Key personnel* – the execution of the Company's exploration and development programmes relies on key personnel of its technical teams. The ability to retain and attract these personnel is critical.
- *Infrastructure* – the ability of the Company to deliver the extracted resources to market from remote inland sites relies on the availability of suitable road, rail and port facilities together with appropriate processing plant facilities.

Hawthorn Resources Limited

Directors' Report

2.9 Legal

No legal matters or claims brought by or against the Company, other than the issues at mine site being handled on an ongoing basis through the Mining Warden that have already been referred to, have arisen during or since the end of the December 2017 financial half-year up to and including the date of this Report. Nor are the Company's directors and officers aware of the likelihood of any such matters.

2.10 Environmental Regulation

The Company, as an exploration / mining entity, is subject to both State and Federal legislation – in particular the Mining Act WA 1978, as amended 2010, covering Environmental; Hydrological; Geotechnical and O H & S matters as referred to under the Act.

The Company is not aware of any material breaches of any of these environmental related regulations.

2.11 Health & Safety

The Board, CEO and senior management team are committed to creating a positive environment for the health and wellbeing of the Company's employees and anyone affected by our operations, including contractors and visitors.

3 AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is attached to this Report.

Signed in accordance with a resolution of the Board of Directors at Melbourne this 16th day of March 2018.



M G Kerr
Chairman and Executive Director

DECLARATION OF INDEPENDENCE BY JAMES MOONEY TO THE DIRECTORS OF HAWTHORN RESOURCES LIMITED

As lead auditor for the review of Hawthorn 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 Hawthorn Resources Limited and the entities it controlled during the period.



James Mooney
Partner

BDO East Coast Partnership

Melbourne, 16 March 2018

Hawthorn Resources Limited

ABN 44 009 157 439

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

**THIS REPORT SHOULD BE READ IN CONJUNCTION WITH
THE 2017 ANNUAL FINANCIAL REPORT**

Hawthorn Resources Limited
Statement of Profit or Loss and Other Comprehensive Income
For the Half-Year Ended 31 December 2017

	<u>Note</u>	Consolidated	
		31 Dec 2017	31 Dec 2016
		\$	\$
Revenue	2(a)	16,316	54,392
Expenses			
Development expenditure impaired	2(b)/4	(762,414)	-
Exploration expenditure impaired	2(b)/3	(88,385)	(534,252)
Exploration expenditure expensed	2(b)/3	(180,739)	(265,064)
Decision to mine payments	2(b)	(733,950)	-
Administration expense	2(b)	(544,203)	(639,280)
Depreciation expense	2(b)	(4,158)	(10,113)
Loss before income tax		(2,297,533)	(1,394,317)
Income tax expense		-	-
Loss for the period from continuing operations after income tax		(2,297,533)	(1,394,317)
Other comprehensive income		-	-
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period		(2,297,533)	(1,394,317)
Total comprehensive loss for the period is attributable to:			
Owners of Hawthorn Resources Limited		(2,059,977)	(1,394,317)
Non-controlling interest	8	(237,556)	-
		(2,297,533)	(1,394,317)
Earnings per share		Cents	Cents
Basic comprehensive loss per share for the period attributable to ordinary equity holders		(0.791)	(0.814)
Diluted comprehensive loss per share for the period attributable to ordinary equity holders		(0.791)	(0.814)

The statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes to the financial statements.

Hawthorn Resources Limited
Statement of Financial Position as at 31 December 2017

	<u>Note</u>	Consolidated	
		31 Dec 2017	30 Jun 2017
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents		4,237,377	1,298,430
Trade and other receivables		590,877	491,647
Other current assets		22,665	-
Total Current Assets		4,850,919	1,790,077
Non-Current Assets			
Other financial assets		2,231	2,231
Exploration expenditure	3	5,808,587	9,438,389
Development & mining costs	4	5,762,214	-
Plant and equipment		18,434	22,592
Total Non-Current Assets		11,591,466	9,463,212
TOTAL ASSETS		16,442,385	11,253,289
LIABILITIES			
Current Liabilities			
Trade and other payables		1,682,197	311,388
Employee benefits		29,761	34,636
Total Current Liabilities		1,711,958	346,024
TOTAL LIABILITIES		1,711,958	346,024
NET ASSETS		14,730,427	10,907,265
EQUITY			
Contributed equity	6(a)	61,615,314	56,094,619
Accumulated losses		(47,247,331)	(45,187,354)
Equity attributable to owners of Hawthorn Resources Limited		14,367,983	10,907,265
Non-controlling interest	8	362,444	-
TOTAL EQUITY		14,730,427	10,907,265

The statement of financial position is to be read in conjunction with the accompanying notes to the financial statements.

Hawthorn Resources Limited
Statement of Cash Flows for the Half-Year Ended 31 December 2017

	Consolidated	
	31 Dec 2017 \$	31 Dec 2016 \$
Cash flows from operating activities		
Payments in the course of operations	(537,927)	(643,736)
Interest received	16,316	54,392
Net cash used in operating activities	(521,611)	(589,344)
Cash flows from investing activities		
Payments for exploration expenditure	(466,876)	(1,421,720)
Payments for development expenditure	(1,611,082)	-
Payments for JV partner on decision to mine	(733,950)	-
Receipts from JV partner	751,771	-
Net cash used in investing activities	(2,060,137)	(1,421,720)
Cash flows from financing activities		
Proceeds from share issues	6,000,079	-
Payment of share issue costs	(479,384)	-
Net cash provided by financing activities	5,520,695	-
Net increase/(decrease) in cash and cash equivalents	2,938,947	(2,011,064)
Cash and cash equivalents at beginning of period	1,298,430	4,288,580
Cash and cash equivalents at end of period	4,237,377	2,277,516

The statement of cash flows is to be read in conjunction with the accompanying notes to the financial statements.

Hawthorn Resources Limited
Statement of Changes in Equity for the Half-Year Ended
31 December 2017

	Contributed Equity	Non-controlling Interest	Accumulated Losses	Total Equity
	\$	\$	\$	\$
CONSOLIDATED				
At 1 July 2016	56,094,619	-	(42,138,699)	13,955,920
Loss for the period	-	-	(1,394,317)	(1,394,317)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period net of tax	-	-	(1,394,317)	(1,394,317)
Transactions with owners in their capacity as owners:	-	-	-	-
At 31 December 2016	56,094,619	-	(43,533,016)	12,561,603
At 1 July 2017	56,094,619	-	(45,187,354)	10,907,265
Loss for the period	-	(237,556)	(2,059,977)	(2,297,533)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period net of tax	-	(237,556)	(2,059,977)	(2,297,533)
Transactions with owners in their capacity as owners:				
Issue of share capital	6,000,079	-	-	6,000,079
Share issue costs	(479,384)	-	-	(479,384)
Joint venturer	-	600,000	-	600,000
At 31 December 2017	61,615,314	362,444	(47,247,331)	14,730,427

The statement of changes in equity is to be read in conjunction with the accompanying notes to the financial statements.

Hawthorn Resources Limited
Notes to the Financial Statements
For the Half-Year Ended 31 December 2017

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) Reporting Entity

Hawthorn Resources Limited (the “Company”) is a company domiciled in Australia. This financial report as at and for the half-year ended 31 December 2017 is for the consolidated entity which consists of Hawthorn Resources Limited and its controlled entities (the “Group”).

(b) Basis of Preparation

The half-year financial report is a general purpose financial report for the half-year ended 31 December 2017, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134 “Interim Financial Reporting”.

The half-year financial report does not include all the information required for a full annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the June financial report. It is recommended this half year financial report be read in conjunction with the annual Financial Report of Hawthorn Resources Limited as at and for the year ended 30 June 2017.

It is also recommended that the half-year financial report be considered together with any public announcements made by Hawthorn Resources Limited during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations arising under the ASX Listing Rules.

The half-year financial report was approved by the Board of Directors on 16 March 2018.

Going Concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

For the half year ended 31 December 2017, the Group reported a loss of \$2,297,533 (2016: loss of \$1,394,317) and cash outflows from operating and investing activities of \$2,581,748 (2016: \$2,011,064). The ability to continue as a going concern is dependent upon a number of factors, one being the continuation and availability of funds.

To this end, the Group is expecting to fund ongoing obligations as follows:

- The Group had cash reserves at 31 December 2017 of \$4,237,377.
- The Group has completed a large proportion of its current exploration activities.
- The Group, through its’ 70% interest in the Trouser Legs Mining Joint Venture, has commenced mining and production, and expects to generate revenues from the sale of ore and positive cash flows over the next twelve months.

Based on the above and cash flow forecasts prepared, the directors are of the opinion that the Group is well positioned to meet its objectives and obligations going forward and therefore that the basis upon which the financial statements are prepared is appropriate in the circumstances.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

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

Hawthorn Resources Limited
Notes to the Financial Statements
For the Half-Year Ended 31 December 2017

(c) Summary of significant accounting policies

The accounting standards, estimation methods and measurement bases used in this report are the same as those used in the Hawthorn Resources Limited 2017 Annual Report, with the exception as noted below (*) of the treatment of the non-controlling interest in the Trouser Legs Mining Joint Venture.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Hawthorn Resources Limited (the “Company” or “parent entity”) as at 31 December 2017 and the results of all subsidiaries for the year then ended. Hawthorn Resources Limited and its subsidiaries together are referred to in these financial statements as the “consolidated entity”.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

(*) Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

(d) New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (‘AASB’) that are mandatory for the current reporting period.

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

Hawthorn Resources Limited
Notes to the Financial Statements
For the Half-Year Ended 31 December 2017

2. REVENUE AND EXPENSES FROM CONTINUING OPERATIONS

	31 Dec 2017 \$	31 Dec 2016 \$
(a) Included in revenue for the period is:		
Interest revenue	16,316	54,392
(b) Included in expenses for the period is:		
Impairment of development assets	762,414	-
Impairment of exploration assets	88,385	534,252
Administrative expenses	544,203	639,280
Depreciation expense	4,158	10,113
Decision to mine payments	733,950	-
Write-off of capitalised exploration	180,739	265,064
	2,313,849	1,448,709

3. EXPLORATION EXPENDITURE

	31 Dec 2017 \$	30 Jun 2017 \$
Areas in the exploration phase		
At cost	5,808,587	9,438,389
Movement in the carrying value of exploration expenditure during the year was;		
Opening Balance	9,438,389	9,830,031
Costs incurred during the year	366,115	1,552,907
Exploration expenditure written-off during the year to profit or loss	(180,739)	(312,118)
Exploration expenditure impaired during the year to profit or loss	(88,385)	(1,632,431)
Transfer costs to mining joint venture	(3,726,793)	-
Closing Balance	5,808,587	9,438,389

4. JOINT VENTURE DEVELOPMENT & MINING ASSETS

Areas in the development and mining phase		
At cost	5,762,214	-
Movement in the carrying value of development and mining expenditure during the year was;		
Opening balance	-	-
Transfer in from exploration assets	3,726,793	-
Costs incurred during the year	2,797,835	-
Development expenditure impaired during the year to profit or loss	(762,414)	-
Closing balance	5,762,214	-

Hawthorn Resources Limited
Notes to the Financial Statements
For the Half-Year Ended 31 December 2017

5. SEGMENT INFORMATION

Identification of reportable operating segments

Hawthorn Resources Limited operates in the mineral exploration and mining industry in Australia. The Group has adopted AASB8 Operating Segments whereby segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the board of directors. At regular intervals, the board is provided with management information at a group level for the group's cash position, the carrying values of exploration permits and a group cash forecast for the next twelve months of operation. On this basis, no segment information is included in these financial statements.

6. CONTRIBUTED EQUITY

	31 Dec 2017	30 Jun 2017
Shares	\$	\$
(a) Issued and paid up capital		
Opening Balance	56,094,619	56,094,619
Issued September 2017 for cash pursuant to non-renounceable rights issue	6,000,079	-
Transaction costs of share issue	(479,384)	-
Closing balance	<u>61,615,314</u>	<u>56,094,619</u>
(b) Movement in contributed equity during the six month period were as follows:	<u>Number</u>	<u>Number</u>
Opening balance at 1 July	171,263,644	171,263,644
Issued September 2017 for cash pursuant to non-renounceable rights issue	150,001,969	-
Closing Balance	<u>321,265,613</u>	<u>171,263,644</u>

As at 31 December 2017 and as at the date of this Report there are no options.

7. CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last annual report date.

Hawthorn Resources Limited
Notes to the Financial Statements
For the Half-Year Ended 31 December 2017

8. NON-CONTROLLING INTEREST

Hawthorn Resources Limited has a 70% equity interest in the Trouser Legs Mining Joint Venture ["TLMJV"] Project, with GEL Resources Pty Ltd holding a 30% interest. As Hawthorn deemed control it has accordingly consolidated in full the TLMJV Project assets and liabilities, plus income and expenses, with the interest of GEL being represented in the financial accounts as a non-controlling interest.

The movement in GEL's non-controlling interest during the 6 months ended 31 December 2017 is shown below and is represented by contributed equity, and adjusted for its share of administrative expenses during the period. The majority of costs incurred by the Joint Venture were capitalised into development and mining costs in the statement of financial position.

	31 Dec 2017 \$	31 Dec 2016 \$
Contributed equity – cash calls	600,000	-
Share of losses	(237,556)	-
	362,444	-

9. EVENTS AFTER BALANCE DATE

Mining Operations

As noted above and as reported in the Company's December 2017 Quarterly Activities Report the Trouser Legs Mining Joint Venture (the Company 70% and GEL Resources Pty Ltd 30%) ["TLMJV"] had commenced mining operations at the Anglo Saxon Gold Project mine site.

Since the half-year balance date the TLMJV has continued mining operations and despite heavy seasonal rains has now completed the first shipment of ore to the Saracen owned Carosue Dam mill facility for processing. The TLMJV expects the ore processing to be completed in March followed by the receipt of the first tranche of ore sales proceeds.

There has not been any matters or circumstance that has arisen since the end of the financial half-year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Hawthorn Resources Limited
Director's Declaration
For the Half-Year Ended 31 December 2017

**DIRECTOR'S DECLARATION
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017**

In the opinion of the directors' of Hawthorn Resources Limited:

1. the financial statements and notes to the financial statements, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2017 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (ii) complying with Australian Accounting Standard *AASB 134 Interim Financial Reporting and the Corporations Regulations 2001*; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at Melbourne this 16th day of March 2018.

Signed in accordance with a resolution of the directors:



M. G. Kerr
Chairman & Managing Director

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Hawthorn Resources Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Hawthorn Resources Limited (the Company) and its controlled entities (the Group), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the half-year then ended, 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 *Corporations Regulations 2001*.

Emphasis of matter - Material uncertainty relating to going concern

We draw attention to Note 1(b) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

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 East Coast Partnership

A handwritten signature in black ink, appearing to read 'James Mooney'. Above the signature is a stylized, handwritten 'BDO' logo.

James Mooney
Partner

Melbourne, 16 March 2018