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S2 RESOURCES LTD

ABN: 18 606 128 090

HALF YEAR FINANCIAL REPORT

31 December 2019

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ABN: 18 606 128 090

HALF YEAR FINANCIAL REPORT
FOR THE HALF YEAR ENDED 31 DECEMBER 2019

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S2 Resources Ltd
Half Year Financial Report
For the half year ended 31 December 2019

Corporate Directory

Directors

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

Company Secretary

Anna Neuling

Principal and Registered Office

Unit 4, 24 Parkland Road
Osborne Park, Western Australia 6017
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 11, 172 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

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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 2019 ("Consolidated Entity" or "Group").

Directors

The names and details of the Directors in office during the half year ended 31 December 2019 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
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 2019 after providing for income tax amounted to \$5,461,224 (2018: \$4,220,474).

The loss results from \$2,675,231 of exploration expenditure incurred and expensed, \$802,628 of administration costs, \$281,740 of business development costs, \$752,002 of share-based payments expenses, \$59,736 depreciation costs and \$23,592 of other income and net gains/(losses). The exploration expenditure incurred and expensed mainly relates to the Finland and Australia projects. Also during the half year, the Group accounted for our share of our associate's consolidated statement of loss being \$542,609 and impairment of the investment in associate of \$370,870.

Dividends

No dividends were paid or proposed to be paid to members during the half year ended 31 December 2019.

Significant Changes in the State of Affairs

During the half year ended 31 December 2019, the remaining Westgold shares were disposed of realising a total gain as follows:

	Total Gain on disposal		
	Net proceeds \$	Original cost \$	Gain \$
Sold in the half year ended 31 December 2019	1,841,773	(1,520,000)	321,772
Sold in the half year ended 31 December 2018	-	-	-
	1,841,773	(1,520,000)	321,772

Directors' Report

Significant Changes in the State of Affairs (continued)

During the half year ended 31 December 2019 the Group increased its investment in Todd River Resources Ltd (ASX:TRT), from 19.99% to 22.99% in September 2019 (11,959,700 shares at \$0.031 per share) and again to 30.62% in October 2019 (33,019,667 shares at \$0.031 per share). The investment reduced to 30.52% in December 2019 due to a share issue in relation to the acquisition of an exploration project by Todd River Resources Ltd.

After Balance Date Events

There has been no matter or circumstance that has arisen since 31 December 2019 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; 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 25 of the interim financial report.

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



Mark Bennett
Director
Perth
10 March 2020

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the half year ended 31 December 2019

	Notes	31 December 2019 \$	31 December 2018 \$
Other income		41,961	84,565
Salaries and wages		(235,810)	(263,071)
Travel expenditure		(207,531)	(89,372)
Consulting and legal fees		(119,270)	(132,665)
ASX, ASIC and Company registry		(99,626)	(69,476)
Office related costs		(63,652)	(55,139)
Insurance		(76,739)	(123,315)
Business development		(281,740)	(193,095)
Depreciation expense		(59,736)	(55,889)
Share based payments	8	(752,002)	(58,914)
Other gains/(losses)		(18,369)	190,066
Exploration expenditure expensed as incurred	5	(2,675,231)	(3,175,089)
Exploration impairment expense		-	(60,446)
Share of associate's profit/(loss)	4	(542,609)	(216,774)
Associate impairment reversal /(expense)		(370,870)	-
Loss before income tax		(5,461,224)	(4,218,614)
Income tax (expense)/benefit		-	(1,860)
Loss for the period		(5,461,224)	(4,220,474)
Other comprehensive income			
<i>Items that will not be classified to profit or loss</i>			
Changes in the fair value of Investments at fair value through other comprehensive income	3	(33,227)	(2,976,936)
<i>Items that may be classified to profit or loss</i>			
Exchange differences on translation of foreign operations		(7,171)	11,457
Total Comprehensive loss for the period attributable to the members of S2 Resources Ltd		(5,501,622)	(7,185,953)
Loss per share for the period attributable to the Members of S2 Resources Ltd			
		Cents	Cents
Basic loss per share	11	(2.20)	(1.70)

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

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Consolidated Statement of Financial Position

as at 31 December 2019

	Notes	31 December 2019 \$	30 June 2019 \$
CURRENT ASSETS			
Cash and cash equivalents		8,256,574	11,645,063
Restricted cash		341,031	365,778
Trade and other receivables		207,515	454,872
TOTAL CURRENT ASSETS		8,805,120	12,465,713
NON-CURRENT ASSETS			
Investments	3	-	1,875,000
Investments in associates	4	1,730,839	1,241,255
Exploration and evaluation	5	1,028,260	1,028,199
Property, plant and equipment		128,125	151,878
Right-of-use assets	14	284,404	-
TOTAL NON-CURRENT ASSETS		3,171,628	4,296,332
TOTAL ASSETS		11,976,748	16,762,045
CURRENT LIABILITIES			
Trade and other payables		370,789	660,511
Provisions		38,294	73,049
Lease Liabilities	14	92,199	-
TOTAL CURRENT LIABILITIES		501,282	733,560
NON-CURRENT LIABILITIES			
Lease Liabilities	14	196,601	-
TOTAL NON-CURRENT LIABILITIES		196,601	-
TOTAL LIABILITIES		697,883	733,560
NET ASSETS		11,278,865	16,028,485
EQUITY			
Share capital	6	52,552,523	52,552,523
Reserves	7	8,929,347	8,539,513
Accumulated losses		(50,203,004)	(45,063,551)
TOTAL EQUITY		11,278,865	16,028,485

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

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Consolidated Statement of Changes in Equity

for the half year ended 31 December 2019

Attributable to equity holders of the Group in \$ dollars	Share capital	Share based payment Reserves	Other Reserve	Foreign Currency Translation Reserve	Fair Value Other Comprehensive Income ("FVOCI") Reserve	Accumulated losses	Total
Balance at 1 July 2019	52,552,523	7,905,600	144,517	134,398	354,998	(45,063,551)	16,028,485
Total comprehensive loss for the period	-	-	-	(7,171)	(33,227)	(5,461,224)	(5,823,393)
Transfer gain on sale of investments to accumulated losses					(321,771)	321,771	-
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	-	752,002	-	-	-	-	752,002
Total contributions by and distributions to owners	-	752,002	-	-	-	-	752,002
Balance at 31 December 2019	52,552,523	8,657,602	144,517	127,227	-	(50,203,004)	11,278,865

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 2018

Attributable to equity holders of the Group in \$ dollars	Share capital	Share based payment Reserves	Other Reserve	Foreign Currency Translation Reserve	Fair Value Other Comprehensive Income ("FVOCI") Reserve	Accumulated losses	Total
Balance at 1 July 2018	52,552,523	7,786,606	144,517	131,223	1,910,667	(37,732,328)	24,793,208
Total comprehensive loss for the period				11,457	(2,976,936)	(4,220,474)	(7,185,953)
Transfer gain on sale of investments to accumulated losses	-	-	-	-	(1,493,731)	1,493,731	-
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	-	58,914	-	-	-	-	58,914
Total contributions by and distributions to owners	-	58,914	-	-	-	-	58,914
Balance at 31 December 2018	52,552,523	7,845,520	144,517	142,680	(2,560,000)	(40,459,071)	17,666,169

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 2019

Notes	31 December 2019 \$	31 December 2018 \$
Cash flows from operating activities		
Cash paid to suppliers and employees for administration activities	(1,058,458)	(1,099,440)
Cash paid to suppliers and employees for exploration activities	(2,999,758)	(3,215,753)
Interest received	72,608	91,251
Interest and other finance costs paid	(9,418)	(3,537)
Income tax refund/(payment)	186,037	(1,806)
Net cash used in operating activities	(3,808,989)	(4,229,285)
Cash flows from investing activities		
Payments for property, plant and equipment	(19,424)	(4,352)
Net proceeds from sale of investment in TSX-V listed entity	1,837,167	1,813,923
Investment in Todd River Resources Ltd	(1,403,063)	(2,743,240)
Net cash used in investing activities	414,680	(933,669)
Cash flows from financing activities		
Net receipts / (payments) for cash backed guarantees	42,446	(15,854)
Repayment of borrowings	(27,101)	-
Net cash used in financing activities	15,345	(15,854)
Net increase / (decrease) used in cash and cash equivalents	(3,378,964)	(5,178,808)
Effects of exchange rate changes on cash and cash equivalents	(9,525)	199,416
Cash and cash equivalents at 1 July	11,645,063	15,026,119
Cash and cash equivalents at 31 December	8,256,574	10,046,727

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

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Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

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 2019 except for the application of *AASB 16 Leases* for the first time for the half year end commencing 1 July 2019. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Standards and Interpretations applicable to 31 December 2019

In the period ended 31 December 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current reporting period. Those which have a material impact on the Group are set out below.

AASB 16 Leases

AASB 16 replaces AASB 117 Leases. AASB 16 removes the classification of leases as either operating leases or finance leases-for the lessee – effectively treating all leases as finance leases.

The Group has adopted AASB 16 from 1 July 2019.

The Group has applied AASB 16 using a modified retrospective approach with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2019 and has elected not to restate comparative information. Accordingly, the information presented for 30 June 2019 has not been restated.

The impact on the financial performance and position of the Group from the adoption of this Accounting Standards is detailed in note 14.

Other than the above, there is no material impact of the new and revised Standards and Interpretations on the Company and therefore, no material change is necessary to Group accounting policies.

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the period ended 31 December 2019. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Group and, therefore, no change is necessary to Group accounting policies.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

NOTE 2: SEGMENT INFORMATION

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

- Finland exploration activities, which includes exploration and evaluation of mineral tenements in Finland.
- 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 Chief Operating Decision Maker is prepared in conformity with the accounting policies adopted for preparing the financial statements of the Group.

Segment Results

Statement of loss for the half year ended 31 December 2019

	Finland exploration activities	Nevada exploration activities	Australia exploration activities	Unallocated	Total
Other income	-	-	-	41,961	41,961
Corporate expenses	-	-	-	(802,631)	(802,631)
Business Development	-	-	-	(281,740)	(281,740)
Depreciation expense	-	-	-	(59,736)	(59,736)
Share-based payments	-	-	-	(752,002)	(752,002)
Other gain/(losses) - net	-	-	-	(18,369)	(18,369)
Exploration expenditure expensed as incurred	(2,310,967)	(68,664)	(295,600)	-	(2,675,231)
Exploration impairment expense	-	-	-	-	-
Share of associate's profit/(loss)	-	-	-	(542,609)	(542,609)
Associate impairment expense	-	-	-	(370,870)	(370,870)
Loss before income tax	(2,310,967)	(68,664)	(295,600)	(2,785,996)	(5,461,228)
Income tax expense	-	-	-	-	-
Loss after income tax for the half year	(2,310,967)	(68,664)	(295,600)	(2,785,996)	(5,461,228)

Statement of loss for the half year ended 31 December 2018

	Finland exploration activities	Sweden exploration activities	Nevada exploration activities	Australia exploration activities	Unallocated	Total
Other income	-	-	-	-	84,565	84,565
Corporate expenses	-	-	-	-	(733,038)	(733,038)
Business Development	-	-	-	-	(193,095)	(193,095)
Depreciation expense	-	-	-	-	(55,889)	(55,889)
Share-based payments	-	-	-	-	(58,914)	(58,914)
Other gain/(losses) - net	-	-	-	-	190,066	190,066
Exploration expenditure expensed as incurred	(1,525,010)	14,323	(1,611,820)	(52,582)	-	(3,175,089)
Exploration impairment expense	-	-	(60,446)	-	-	(60,446)
Share of associate's profit/(loss)	-	-	-	-	(216,774)	(216,774)
Loss before income tax	(1,525,010)	14,323	(1,672,266)	(52,582)	(983,079)	(4,218,614)
Income tax expense	-	-	-	-	(1,860)	(1,860)
Loss after income tax for the half year	(1,525,010)	14,323	(1,672,266)	(52,582)	(984,939)	(4,220,474)

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

SEGMENT ASSETS AND LIABILITIES

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

NOTE 3. INVESTMENTS AND OTHER FINANCIAL ASSETS

(i) *Classification of financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income (FVOCI) comprise of equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category.

(ii) *Equity investments at fair value through other comprehensive income*

Equity investments at FVOCI comprise the following individual investments:

	31 December 2019	30 June 2019
Non-current	\$	\$
Investments		
<i>Balance at beginning of the period</i>		
Westgold Resources Ltd	1,875,000	7,400,000
<i>Movement during the period</i>		
Westgold Resources Ltd (1)	(1,875,000)	(5,525,000)
Balance as at 31 Dec 2019	-	1,875,000

(1) The table below describes the total gain/(loss) on disposal of the Group's investments from the initial purchase to the financial year ended 31 December 2019:

	Total Gain on disposal		
	Net proceeds \$	Original cost \$	Gain \$
Sold in the half year ended 31 December 2019	1,841,773	(1,520,000)	321,772
Sold in the half year ended 31 December 2018	-	-	-
	1,841,773	(1,520,000)	321,772

** The total gain of \$321,772 during the half year ended 31 December 2019 was transferred from the fair value other comprehensive income (FVOCI) reserve to accumulated losses.

(iii) *Amounts recognised in profit or loss and other comprehensive income*

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

	31 December 2019	31 December 2018
	\$	\$
Gains/(losses) recognised in other comprehensive income	(33,227)	(2,976,936)

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Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

NOTE 3. INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

The table below describes the movement in the FVOCI reserve the half year ended 31 December 2019:

	Movement of gain/(loss) in FVOCI
Net proceeds	1,841,773
Less carrying value as at 30 June 2019	(1,875,000)
Gain/(loss) on disposal	(33,227)
Movement of gain/(loss) in OCI	(33,227)

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. In the prior financial year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long-term.

NOTE 4. INTERESTS IN ASSOCIATES

The entity listed below have share capital consisting of ordinary shares and options of which 30.52% of the ordinary shares are held directly by the Group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/ country of incorporate	% of ownership interest		Nature of relationship	Measurement method	Carrying amount	
		Dec 19	Jun 19			Dec 19 \$	Jun 19 \$
Todd River Resources Ltd	Australia	30.52%	19.99%	Associate	Equity method	1,730,839	1,241,255

The Group increased its investment in Todd River Resources Ltd (ASX:TRT) from 19.99% to 22.99% in September 2019 (11,959,700 shares at \$0.031 per share) and again to 30.62% in October 2019 (33,019,667 shares at \$0.031 per share). The investment reduced to 30.52% in December 2019 due to a share issue in relation to the acquisition of an exploration project by Todd River Resources Ltd.

Summarised financial information for associates

The tables below provide summarised financial information of Todd River Resources Ltd that are material to the Group. The information disclosed reflects the amounts presented in the financial statement of the relevant associates and not the Group's share of those amounts. A reconciliation has been provided to reflect the adjustments made by the Group when using the equity method, including fair value adjustment and modifications for differences in accounting policy.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

	31 Dec 2019 \$
Summarised balance sheet	
Current assets	2,333,103
Non current assets	6,801,965
Total assets	9,135,067
Current liabilities	178,114
Non-current liabilities	-
Total liabilities	178,114
NET ASSETS	8,956,953
Share capital	21,501,151
Reserves	2,537,944
Accumulated losses	(15,082,142)
Total equity	8,956,953

	31 Dec 2019 \$
Reconciliation to carrying amounts	
S2R's investment as at 1 July 2019	1,241,255
Increase in investment (1)	1,403,063
Less Group's share	\$ (542,609)
Less impairment (2)	\$ (370,870)
Carrying amount	\$ 1,730,839

(1) This includes \$8,703 of transaction costs.

(2) The Group's view was to impair their investment in TRT to the market value of TRT shares held as at 31 December 2019.

NOTE 5. EXPLORATION AND EVALUATION

	31 December 2019 \$	30 June 2019 \$
Exploration costs	1,028,260	1,028,199
Movement during the period		
Balance at beginning of the period	1,028,199	1,083,153
Exploration expenditure incurred during the period	2,675,231	5,093,484
Exploration expenditure incurred during the period and expensed (i)	(2,675,231)	(5,093,484)
Exploration impairment expense	-	(60,446)
Foreign currency translation differences	61	5,492
Balance at end of the period	1,028,260	1,028,199

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

- (i) During the half year ended 31 December 2019 the exploration expenditure incurred pertains to the following:

Polar Bear and Fraser Range Projects

Exploration expenditure incurred and expensed for Polar Bear and Fraser Range was \$295,600.

Finland Project

Exploration expenditure incurred and expensed for Finland was \$2,310,968.

Ecru Project

Exploration expenditure incurred and expensed for Ecru was \$68,664.

NOTE 6. SHARE CAPITAL

	31 December 2019 No of Shares	31 December 2019 \$
Ordinary shares fully paid	245,915,179	52,552,523
Ordinary shares fully paid		
Balance at beginning of period	245,915,179	52,55,523
Balance at period end	245,915,179	52,552,523

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

NOTE 7. RESERVES

	31 December 2019 \$	30 June 2019 \$
Share-based payments reserve (i)	8,657,602	7,905,600
Other reserve (ii)	144,517	144,517
Foreign currency translation reserve (iii)	127,228	134,398
Fair value other comprehensive income (FVOCI) reserve (iv)	-	354,998
	8,929,347	8,539,513

- (i) The share-based payments reserve recognises the fair value of the options issued to Directors, employees and service providers.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) The FVOCI reserve recognises the change in fair value of the Group's equity instruments or investments – no such instruments were held at the end of the period.

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Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

NOTE 8. 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 \$
(12) Issued 12 November 2019	18,000,000	12/11/2019	11/11/2023	0.30	0.04
(13) Issued 3 December 2019	400,000	3/12/2019	2/12/2023	0.30	0.04

(12) The 18,000,000 options in series 12 comprised 15,500,000 were issued to Directors under the Directors Share Option Plan, 2,100,000 were issued to employees under the Employee Share Option Plan which vest one year from grant date and 400,000 options were issued to service providers which vest one year from grant date. The vesting condition for employees are for the employee to be a current employee of the Group and the vesting condition for the service providers is for the service provider to still be able to provide services. 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.

(13) The 400,000 options in series 13 were issued to employees under the Employee Share Option Plan which vest one year from grant date.

The weighted average fair value of the share options granted during the period is \$0.04.

The weighted average contractual life for options outstanding at the end of the period was 2.57 years.

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

	31 December 2019
	\$
Options issued under Directors Option Plan	669,982
Options issued under Employee Share Plan	57,275
Options issued under Service Provider Plan	24,746
	<u>752,003</u>

Options granted during the half year ended 31 December 2019, were priced using a Black-Scholes option pricing model using the inputs below:

	Series 12	Series 13
Grant date share price	0.115	0.115
Exercise price	0.30	0.30
Expected volatility	80%	80%
Option life	4 years	4 years
Dividend yield	0.00%	0.00%
Interest rate	0.86%	0.86%

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

NOTE 8. SHARE BASED PAYMENTS (CONTINUED)

The following reconciles the outstanding share options granted in the half year ended 31 December 2019:

	31 December 2019 Number of Options	31 December 2019 Weighted average exercise price \$	31 December 2018 Number of Options	31 December 2018 Weighted average exercise price \$
Balance at the beginning of the period	53,200,000	0.34	50,750,000	0.35
Granted during the period	18,400,000	0.30	2,900,000	0.14
Exercised during the period	-	-	-	-
Expired/cancelled during the period (i)	(29,800,000)	0.31	(300,000)	0.23
Balance at the end of the period	41,800,000	0.34	53,350,000	0.28
Un-exercisable at the end of the period	2,950,000	0.30	2,900,000	0.14
Exercisable at end of the period	38,850,000	0.34	50,450,000	0.35

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

For the half year ended 31 December 2019, 1,150,000 service provider options had expired, 4,900,000 employee share options had expired or were cancelled due to staff resignation and 23,750,000 Director options had expired.

NOTE 9. RELATED PARTIES

During the half year ended 31 December 2019, options were issued to the following Directors and Key Management Personnel:

	Grant Date	Number of Options	Share Based Payments \$
Management			
Mark Bennett	12 Nov 2019	6,000,000	259,348
Anna Neuling	12 Nov 2019	4,500,000	194,511
Jeff Dowling	12 Nov 2019	3,000,000	129,674
Grey Egerton-Warburton	12 Nov 2019	2,000,000	86,449
		15,500,000	669,982

Other than the Key Management Personnel stated above, there were no new related party transactions for the half year ended 31 December 2019.

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Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

NOTE 10. EVENTS OCCURRING AFTER THE REPORTING DATE

There has been no matter or circumstance that has arisen since 31 December 2019 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; or
- the Group's state of affairs in future financial years.

NOTE 11. 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 2019 \$	31 December 2018 \$
(5,461,228)	(4,220,474)

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

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

31 December 2019 Number	31 December 2018 Number
247,915,179	247,915,179

(c) Loss per share

Basic loss per share

31 December 2019 Cents	31 December 2018 Cents
(2.20)	(1.70)

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

NOTE 12. COMMITMENTS AND CONTINGENCIES

Commitments

There were no material changes to the Group's commitments since 30 June 2019.

Contingencies

For the half year ended 31 December 2019, there were no contingencies to disclose for the Group.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

NOTE 13. SUBSIDIARIES

Name of entity	Country of incorporation	Class of Shares	2019	2018
Southern Star Exploration 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%	100%
Nevada Star Exploration LLC	USA	Ordinary	100%	100%
S2 Exploration Quebec Inc.	Canada	Ordinary	100%	100%

NOTE 14. NEW STANDARDS ADOPTED

AASB 16 Leases

Impact on operating leases

AASB 16 Leases supersedes AASB 117 Leases. The Group has adopted AASB 16 from 1 July 2019 which has resulted in changes classification, measurement and recognition leases. The changes result in almost all leases where the Company is the lessee being recognised on the Consolidated Statement of Financial Position and removes the former distinction between 'operating and 'finance leases'. The new standard requires recognition of a right-of-use asset (the leased item) and a financial liability (to pay rentals). The exceptions are short-term, and low value leases.

The Group has adopted AASB 16 using the modified retrospective approach under which the reclassifications and the adjustments arising from the new leasing rules are recognised in the opening Condensed Statement of Financial Position on 1 July 2019. There is no initial Impact on retained earnings under this approach. The Group has not restated comparatives for the 2019 reporting period.

The Group leases various premises, plant and equipment. As at 30 June 2019, leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, where the Company is a lessee, the Group recognised a right-of-use asset and a corresponding liability at the date which the lease asset is available for use by the Group. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease payments are discounted using an interest rate implicit in the lease, If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate the lessee would have to pay to borrow funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Extension options are included in property leases across the Group. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

On initial application right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Consolidated Statement of Financial Position as at 30 June 2019.

There were no onerous lease contracts that required an adjustment to the right-of-use assets of initial application.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 5%.

In the statement of cash flows, the Group has recognised cash payments for the principal portion of the lease liability within financing activities, cash payments for the interest portion of the lease liability as interest paid within operating activities and short-term lease payments and payments for lease of low-value assets within operating activities.

Extension and termination options are included in property leases across the Group and are an area of judgement. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). As at 1 July 2019 the financial effect of revising lease terms to reflect the effect of exercising extension options was an increase in recognised lease liabilities and right-of-use assets of \$110,888.

Right-of-use asset

The recognised right-of-use asset relate to the following types of assets:

	31 December 2019
	\$
Property leases	258,153
IT Equipment	26,251
	<u>284,404</u>

Lease liability

	31 December 2019
	\$
Current lease liabilities	92,199
Non-current lease liabilities	196,601
	<u>288,800</u>

Impact

The change in accounting policy resulted in an increase of a right-of-use asset of \$315,901 and a corresponding lease liability of \$317,001 in respect of all these leases, other than short-term leases and leases of low-value assets as at 1 July 2019.

The net impact on retained earnings on 1 July 2019 was \$nil.

Notes to the Consolidated Financial Statements

for the half year ended 31 December 2019

Practical expedients applied

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases, with no right-of-use asset nor lease liability recognised; and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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Directors' Declaration

The Directors of the Company declare that:

1. The interim financial statements and notes set out on pages 6 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 2019 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
Perth
10 March 2019

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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 2019, 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, 10 March 2020

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 2019, 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 2019 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 2019 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.

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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

BDO
J Prue

Jarrad Prue

Director

Perth, 10 March 2020