



**ACN 149 637 016**

**Interim Financial Report**

**31 December 2013**

**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**  
**Consolidated Interim Financial Report 31 December 2013**

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**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**  
**Consolidated Interim Financial Report 31 December 2013**

**Corporate Directory**

**Directors**

Craig Burton  
Non-Executive Chairman

Grant Davey  
Managing Director

Evan Cranston  
Non-Executive Director

Didier Murcia  
Non-Executive Director

**Company Secretary**

Sophie Raven

**Registered Office and Principal Place of Business**

Level 7, 1008 Hay Street  
Perth WA 6000

Tel: +61 8 9389 2000

Fax: +61 8 9389 2099

**Auditors**

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

**Solicitors**

Hardy Bowen Lawyers  
Level 1, 28 Ord Street  
West Perth WA 6005

**Share Registry**

Link Market Services Limited  
Ground Floor,  
178 St Georges Terrace  
Perth WA 6000

**Securities Exchange Listing**

Cradle Resources Limited shares are listed on the Australian Securities Exchange (ASX)

ASX Code: CXX, CXXO

**Website**

[www.cradleresources.com.au](http://www.cradleresources.com.au)

## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Directors' Report

The Board of Directors of Cradle Resources Limited ("the Consolidated Entity" or "the Company") has pleasure in presenting its report on the Company for the half-year ended 31 December 2013.

#### Directors and Company Secretary

The names of the Directors and Company Secretary in office at any time during or since the end of the report period are:

Craig Burton	Non-Executive Chairman	<i>Appointed 16 September 2013</i>
Michael Ashforth	Non-Executive Chairman	<i>Resigned 16 September 2013</i>
Grant Davey	Managing Director	<i>Appointed 24 July 2013</i>
Evan Cranston	Non-Executive Director	
Brendan Cummins	Non-Executive Director	<i>Resigned 14 August 2013</i>
Didier Murcia	Non-Executive Director	<i>Appointed 14 August 2013</i>
Sophie Raven	Company Secretary	

#### Financial Results

The net loss of the Company after income tax for the financial period amounted to \$3,553,408 (31 December 2012: \$252,496).

The Company has not reached a stage in its development where it is generating an operating profit. All of the Company's efforts go into project exploration and development.

At the end of the financial period the Company had cash on hand of \$754,397 (30 June 2013: \$412,002). More information on the operating results, financial position and cash flow movements are included in the Financial Statements.

#### Dividends

No dividend has been declared or paid by the Company since the start of the financial period and the Directors do not at present recommend a dividend.

The consolidated entity consists of Cradle Resources Ltd and the entities it controlled at any time during the period.

# CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

## Consolidated Interim Financial Report 31 December 2013

### Directors' Report

#### Review of Operations

##### Technical Activity

##### *General Project Update*

The Scoping Study progress as at the end of the half year shows that the activities are ahead of schedule and that the final study documentation required for the Scoping Study should be completed by the end of January 2014. All major activities have been completed with no critical issues identified and the focus for the remaining period is the finalisation of the Report. A total of 12,862 hours have been worked on the project with "earned value" for the project at 27 December 2013 of 98%. A high level tracking schedule is shown in Figure 1.

Study costs are being well managed and are in line with budget forecasts.

Panda Hill Niobium Project.										
Study Activities	Target End Date	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March
Study Kick-off	01/07/2013	◆								
Resource Drilling Program	04/09/2013	■	■	■						
Core sampling & assaying	04/10/2013		■	■	■					
Geology & Mine Planning	30/11/2013			■	■	■	■			
Metallurgical Testwork	30/11/2013			■	■	■	■			
Engineering	19/12/2013				■	■	■	■		
Reporting	31/01/2014						■	■	■	
Study Complete	31/01/2014								◆	

Figure 1: Panda Hill Preliminary Economic Assessment Schedule

##### *Exploration and Mineral Resource Activity*

Activities during this period focused on the validation and analysis of the assay data from the July/August 2013 drilling program at Panda Hill and updating the resource estimate. An upgraded resource was produced by the independent mining consultants, Coffey Mining, and was announced on 8 November 2013; the updated resource consisted of 81.8Mt @ 0.52% Nb<sub>2</sub>O<sub>5</sub> (5.4Mt @ 0.54% Nb<sub>2</sub>O<sub>5</sub> Indicated and 76.4Mt @ 0.51% Nb<sub>2</sub>O<sub>5</sub> Inferred).

##### *Mining and Engineering Activity*

During the second and third quarters, the mining work focused on the geotechnical interpretation of the logs from the drill core. These were used to define the pit slope angles which were an input to generating the optimised pit shell (58Mt mill feed at 0.56%Nb<sub>2</sub>O<sub>5</sub>). From this pit shell a number of mine schedules were developed for various scenarios. The mine schedules showed that a mill feed for the first 5 years of production of between 0.64% and 0.70% Nb<sub>2</sub>O<sub>5</sub> is possible (0.59% to 0.68% Nb<sub>2</sub>O<sub>5</sub> for the first 10 years).

Milling and flotation testwork on the drill core samples (primary carbonatite material) was completed along with the mineralogy on the various feed samples. Mineralogy work and some preliminary testwork were also undertaken on two weathered carbonatite samples added to the program after the conclusion of the resource estimate.

The detailed mineralogy work (QEMSCAN) shows that in general the samples associated with the primary material is well liberated niobium at a relatively coarse grind with potential for high recovery at high niobium grades in the concentrate. The weathered materials are not as well liberated and will require a finer grind to achieve the high grade concentrate. Losses to slimes may also be higher than that seen in the primary materials and this could reduce overall recoveries for these materials.

## **CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

### **Consolidated Interim Financial Report 31 December 2013**

#### **Directors' Report**

The grindability tests show that the milling characteristics of the primary materials are medium to moderately soft and as such the required mill power for grinding will be low.

23 open circuit flotation tests were completed on various samples, with the majority of the work carried out on the fresh carbonatite material types which are the major niobium bearing ores in the deposit. Three locked cycle flotation tests were also carried out on these fresh carbonatites. The testwork results indicate that for the primary materials a niobium recovery of 65% can be expected with an Nb<sub>2</sub>O<sub>5</sub> grade of 50% in the final flotation concentrate. Indications for the weathered material are the niobium recoveries will be 50% with a similar concentrate grade.

Concentrate cleaning, via a hydrochloric acid leach step, was also investigated and preliminary results show that the concentrate can be cleaned and further upgraded via this process.

The preliminary process engineering and plant / infrastructure design was completed during the period and this information used to generate the operating and capital cost estimates.

Engineering activities concluded during the period were:

- preliminary location studies for the tailings storage facility and process plant
- design of the tailings storage facility
- comminution circuit design
- process flow diagrams
- process mass balance
- site water balance
- process design criteria
- mechanical equipment lists
- preliminary electrical design
- general arrangement and site layout drawings
- operating cost estimate
- capital cost estimate

#### ***Social and Environmental Activities***

Progress was also made during the half year period with respect to the Environmental & Social Impact Assessment (ESIA), including the completion of the preliminary field activities. As part of these activities the environmental consultant, MTL Consulting, held a series of consultative meetings with local parties to update them on the project and to obtain feedback relating to their concerns and expectations. The following parties were involved in these meetings:

- Mbeya Regional Office
- Mbeya Rural District officials
- Lake Rukwa Basin Water officials
- South Western Zone Mining officials
- OSHA - Southern Highlands Zone officials
- Government Laboratory
- Songwe Prison
- Mbozi District Council
- Mbozi District Commissioner
- Bonda la Songwe Ward
- Isuto Ward
- Songwe Viwandi, Malowe, Kasele, Idiga, Shisonto and Lusungo Villages
- Songwe Water Company
- Mbeya Cement Factory

Feedback was positive with some minor issues relating to water and access to facilities raised. All of these have been noted and activities in the next phase of the study have been included to address them.

## **CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

### **Consolidated Interim Financial Report 31 December 2013**

#### **Directors' Report**

The ESIA Scoping Study and ESIA Terms of Reference (ToR) were completed based on the information gathered from the field trip and submitted to the Tanzanian National Environmental Management Council (NEMC) for approval, which was granted in December 2013, allowing the full ESIA study to start. The first step of this will be the dry season baseline study which will commence with the start of the Prefeasibility Study (~ Q2 2014).

#### **Competent Person's Statement**

The information in this document that relates to Exploration Results and Resources is based on information compiled or reviewed by Mr Neil Inwood who is a Fellow of The Australasian Institute of Mining and Metallurgy and a Member of the Australian Institute of Geoscientists. Mr Inwood is a full time employee of Verona Capital Pty Ltd. Mr Inwood has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Inwood consents to the inclusion in this document of the matters based on his information in the form and context in which it appears.

#### ***Events Subsequent to Reporting Date***

- Positive results were achieved on the mineralogy testwork (as announced on 16 January 2014); and
- The Scoping Study Report was finalised, with highly positive results being achieved (as announced on 30 January 2014).
- The milestone triggering conversion of (i) the Class A Performance Shares to ordinary shares, and (ii) Tranche 1 of the Performance Rights, was completed.

There are no other significant changes in the state of affairs of the Company after the reporting date.

**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

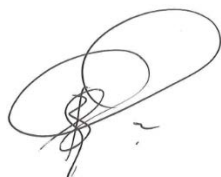
**Consolidated Interim Financial Report 31 December 2013**

**Directors' Report**

**Auditors' Independence Declaration**

We have obtained the following independence declaration from our auditors, Ernst & Young.

Signed in accordance with a resolution of Directors.

A handwritten signature in black ink, consisting of several overlapping loops and a final downward stroke, positioned above the name Grant Davey.

**Grant Davey**

Managing Director

Signed at Perth, Western Australia this 14 day of March 2014





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## Auditor's Independence Declaration to the Directors of Cradle Resources Limited.

In relation to our review of the financial report of Cradle Resources Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Gavin Buckingham  
Partner  
14 March 2014

**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

**Consolidated Interim Financial Report 31 December 2013**

**Consolidated Statement of Profit or Loss and Other Comprehensive Income**

For the half year ended 31 December 2013

	Note	CONSOLIDATED GROUP	
		31-Dec-13 \$	31-Dec-12 \$
<b>Revenue</b>	4	<b>11,251</b>	<b>33,700</b>
<b>Expenses</b>			
Administration		(286,000)	(84,520)
Depreciation and amortisation expense		-	(428)
Professional fees		(382,549)	(48,681)
Directors fees		(13,751)	(35,987)
Exploration and evaluation expenditure		(2,053,991)	(7,004)
Employee benefits expense		(66,275)	(109,576)
Share based payment expense	10c	(69,023)	-
Net foreign exchange gains		10,055	-
Loss on remeasurement of financial liability	8	(703,125)	-
<b>Net loss before tax</b>		<b>(3,553,408)</b>	<b>(252,496)</b>
Income tax expense		-	-
<b>Loss after income tax benefit for the period attributable to the owners of Cradle Resources Limited</b>		<b>(3,553,408)</b>	<b>(252,496)</b>
Other comprehensive income for the period, net of tax		-	-
<b>Total comprehensive income for the period attributable to the owners of Cradle Resources Limited</b>		<b>(3,553,408)</b>	<b>(252,496)</b>
Loss per share			
Basic earnings / (loss) per share (cents)		(3.90)	(0.65)
Diluted earnings / (loss) per share (cents)		(3.90)	(0.65)

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

**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

**Consolidated Interim Financial Report 31 December 2013**

**Consolidated Statement of Financial Position**

As at 31 December 2013

		CONSOLIDATED GROUP	
		31-Dec-13	30-Jun-13
		\$	\$
<b>Assets</b>	<b>Note</b>		
<b>Current assets</b>			
Cash and cash equivalents	5	754,397	412,002
Trade and other receivables		95,971	3,517,644
Prepayments		27,077	16,500
<b>Total current assets</b>		<b>877,445</b>	<b>3,946,146</b>
<b>Non-current assets</b>			
Exploration and evaluation	6	224,100	224,100
Interest in joint venture	7	13,114,412	-
<b>Total non-current assets</b>		<b>13,338,512</b>	<b>224,100</b>
<b>Total assets</b>		<b>14,215,957</b>	<b>4,170,246</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		1,193,802	48,023
Accrued expenses	9	299,208	123,990
Contingent consideration	8	1,687,500	-
Provisions		10,266	-
<b>Total current liabilities</b>		<b>3,190,776</b>	<b>172,013</b>
<b>Total liabilities</b>		<b>3,190,776</b>	<b>172,013</b>
<b>Net assets</b>		<b>11,025,181</b>	<b>3,998,233</b>
<b>Equity</b>			
Issued share capital	10a	13,321,741	5,079,783
Issued share options	10b	287,391	127,391
Performance shares 'A' class		2,109,375	-
Share based payment reserve	10c	69,023	-
Accumulated losses	11	(4,762,349)	(1,208,941)
<b>Total equity</b>		<b>11,025,181</b>	<b>3,998,233</b>

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

**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

**Consolidated Interim Financial Report 31 December 2013**

**Consolidated Statement of Changes in Equity**

For the half year ended 31 December 2013

	Issued share capital \$	Issued share options \$	Performance 'A' shares \$	Share based payment reserve \$	Accumulated Losses \$	Total Equity \$
<b>Balance as at 30 June 2012</b>	2,689,151	127,391	-	-	(560,579)	2,255,963
Other comprehensive income for the period, net of tax	-	-	-	-	-	-
Loss after income tax expense for the period	-	-	-	-	(252,496)	(252,496)
<b>Total comprehensive loss for the period</b>	-	-	-	-	<b>(252,496)</b>	<b>(252,496)</b>
Transactions with owners in their capacity as owners:						
Issue of share capital, net of transactions costs	2,391,231	-	-	-	-	2,391,231
Issue of options, net of transaction costs	-	-	-	-	-	-
<b>Balance as at 31 December 2012</b>	<b>5,080,382</b>	<b>127,391</b>	-	-	<b>(813,075)</b>	<b>4,394,698</b>

	Issued share capital \$	Issued share options \$	Performance 'A' shares \$	Share based payment reserve \$	Accumulated Losses \$	Total Equity \$
<b>Balance as at 30 June 2013</b>	5,079,783	127,391	-	-	(1,208,941)	3,998,233
Other comprehensive income for the period, net of tax	-	-	-	-	-	-
Loss after income tax expense for the period	-	-	-	-	(3,553,408)	(3,553,408)
<b>Total comprehensive loss for the period</b>	-	-	-	-	<b>(3,553,408)</b>	<b>(3,553,408)</b>
Transactions with owners in their capacity as owners:						
Issue of performance shares	-	-	2,109,375	-	-	2,109,375
Share based payments	-	-	-	69,023	-	69,023
Issue of share capital, net of transactions costs	8,241,958	-	-	-	-	8,241,958
Issue of options, net of transaction costs	-	160,000	-	-	-	160,000
<b>Balance as at 31 December 2013</b>	<b>13,321,741</b>	<b>287,391</b>	<b>2,109,375</b>	<b>69,023</b>	<b>(4,762,349)</b>	<b>11,025,181</b>

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

**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

**Consolidated Interim Financial Report 31 December 2013**

**Consolidated Statement of Cash Flows**

For the half year ended 31 December 2013

		<b>CONSOLIDATED GROUP</b>	
		<b>31-Dec-13</b>	<b>31-Dec-12</b>
<b>Note</b>		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
	Payments to suppliers (inclusive of GST)	(491,957)	(286,272)
	Interest received	53,475	33,700
	Interest and other finance costs paid	(988)	(15)
	Payments for exploration and evaluation	(1,464,650)	-
	<b>Net cash used in operating activities</b>	<b>(1,904,120)</b>	<b>(252,587)</b>
<b>Cash flows from investing activities</b>			
	Acquisition of cash in subsidiary acquired	92,475	-
7	<b>Net cash from investing activities</b>	<b>92,475</b>	<b>-</b>
<b>Cash flows from financing activities</b>			
	Gross proceeds from issue of shares and options	2,360,000	2,400,000
	Share issue costs	(205,542)	(24)
	<b>Net cash from financing activities</b>	<b>2,154,458</b>	<b>2,399,976</b>
	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>342,813</b>	<b>2,147,389</b>
	<b>Cash and cash equivalents at the beginning of the financial period</b>	<b>412,002</b>	<b>2,047,785</b>
	Effects of exchange rate changes on the balances held in foreign currencies	(418)	-
	<b>Cash and cash equivalents at the end of the financial period</b>	<b>754,397</b>	<b>4,195,174</b>
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The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

## **CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

### **Consolidated Interim Financial Report 31 December 2013**

#### **Notes to the Condensed Consolidated Financial Statements**

For the half year ended 31 December 2013

##### **NOTE 1: CORPORATE INFORMATION**

The interim financial statements of Cradle Resources Limited (“the Company”) for the six months ended 31 December 2013 were authorised for issue in accordance with a resolution of the Directors on 14 March 2014.

Cradle Resources Limited is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Stock Exchange from 16 September 2011.

The nature of the operations and principal activities of the Company are mineral exploration and project development.

##### **NOTE 2: BASIS OF PREPARATION AND ACCOUNTING POLICIES**

###### **Statement of Compliance**

The half-year financial report is a general purpose condensed financial report prepared in accordance with the Corporations Act 2001 and AASB 134 ‘Interim Financial Reporting’. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the group’s position and performance since the consolidated financial statements as at and for the year ended 30 June 2013.

###### **Going Concern**

The Company’s cash flow forecasts for the period ending 31 March 2015 show that the Company will need to raise additional working capital to complete its feasibility studies and meet its other committed project and administrative expenditure over this period, and thus continue to operate as a going concern.

The Group had a working capital deficiency of \$625,831 at 31 December 2013 (after adjusting for the contingent consideration to be settled via shares), and cash on hand at that date of \$754,397.

The Directors however consider it appropriate to prepare the financial statements on a going concern basis and have based this consideration on the following pertinent matters:

- The Group is in the process of finalising a capital raising through an equity placement to a number of private equity funds to raise a minimum of US\$5 million;
- A number of the Group’s creditors have confirmed that repayment of amounts owing to date will not be requested until the proposed capital raising completes; and
- One of the Group’s creditors has undertaken to provide the Group with a working capital loan to enable it to continue to meet its debts as and when they fall due and reduce its working capital deficiency until such time that the capital raising has completed.

Should the matters set out above not be achieved, there is significant uncertainty as to whether the Company will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the Statement of Financial Position.

The financial statements of the Group do not contain any adjustments relating to the recoverability and classification of recorded assets nor to the amounts or classification of liabilities that may be necessary should the Group not continue as a going concern.

###### **Basis of Preparation**

The interim financial statements have been prepared on the basis of historical cost, except for financial instruments carried at fair value. Cost is based on the fair values of the consideration given in exchange for 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 2013 annual financial report for the financial year ended 30 June 2013, except for the impact of the new and amended Standards and Interpretations described below.

## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

##### a) Changes in accounting policies

###### **New Standards, Interpretations and Amendments thereof**

The Group had to change some of its accounting policies as the result of new or revised accounting standards which became effective for annual reporting periods commencing on 1 July 2013.

The adoption of the new policies did not have a significant impact on the financial position or performance of the Group.

###### *Joint Arrangements – AASB 11*

The implementation of AASB 11 has not resulted in the group having to change its accounting policy on past arrangements. The Group's joint arrangement was put in place during the current half-year period to 31 December 2013 (refer note 7), and this new standard has thus been implemented. Accordingly the Group has adopted the following policy to account for its joint arrangements:

Joint arrangements are classified as either joint operations or joint ventures. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Investments in joint ventures are accounted for under the equity method and are initially recognised at cost. The cost of the investment includes transaction costs. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity accounted interests after adjustments, to align the accounting policies with those of the Group, from the date that joint control commences until the date that joint control ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

###### *Other New and Amended Accounting Standards and Interpretations*

Other new standards that are applicable for the first time for the December 2013 half-year report are AASB 10 *Consolidated Financial Statements*, AASB 13 *Fair Value Measurement*, AASB 19 *Employee Benefits (Revised 2011)*, AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*, AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*. These standards have introduced new disclosures for the interim report but did not affect any of the amounts recognised in the financial statements.

##### **Segment Reporting**

The Group has identified its operating segments based on the internal reports that are reviewed and used by the chief operating decision maker. The chief operating decision maker, who is responsible in assessing the performance and determining the allocation of resources of the operating segments, is considered to be the Board of Directors.

Following completion of the successful acquisition of Panda Hill Mining Pty Ltd (refer note 7), the Company gained an interest in Niobium exploration in Tanzania, in addition to its existing interest in the Illmenite Wyloo tenement in the Pilbara.

Discrete financial information is presented for the Company as a whole. Accordingly, the Board of Directors considers that its business operates in one segment, being that of mineral exploration.

## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

##### NOTE 3: FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

- (a) All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: Quoted prices (unadjusted in active markets for identical assets or liabilities (level 1).
- (b) Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly or indirectly (level 2).
- (c) Inputs for asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table present the Group's financial assets and liabilities measured and recognised at fair value at 31 December 2013 and 30 June 2013.

Half-year to 31 December 2013	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>Financial liabilities</b>				
Financial liabilities designated at fair value through profit or loss:				
Contingent consideration	-	-	1,687,500	1,687,500
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,687,500</b>	<b>1,687,500</b>

##### 30 June 2013

There were no financial assets or liabilities measured and recognised at fair value in this period.

##### a) Valuation techniques used to derive level 3 fair values

The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The contingent consideration was valued by applying the probability weighted payout approach as described in note 8. Also refer to note 8 for a reconciliation of the movement for the period.

##### b) Fair values of other financial instruments

The group also has a number of financial instruments that are not measured at fair value in the balance sheet. The carrying value of cash, trade receivables and payables is a reasonable approximation of their fair values due to their short-term nature.

##### NOTE 4: REVENUE

	31 December 2013	31 December 2012
	\$	\$
Interest	11,251	33,700
<b>Total revenue</b>	<b>11,251</b>	<b>33,700</b>



## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

##### NOTE 5: CURRENT ASSETS - CASH AND CASH EQUIVALENTS

For the purpose of the interim statement of cash flows, cash and cash equivalents are comprised of the following:

	31 December 2013	30 June 2013
	\$	\$
Cash at bank	754,397	412,002

##### NOTE 6: NON-CURRENT ASSETS - EXPLORATION AND EVALUATION

	31 December 2013	30 June 2013
	\$	\$
Opening balance at the beginning of the period	224,100	213,220
Additions	-	10,880
Exploration and evaluation - at cost	224,100	224,100

The recoverability of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

##### NOTE 7: ACQUISITION OF PANDA HILL MINING PTY LTD AND INTEREST IN JOINT VENTURE

###### 31 December 2013

On 3 April 2013 Cradle Resources Ltd ('Company') announced it had executed a Share Sale Agreement to acquire all the share capital of Panda Hill Mining Pty Ltd ('Panda Hill') in consideration of the issue of Shares and Performance Shares in the Company to the Vendors. On 26 July 2013, the company announced that the conditions precedents to the transaction were met and that the share sale agreement had been completed.

Share securities were issued for the purchase consideration on 23 July 2013. The salient terms of the agreement were as follows:

###### Consideration

Panda Hill holds:

- A 49% shareholding in RECB Limited ('RECB') which it acquired for US\$3,340,000. RECB owns 100% of the Panda Hill Project, which comprises the Panda Hill Licences and related data. RECB has no other material assets or liabilities.
- An option to acquire a further 1% shareholding in RECB which was granted for a fee of US\$30,000 and is exercisable for an additional US\$30,000, subject to certain regulatory approvals.
- The right to acquire the remaining 50% of RECB (or to acquire 100% of the Panda Hill project assets directly) under the Option Agreement. Under this agreement, Panda Hill will sole fund the Panda Hill Project expenditure for up to four years. Panda Hill must complete a bankable feasibility study (BFS) in respect of the Panda Hill Licences, within a timeframe agreed between both parties, and spend a minimum of US\$2.5 million per annum on the BFS. The balance 50% of the Panda Hill Project can be acquired by Panda Hill at any time during this four year period for US\$17,100,000 less 25% of Panda Hill Project expenditure funded by Panda Hill (capped at a US\$5,000,000 reduction). Panda Hill can elect to pay US\$5,000,000 of the net purchase price in non-cash consideration, being either listed shares or a capped royalty, with the balance payable in cash.

## **CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

### **Consolidated Interim Financial Report 31 December 2013**

#### **Notes to the Condensed Consolidated Financial Statements**

For the half year ended 31 December 2013

Under the Option Agreement, Panda Hill has management control of the Panda Hill Mining Project during the four year period, which is within the scope of the work programs relating to the relevant activities of the joint venture as agreed by both Shareholders. Further, there is a Shareholders' agreement that protects Panda Hill's position as a Shareholder of RECB, with significant decisions requiring the approval of both Shareholders. However, prior to the expiry or exercise of the Option Agreement, the other RECB Shareholder will have sole responsibility for directing the decisions of RECB in relation to the Option Agreement; the management of its other activities (i.e. other than those related to the Option Agreement) are managed and operated by the corporate managers of RECB; these activities, prior to and following the expiry and exercise of the Option Agreement, are funded by way of interest free loans from the RECB shareholders, repayable from the proceeds of the Option Agreement, or otherwise from production from the Mining Property (being the Mining Information and the Mineral Rights).

As all significant decisions relating to the relevant activities of RECB effectively require the approval of both Shareholders, the Group has assessed that it has joint control over RECB.

The securities issued as consideration for the acquisition are as follows:

- (i) 37,500,000 Shares;
- (ii) 18,750,000 Class A Performance Shares; and
- (iii) 18,750,000 Class B Performance Shares.

The 37,500,000 Performance Shares issued by the Company to the Vendors are convertible to ordinary Shares as follows:

- a) 18,750,000 Class A Performance Shares subject to completion of a scoping study including metallurgical work and confirmatory drilling to the reasonable satisfaction of the independent Directors of the Company as evidenced by a decision to proceed with work on the Panda Hill Project; and
- b) 18,750,000 Class B Performance Shares subject to completion of a definitive feasibility study on the Panda Hill Project which demonstrates a net present value of US\$400 million or greater (assuming a 10% discount rate and long term market contract price). There is a pro-rata conversion if the net present value is between US\$300 million and US\$400 million.

#### *Loan to Panda Hill*

The Company provided a loan facility to Panda Hill to be applied towards advancing the priority interest in the projects up to completion of the acquisition. The loan was interest-free and unsecured. At acquisition date, the loan was drawn to \$611,954.

## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

##### *Fair value of net assets acquired*

This transaction was accounted for as an asset acquisition that principally involved the acquisition of an interest in a joint venture. The following amounts have been recognised in the interim financial report in relation to the acquisition of Panda Hill:

	\$
<b><i>Identifiable assets acquired</i></b>	
Cash and cash equivalents	92,475
Other receivables	18,147
Interest in joint venture	13,114,412
<b>Total identifiable assets acquired</b>	<b>13,225,034</b>
<b><i>Identifiable liabilities acquired</i></b>	
Trade and other payables	(93,003)
<b>Total identifiable liabilities acquired</b>	<b>(93,003)</b>
<b>Total net assets acquired</b>	<b>13,132,031</b>
<b><i>Consideration</i></b>	<b>\$</b>
<b><i>Paid consideration</i></b>	
Fully paid ordinary shares in the Company	
- 37.5 million shares at \$0.15 per share	5,625,000
- 18.75 million Class A performance shares valued at \$0.11 per performance share (note 7a)	2,109,375
<b><i>Contingent consideration</i></b>	
- 18.75 million Class B performance shares valued at \$0.05 per performance share (note 7b & 8)	984,375
<b><i>Consideration on acquisition</i></b>	
Loan advance for interest in RECB Ltd	3,238,827
Loan advance from Cradle Resources Ltd pre-acquisition	611,954
Shares issued to settle loan advance from Panda Hill	
Lenders	562,500
<b>Total consideration</b>	<b>13,132,031</b>

As a result of the above, the group has a 49% interest in RECB. RECB is a company incorporated in the British Virgin Islands ('BVI') whose principal place of business is in the BVI. Its carrying value is measured using the equity method of accounting. The activities of its 100% owned Panda Hill Project are based in Tanzania.

##### *Reconciliation of interest in joint venture*

	CONSOLIDATED	
	31 December 2013	30 June 2013
	\$	\$
Value of the interest in joint venture acquired	13,114,412	-
Share of post-acquisition profit/loss	-	-
<b>Interest in joint venture</b>	<b>13,114,412</b>	<b>-</b>

## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

##### 31 December 2012

There was no interest in joint ventures in the prior reporting period.

##### NOTE 8: CONTINGENT CONSIDERATION

	31 December 2013	30 June 2013
	\$	\$
18,750,000 Class B Performance Shares	<b>1,687,500</b>	-

The contingent consideration liability arose from the acquisition of RECB Limited (note 7).

The Class B Performance Shares meet the definition of a financial liability because a variable amount of Class B Performance Shares ranging from zero, if the NPV produced by the Definitive Feasibility Study is less than US\$300 million (assuming a 10% discount rate and long term market contract price), to 18,750,000, if the Class B Performance Milestone is met of NPV US\$400 million or greater (assuming a 10% discount rate and long term market contract price), could be converted into fully paid Ordinary Shares at a rate of one ordinary share for every Performance Share that converts.

The determination of the fair value is based on a probability weighted payout approach. The key assumptions take into consideration the probability of meeting each performance target. As part of accounting for the acquisition of Panda Hill, the Class B contingent consideration, with an estimated fair value of \$984,375, was recognised at the acquisition date based on a probability weighted outcome of 35% that its performance condition would be met, and an underlying share price at acquisition date of \$0.15. Following review by the Board it was determined that the probability weighted outcome as at 31 December 2013 had increased to 50%, and as at that date the share price was \$0.18. The increase in value of \$703,125 was taken to the consolidated statement of profit or loss and other comprehensive income. Future developments may require further revisions to the estimate.

##### NOTE 9: CURRENT LIABILITIES – ACCRUED EXPENSES

	31 December 2013	30 June 2013
	\$	\$
Audit fee	10,000	16,000
Tax consultants fee	3,000	3,000
Legal fee	-	24,990
Directors' fee	134,375	50,000
Company secretarial fee	-	30,000
Exploration costs	151,833	-
<b>Total accrued expenses</b>	<b>299,208</b>	<b>123,990</b>

**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**

**Consolidated Interim Financial Report 31 December 2013**

**Notes to the Condensed Consolidated Financial Statements**

For the half year ended 31 December 2013

**NOTE 10: EQUITY – CONTRIBUTED**

	31 December 2013	30 June 2013
	\$	\$
Issued ordinary shares - fully paid	13,321,741	5,079,783
Issued share options	287,391	127,391
<b>Total contributed equity</b>	<b>13,609,132</b>	<b>5,207,174</b>

**a) Movements in ordinary share capital**

Details	No. of shares	Issue price	31 December 2013
			\$
Balance at 30 June 2013	51,500,000	-	5,079,783
Consolidation (three for four basis)	(12,874,983)	-	-
Share issue - 19 July 2013	11,050,000	0.20	2,210,000
Share issue - 23 July 2013	250,000	0.20	50,000
Share issue - 23 July 2013	41,250,000	0.15	6,187,500
Less costs relating to share issue	-		(205,542)
Balance at 31 December 2013	<u>91,175,017</u>		<u>13,321,741</u>

**b) Movements in listed options**

Details	No. of options	Issue price	31 December 2013
			\$
Balance at 30 June 2013	24,000,000	-	127,391
Consolidation (three for four basis)	(5,999,994)	-	-
Options issue – 19 July 2013 <sup>1</sup>	5,650,000	-	-
Options issued – 15 November 2013	2,000,000	0.08	160,000
Balance at 31 December 2013	<u>25,650,006</u>		<u>287,391</u>
<b>Total contributed equity</b>			<b><u>13,609,132</u></b>

<sup>1</sup>Free attaching options issued as part of 19 July 2013 share issue.

**Ordinary shares**

Fully paid ordinary shares carry one vote per share and carry the right to dividends. Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par values. Accordingly, the parent entity does not have authorised capital or par value in respect to its issued shares.

**Options**

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any related body corporate.

	31 December 2013	30 June 2013
	\$	\$
<b>c) Share based payment</b>		
Share based payment during the period	<u>69,023</u>	-

## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

The Company issued 2,625,000 performance rights to certain employees and consultants. The principal terms and conditions of the performance rights include continuous employment with or provision of services to the Company, and the fulfillment of specific project-related milestones.

The performance rights have performance based conditions that are required to be satisfied prior to milestone dates as below. If the performance conditions are achieved by the relevant milestone date the performance rights will vest and the performance rights may be exercised into an equivalent number of shares in the Company in accordance with the performance rights terms and conditions.

Tranche of Performance Rights	Performance Conditions	Description	Number of Performance Rights to be issued	Weighting	Milestone Date	Expiry Date
Tranche 1	Scoping Study Delivery	Delivery of a scoping study by the relevant Milestone Date and the Company making a decision to proceed to Definitive Feasibility Study, evidenced by the Board resolving to continue as such.	787,500	30%	31/03/14	30/09/14
Tranche 2	Definitive Feasibility Study Delivery	Delivery of a positive Definitive Feasibility Study with an NPV10 of >US\$400 million.	1,050,000	40%	30/09/15	30/09/16
Tranche 3	Project Construction Decision	The Company making a decision to proceed to project construction, evidenced by the Board resolving to continue as such.	787,500	30%	30/09/16	30/09/17

The following table lists the inputs to the fair value of the options:

Tranche of Performance Rights	Issue Date	Fair value	Vesting Date	Share based payment value 31 December 2013 \$
Tranche 1	15/11/2013	\$0.22	31/03/2014	58,599
Tranche 2	15/11/2013	\$0.22	30/09/2015	7,768
Tranche 3	15/11/2013	\$0.22	30/09/2016	2,656
				69,023

#### NOTE 11: EQUITY - ACCUMULATED LOSSES

	31 December 2013 \$	30 June 2013 \$
Accumulated losses at the beginning of the period	(1,208,941)	(560,579)
Loss after income tax expense for the period	(3,553,408)	(648,362)
Accumulated losses at the end of the period	<b>(4,762,349)</b>	<b>(1,208,941)</b>

## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

#### NOTE 12: COMMITMENTS AND CONTINGENCIES

##### *Commitments*

Estimated commitments for which no liabilities were included in the financial statements are as follows:

##### **Rental commitments**

	<b>31 December 2013</b>	<b>30 June 2013</b>
	\$	\$
Not later than one year	74,933	41,151
Later than one year and not later than five years	112,297	170,484
<b>Total rental commitments</b>	<b>187,230</b>	<b>211,635</b>

Rental commitments relate to annual rent required over the mining licence for the Panda Hill Mining Project.

##### **Pre-Feasibility and Definitive Feasibility Studies**

It has been estimated by management that USD\$10 million will be committed to for the completion of the feasibility studies on the Panda Hill Mining Project for the period to the end of the third quarter of 2015.

##### **Other Exploration Expenditure Commitments**

	<b>31 December 2013</b>	<b>30 June 2013</b>
	\$	\$
Not later than one year	30,000	20,000
Later than one year and not later than five years	30,000	-
<b>Total exploration expenditure commitments</b>	<b>60,000</b>	<b>20,000</b>

Exploration expenditure commitments are for the Ilmenite Wyloo Tenement.

##### *Contingencies*

There were no contingent liabilities at period end.

#### NOTE 13: RELATED PARTY TRANSACTIONS

##### **a) Transactions with Director related entities**

Directors and officers, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating activities of those entities.

## CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES

### Consolidated Interim Financial Report 31 December 2013

#### Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

Details of the transactions, including amounts accrued but unpaid at the end of the period are as follows:

Entity	Relationship	Nature of transactions	Transactions	Balances
			As at 31 December 2013 \$	As at 31 December 2013 \$
Elgra Consultancy Pty Ltd	(i)	Reimbursement to Elgra for corporate administration costs.	6,315	-
Grant Davey	-	Reimbursement to Grant Davey for corporate administration costs.	40,385	33,506
Erin Resources Ltd	(ii)	Reimbursement to Erin for interest in joint venture cost.	15,038	14,883
Cranston & Sons Pty Ltd (trading as Konkera Corporate)	(iii)	Services rendered by Konkera for corporate administration costs.	46,200	46,200
Saval Consulting Pty Ltd	(iv)	Reimbursement to Saval for interest in joint venture cost.	3,691	4,060
Skye Equity Pty Ltd	(v)	Reimbursement to Skye Equity for corporate administration costs.	38,117	11,995
Verona Capital Pty Ltd	(vi)	Reimbursement to Verona for interest in joint venture cost and corporate administration costs.	453,397	208,551

(i) Elgra Consultancy is a company associated with Mr Grant Davey.

(ii) Erin Resources Ltd ('Erin') is a company associated with Mr Grant Davey who is currently a director of Erin.

(iii) Cranston & Sons Pty Ltd (trading as Konkera Corporate - 'Konkera') is a Company controlled by Evan Cranston's father.

(iv) Saval Consulting Pty Ltd, a company associated with Mr Craig Burton.

(v) Skye Equity Pty Ltd, a company associated with Mr Craig Burton.

(vi) Verona Capital Pty Ltd, a company associated with Mr Grant Davey and Mr Craig Burton.

#### NOTE 14: EVENTS OCCURRING AFTER THE REPORTING DATE

- Positive results were achieved on the mineralogy testwork (as announced on 16 January 2014); and
- The Scoping Study Report was finalised, with highly positive results being achieved (as announced on 30 January 2014).
- The milestone triggering conversion of (i) the Class A Performance Shares to ordinary shares, and (ii) Tranche 1 of the Performance Rights, was completed.

There are no other significant changes in the state of affairs of the Company after the reporting date.



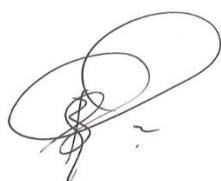
**CRADLE RESOURCES LIMITED AND CONTROLLED ENTITIES**  
**Consolidated Interim Financial Report 31 December 2013**

**Directors' Declaration**

In the Directors' opinion:

1. The interim financial statements and notes, are in accordance with the *Corporations Act 2001* including:
  - a) compliance with Accounting Standards AASB134 Interim financial reporting and the Corporations Regulations 2001; and
  - b) give a true and fair view of the consolidated Group's financial position as at 31 December 2013 and their performance for the period ended on that date; and
2. Subject to the matters as set out in Note 2 to the interim financial statements, there are reasonable grounds to believe that the Group 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 directors, pursuant to s 303(5) of the Corporations Act.



Grant Davey  
Managing Director  
Dated 14 March 2014

To the members of Cradle Resources Limited.

## Independent Review Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Cradle Resources Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Cradle Resources Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim 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 have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

## Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

## Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 2 in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.



Ernst & Young



Gavin Buckingham  
Partner  
Perth  
14 March 2014