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HODGES
Resources Limited

**ABN 40 115 819 479**

# Interim Financial Report

## For The Half Year ended 31 December 2011

**Hodges Resources Limited is an Australian listed exploration company focussed on the discovery and development of mining projects across the globe. Its main projects are located in Botswana, Sweden, Ghana and Australia. For more details, visit www.hodgesresources.com.au.**

**The company was established in 2005, its headquarters are in West Perth, Western Australia and its current Board of directors and Company Secretary comprises:**

| | |
|---|---|
| **DIRECTORS** | Peter Mullens<br>Mark Major<br>Nathan McMahon<br>Bryan Dixon |
| **COMPANY SECRETARY** | Julie Hill |
| **REGISTERED & PRINCIPAL OFFICE** | Level 2, 38 Richardson Street<br>West Perth Western Australia 6005<br>Telephone: +61 (8) 9322 6412<br>Facsimile: +61 (8) 9322 6398 |
| **AUDITORS** | MGI Perth Audit Services Pty Ltd<br>Level 7, The Quadrant<br>1 William Street<br>Perth Western Australia 6000<br>Telephone: +61 (8) 9463 2463<br>Facsimile: +61 (8) 9463 2499 |
| **SHARE REGISTRY** | Advance Share Registry<br>150 Stirling Highway<br>Nedlands Western Australia 6009<br>Telephone: +61 (8) 9389 8033<br>Facsimile: +61 (8) 9389 7871 |
| **BANKERS** | National Australia Bank<br>50 St Georges Terrace<br>Perth Western Australia 6000 |

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The Directors of Hodges Resources Limited ("Hodges" or the "Company") present the financial report of the Company and its controlled entities (the "Group") for the half year ended 31 December 2011. In order to comply with the provisions of the Corporations Act, the directors report as follows:

**Directors**

The names of Directors who held office during or since the end of the half year and until the date of this report are as follows.

| | |
|---|---|
| **Peter Mullens** | Non-executive Chairman (since March 2008) |
| **Mark Major** | Managing Director (since December 2008) |
| **Bryan Dixon** | Non-Executive Director (since August 2005) |
| **Nathan McMahon** | Non-Executive Director (since May 2008) |
| | |
| **Julie Hill** | Company Secretary (appointed 6 September 2011) |
| **Lisa Wynne** | Company Secretary (resigned 6 September 2011) |

The directors were in office for this entire period unless otherwise stated.

**Results**

The loss after tax attributable to members of the parent for the half year ended 31 December 2011 was $743,124 (2010: $352,192).

**Corporate Structure**

Hodges is a company limited by shares that is incorporated and domiciled in Australia. Its listed equity securities are quoted on the Australian Securities Exchange (ASX).

**Review of Operations**

**Corporate**

At the end of the half year ended 31 December 2011, the Company had cash reserves of approximately $3.6 million.

During the period, 1.85 million options were exercised to raise $370,000. There were 300,000 options that were not exercised and expired on 30 November 2011.

**Botswana**

***Moiyabana Coal Project***

The Moiyabana project (PL93 and PL94) is located approximately 70km from the operational Morupule mine and Colliery; the only operational coal fired power plant in Botswana. Historically the area was partially explored by Shell Coal Botswana during the 1970's and Jaquar Ventures (Pty) Ltd, who completed thirteen diamond drill holes during the period 2009-2010.

Based on the results of a Runge Independent geological report, a coal exploration target of around 1.4 to 1.6 billion tonnes could be defined in the 140km2 area of which an estimated 660 million tonnes indicates suitability for open cast mining.

**Update**

As reported on 21 December 2011, the drilling programme has finished at the Company's Moiyabana Coal Project (PL94/2007) in Botswana; with over 6,500m drilled within 69 drill holes.

Once drilled, all holes were logged, selectively sampled and transported to ALS Chemex's Coal laboratory at Witbank, South Africa, for analysis. All samples initially underwent proximate and ultimate analysis to

determine the main coal characteristics. In addition to analyses of the entire interbedded coal sequences, numerous coal seams were selected to undergo float – sink (wash) analysis.

The interbedded nature of the coal seams typically comprises bituminous to sub-bituminous coal seams separated by partings of lower energy value coal and carboniferous shales.

The methodology of undertaking the selective sampling and robust testing of the interbedded coal and partings will allow Hodges to model the coal seams to a higher level and assist to identify higher quality raw coal and that coal which produce better wash yields.

The results found that raw (air dried) values of up to 6,197Kcal/kg are present and that selected coal seams could be washed to a level similar to premium Australian coal quality (i.e. FOB Newcastle/Port Kembla coal = 6,600 Kcal/kg (or 12,000 btu/pound, <1% sulphur, ~14% ash).

All holes which underwent wash testing recorded seams with results above 6,000 Kcal/kg with variable yields ranging from 26% to 76%.

Hodges has started the geological and resource modelling work and the Company expects to have its maiden JORC resource on the project in the first or second quarter of 2012.

***Morupule South Coal Project***

The Morupule South Coal Project is located to the south of the operational Morupule Colliery in central east Botswana. The project consists of one prospecting licence (PL121/2010), covering a total area of 264.4km$^2$ within the eastern central district of Botswana.

GEMECS prepared a Coal Resource Report on prospecting license PL121 on behalf of SDNP Manufacturing Mining & Construction Services (Pty) Ltd in March 2011. In this report they estimated a coal resource for the Morupule South Project area of 414.3Mt for the Morupule Main seam only. This coal resource is classified as a JORC inferred coal resource.

The areas which do not reach the JORC code specifications were estimated by GEMECS as an exploration target in the order of 700 to 800Mt.

**Update**

The reconnaissance drilling programme commenced on 27 September 2011, using Reverse Circulation percussion drill (RC) and diamond core methods. Thirty three (33) holes were completed at the project during 2011 - 9 diamond holes for 715m and 24 RC holes for 2,960m.

All holes completed to date have been drilled vertically. Once drilled, drill holes were routinely wireline logged while recovered drill cores were geologically logged. Selected samples were then sent to Inspectorate M&L (Pty) Ltd Laboratory in Middelburg, South Africa for initial coal quality analysis. As announced on 29 November 2011, after a positive reconnaissance drilling program in the eastern block during late September (press release dated 18 October 2011), which identified numerous shallow thick coal seams, a program of follow-up infill diamond and RC drilling was completed. The initial two diamond core holes of this program (MSD40 & MSD46) were drilled between prior completed RC reconnaissance holes and confirmed the presence of major coal seams suitable for initial coal quality analysis.

Twenty five (25) individual raw coal core samples were selected for analysis on the basis of geological boundaries and have been summarised as weighted averages of composite intersections with the percentage of ash being less than 40%. On the basis of this the following coal seam summary of results were identified.

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**Table 1. Summary of Proximate Analysis of Raw Coal**

| | | | RAW COAL, AIR DRIED BASIS | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Hole ID | From (mBGL) | Seam Thickness (m) | Inherent Moisture % | Ash % | Volatile % | F.C. % | Sulphur % | CV Kcal/kg | CV range Kcal/kg |
| **MSD46** | 33.02 | 3.4 | 4.3 | 29.8 | 20.5 | 45.3 | 1.1 | 4,974 | 4,334 – 5,614 |
| | 39.33 | 0.5 | 5.6 | 24.4 | 20.5 | 49.5 | 0.5 | 5,490 | NR |
| | 44.6 | 10.3 | 2.9 | 36.8 | 18.3 | 42.0 | 0.9 | 4,306 | 2,682 – 4,860 |
| ***Wt. Ave. for Hole*** | | ***14.2*** | ***3.3*** | ***34.7*** | ***18.9*** | ***43.0*** | ***0.9*** | ***4,506*** | |
| **MSD40** | 28.45 | 2.7 | 4.1 | 34.0 | 26.1 | 35.8 | 5.6 | 4,573 | NR |
| | 56.12 | 1.9 | 4.7 | 28.7 | 28.1 | 38.5 | 1.2 | 5,079 | NR |
| | 68.8 | 4.4 | 5.3 | 30.7 | 22.8 | 41.2 | 1.0 | 4,888 | 4,621 – 5,156 |
| | 73.75 | 1.3 | 4.8 | 38.6 | 18.6 | 38.0 | 3.6 | 4,134 | NR |
| | 75.26 | 3.2 | 3.7 | 39.2 | 18.3 | 38.8 | 0.5 | 4,073 | 3,178 – 4,907 |
| | 80.38 | 3.6 | 2.4 | 29.6 | 11.9 | 56.1 | 1.7 | 4,993 | 4,315 - 5,672 |
| ***Wt. Ave. for Hole*** | | ***17.0*** | ***4.1*** | ***32.9*** | ***20.4*** | ***42.5*** | ***1.9*** | ***4,671*** | |

**Ghana**

***Salman South and Mame Gold Projects***

In May 2010, Hodges reached an agreement to acquire a 90% interest in the Salman South and Mame Gold projects located in the southern extensions of the Ashanti Gold Belt, southern Ghana.

The Salman South project is a strategic land holding located approximately 1.5km south of the Adamus Resources ~2.1Moz Nzema Gold Project. The Mame project is located 8km south east of Salman south and 2km south of Adamus Resources Avrebo prospect.

The agreement is contingent on the vendor obtaining approval from the government of the Republic of Ghana to transfer the Prospecting Licenses. Delays have been experienced in this process, and approvals are expected in the first or second quarter of 2012.

**Update**

As reported on 7 November 2011, multiple coherent gold anomalies have been identified following the completion of a systematic soil sampling program at the Company's Salman South and Mame gold exploration projects of which are located along strike from Adamus Resources' Nzema and Avrebo gold projects.

A systematic 3,323 point soil sampling program was completed over the Salman South and Mame projects with all samples undergoing gold analysis at the Intertek Minerals Ltd Laboratories in Tarkwa, Ghana. Sampling covered the full extent of prospecting licences and was designed to test multiple parallel NNE-SSW trending gold-bearing structural zones interpreted to transverse both licences.

The gold in soil anomalies appear to correlate with:

1. known areas of historic gold mining,
2. areas which returned elevated gold intersections from limited historic drilling,
3. new structural corridors or
4. areas located along strike from mineralisation documented as occurring marginal to prospecting licences including Adamus Resources Ltd's Nzema and Avrebo gold projects.

A total of 1,299 samples were collected from the Salman South project along a grid array with 200m north-south and 50m east-west spacing. Interpretation of final results showed that:

1. 10% of soil results returned an average of >0.1g/t Au with a peak value of 3.3g/t Au,
2. four coherent anomalies inferred to be associated with two regional NNE-SSW trending structural corridors have been defined,

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3. one of these anomalies appears to represent the continuation of Adamus Resources' ~2.1MOz Nzema Gold Project mineralisation trend,
4. prior limited historical RC drilling attempting to target this trend, which locally intersected results including: 1m @ 6.8g/t Au (SSRC004), 3m @ 1.03g/t Au(SSRC03) and 3m @ 1.18g/t Au (SSRC010), is interpreted as being poorly located and completed too far to the west of the anomaly trend.

A total of 2,024 samples were collected from the Mame projects along a grid array with 200m or less north-south and 50m or less and approximately east-west spacing. Interpretation of final results showed that:

1. 4% of soil results returned an average of >0.1g/t Au with a peak value of 2.0 g/t Au,
2. six coherent anomalies inferred to be associated with two regional NNE-SSW trending structural corridors or intrusive-wallrock contacts have been defined,
3. selected anomaly trends are interpreted to correlate along strike with Adamus Resources' Avrebo Gold Project,
4. prior shallow RAB drilling, which was located over or adjacent to some of the anomalies identified within the study, returned encouraging shallow intersections including: 3m @ 10.3g/t Au (MARB20), 10m @ 1.5g/t Au (MARB70), 11m @ 1.9g/t Au (MARB100), 14m @ 32 g/t Au (MARB104).

A program of follow-up infill soil sampling and detailed ground magnetic surveying is currently being undertaken to help refine the geometries of higher ranked anomalies and to assist with the ground selection of targets planned for drill testing during 2012.

**Sweden**

Hodges maintains an interest in four uranium projects located in Sweden. Projects are held either outright or through strategic joint ventures agreements with TSX listed Mawson Resources.

Hodges has now successfully completed its farm-in requirements under the terms of the joint venture agreement and is entitled to 47.5% interest. It can earn additional interest in projects by sole funding any project to bankable feasibility level.

Work completed on the projects to date has included ground prospecting, prospect scale mapping, ground scintillometer and ground magnetic surveying, radon cup surveying and diamond drilling.

**Australia**

Nothing significant to report.

**Significant changes in the state of affairs**

There have been no significant changes in the state of affairs of the Group to the date of this report.

**Significant events after balance date**

There has not been any matter or circumstance that has arisen since 31 December 2011 which has significantly affected, or may significantly affect the operations of the Company, the result of those operations, or the state of affairs of the Company in subsequent financial years.

**Likely Developments and Expected Results**

**Exploration activities**

The Company is continuing to investigate opportunities of its mineral assets through exploration activities. These investigation activities cover research and development as well as seeking opportunities to acquire new projects in the natural resources sector.

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**Environmental Regulations & Performance**

The Company's operations are subject to significant environmental regulations under the legislation of the jurisdictions it operates in relation to its mining exploration activities. Company management monitors compliance with the relevant environmental legislation. The Directors are not aware of any breaches of the legislation during the period covered by this report.

**Auditor Independence Declaration**

Section 307C of the Corporations Act 2001 requires our auditors, MGI Perth Audit Services Pty Ltd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the interim financial report. This Independence Declaration is set out on page 9 and forms part of this directors' report for the half year ended 31 December 2011.

This report is signed in accordance with a resolution of the board of directors made pursuant to s 306(3) of the Corporations Act 2001.



**Mark Major**
**Managing Director**
**Perth, 9 March 2012**

***Competent Persons Statements***

*The information contained in the report that relates to Exploration Results, Exploration Targets detailed in the Moiyabana Coal project and the Morupule South Coal Project, is based on information reviewed by Mr. Jeff Claeys, who is an independent consultant for the Company. Mr. Claeys is a Member of the Geological Society of South Africa and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which is being undertaken 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. Claeys has given consent to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this report that relates to the Inferred JORC Coal Resources was compiled by GEMECS (Pty) Ltd and is detailed in a report dated 11 March 2011. The competent person with overall responsibility for the reporting of the Coal Resources is Nico J Denner, Pr.Sci Nat, B.Sc Hons (Geology) of GEMECS (Pty) Ltd who is a fellow of a Recognised Overseas Professional Organisation, the Geological Society of South Africa. Nico Denner has sufficient experience which is relevant to the style of mineralization 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 Denner consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this report that relates to the Ghana and Sweden projects Exploration Results is based on information compiled by Mr Mark Major, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Major 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 Major consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

In the opinion of the directors of Hodges Resources Limited ('the Company'):

1. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
   a. complying with Accounting Standards, AASB134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
   b. giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date.
2. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

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



**Mark Major**
**Managing Director**
**Perth, 9 March 2012**

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**Lead auditor's independent declaration under section 307C of the *Corporations Act 2001***

To the Directors of Hodges Resources Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the halt-year ended 31 December 2011, there have been:

(i) no contraventions of the auditors independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

MGIPAS

**MGI Perth Audit Services Pty Ltd**

Amar Nathwani

**Amar Nathwani B.Eng, CA**
**Director**

Perth
9 March 2012



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| | Note | **Consolidated** 31 December 2011 $ | **Consolidated** 31 December 2010 $ |
|---|---|---|---|
| Revenue from continuing operations | 2(i) | 124,925 | 78,611 |
| Other Income | 2(ii) | 115,832 | 22,250 |
| Expenses | | | |
| Employee benefits | | (294,693) | (104,964) |
| Occupancy | | (36,610) | (31,193) |
| Depreciation | | (3,540) | (1,597) |
| Write down of financial assets at fair value through profit and loss | | (1,500) | - |
| Share based compensation | | (135,612) | - |
| Exploration and evaluation expenditure written off | | (32,746) | (182,232) |
| Compliance and regulatory | | (70,198) | (57,476) |
| Other expenses | 2(iii) | (408,982) | (75,551) |
| **Loss before income tax expense** | | (743,124) | (352,152) |
| Income tax expense | | - | - |
| **Loss after income tax expense** | | (743,124) | (352,152) |
| Other comprehensive income | | - | - |
| **Total comprehensive loss for the year** | | (743,124) | (352,152) |
| Basic and diluted loss per share (cents per share) | | (0.97) | (0.74) |

The accompanying notes form part of these financial statements.

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## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION



As at 31 December 2011

| | Note | Consolidated 31 December 2011 $ | Consolidated 30 June 2011 $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | | 3,554,225 | 5,582,137 |
| Trade and other receivables | 3 | 352,318 | 172,759 |
| Other financial assets | 4 | 750,000 | 3,582,861 |
| Investment in listed entities | 5 | 20,820 | 14,220 |
| **Total Current Assets** | | 4,677,363 | 9,351,977 |
| **Non-Current Assets** | | | |
| Plant and equipment | | 16,119 | 15,657 |
| Other financial assets | 6 | 2,948,693 | - |
| Capitalised exploration expenditure | 7 | 5,139,374 | 3,948,359 |
| **Total Non-Current Assets** | | 8,104,186 | 3,964,016 |
| **Total Assets** | | 12,781,549 | 13,315,993 |
| **Current Liabilities** | | | |
| Trade and other payables | 8 | 91,160 | 392,032 |
| **Total Current Liabilities** | | 91,160 | 392,032 |
| **Total Liabilities** | | 91,160 | 392,032 |
| **Net Assets** | | **12,690,389** | **12,923,961** |
| | | | |
| **Equity** | | | |
| Issued Capital | 9 | 18,369,017 | 17,999,017 |
| Reserves | | 1,618,083 | 1,493,529 |
| Accumulated losses | | (7,296,711) | (6,568,585) |
| **Total Equity** | | **12,690,389** | **12,923,961** |

The accompanying notes form part of these financial statements.

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| | Note | Consolidated 30 December 2011 $ | Consolidated 31 December 2010 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest received | | 132,307 | 77,517 |
| Payments for exploration and evaluation expenditure | | (1,814,316) | (249,610) |
| Payments to suppliers and employees | | (543,077) | (194,907) |
| **Net cash flows used in operating activities** | | **(2,225,086)** | **(367,000)** |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | | (4,002) | (3,153) |
| Payments for purchase of prospects | | (160,000) | - |
| Loans to other entities | | - | (300,000) |
| Proceeds from sale of financial assets held for trading | | - | 25,380 |
| Payments for financial assets held for trading | | (8,100) | (4,000) |
| **Net cash flows used in investing activities** | | **(172,102)** | **(281,773)** |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of shares | | 370,000 | - |
| **Net cash flows from financing activities** | | **370,000** | **-** |
| **Net decrease in cash assets and cash equivalents held** | | **(2,027,188)** | **(648,773)** |
| Net foreign exchange differences | | (724) | - |
| **Cash assets and cash equivalents at the beginning of the financial year** | | **5,582,137** | **3,220,786** |
| **Cash assets and cash equivalents at the end of the financial year** | | **3,554,225** | **2,572,013** |

The accompanying notes form part of these financial statements.

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| | Issued Capital | Accumulated Losses | Other Reserves | Total Equity |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **At 1 July 2011** | 17,999,017 | (6,568,585) | 1,493,529 | 12,923,961 |
| Loss for the year | - | (743,124) | - | (743,124) |
| Share issued (net) | 370,000 | - | - | 370,000 |
| FX reserve | - | - | 3,940 | 3,940 |
| Options issued | - | - | 135,612 | 135,612 |
| Options cancelled | | 14,998 | (14,998) | - |
| **At 31 December 2011** | **18,369,017** | **(7,296,711)** | **1,618,083** | **12,690,389** |
| | | | | |
| **At 1 July 2010** | 8,805,595 | (6,744,908) | 1,928,018 | 3,988,705 |
| Loss for the year | - | (352,152) | - | (352,152) |
| Shares issued (net) | - | - | - | - |
| FX reserve | - | - | 1,081 | 1,081 |
| Options issued | - | - | - | - |
| Options cancelled | - | 1,427,033 | (1,427,033) | - |
| **At 31 December 2010** | **8,805,595** | **(5,670,027)** | **502,066** | **3,637,634** |

The accompanying notes form part of these financial statements.

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## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Corporate Information

The interim financial report of Hodges Resources Limited ('Hodges' or the 'Company') for the half year ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors on 9 March 2012. Hodges is a company limited by shares incorporated and domiciled in Australia whose shares (HDG) are publicly traded on the Australian Securities Exchange. The address of the registered office and principal place of business is Level 2, 38 Richardson Street, West Perth, Western Australia, 6005. The principal activity of Hodges Resources Limited is the exploration and development of mineral resource.

### (b) Statement of Compliance

The interim consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001* and Accounting Standard AASB 134: *Interim Financial Reporting*, accounting interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"). Compliance with AASB 134 ensures compliance with International Financial Reporting Standards IAS34: *Interim Financial Reporting*.

The condensed half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2011 and any public announcements made by Hodges and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

### (c) Basis of preparation

The financial statements are for the consolidated entity consisting of Hodges Resources Ltd and its subsidiaries (the 'Group').

The financial report has also been prepared on an historical cost basis, except for financial instruments at fair value through profit or loss measured at fair value. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian Dollars.

### (d) Financial position

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

As at 31 December 2011, the Group had cash reserves of $3,554,225 and positive working capital of $4,586,203 having recorded a net loss after tax of $743,124 and net cash outflows from operating activities of $2,225,086 for the half year ended 31 December 2011.

The Directors considered that the going concern basis is appropriate. Should the Group proceed with its projects in Botswana, the Group will look to raise additional funds through equity raising or asset sales.

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**(e) Adoption of new and revised standards**

In the half year ended 31 December 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current annual reporting period.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half year ended 30 December 2011. As a result of this review the Directors have determined that there is no material impact or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

**(f) Significant accounting judgements and key estimates**

The preparation of interim financial reports requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing this half-year report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2011.

*Capitalised exploration costs carried forward*

The future recoverability of capitalised exploration costs carried forward has been reviewed by the directors. They are dependent on a number of factors, including whether the Group decides to exploit the related lease/licence itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, sovereign risk, future technological changes, availability of funds, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration expenditure is determined not to be recoverable in the future, results and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable resources. To the extent it is determined in the future that this capitalised expenditure should be written off, results and net assets will be reduced in the period in which this determination is made.

*Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Black and Scholes model, using the assumptions detailed in Note 10.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black and Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in Note 10.

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## 2 REVENUE AND EXPENSES

Loss before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the Group:

| | Note | Consolidated 31 December 2011 $ | Consolidated 31 December 2010 $ |
|---|---|---|---|
| **(i) Revenue** | | | |
| Bank interest receivable | | 124,925 | 78,611 |
| **(ii) Other income** | | | |
| Revaluation gain on other financial assets | | 115,832 | 370 |
| Gain on disposal on other financial assets at fair value through profit and loss | | - | 21,880 |
| | | 115,832 | 22,250 |
| **(iii) Other Expenses** | | | |
| Consultants | | (97,672) | (6,271) |
| Insurance | | (29,145) | (21,775) |
| Other expenses | | (96,185) | (37,850) |
| Travel, accommodation and seminars | | (185,980) | (9,655) |
| | | (408,982) | (75,551) |

## 3 TRADE AND OTHER RECEIVABLES

| | Consolidated 31 December 2011 $ | Consolidated 30 June 2011 $ |
|---|---|---|
| Other debtors | 131,113 | 30,593 |
| Prepayments | - | 13,040 |
| GST/VAT recoverable | 221,205 | 129,126 |
| | 352,318 | 172,759 |

## 4 OTHER FINANCIAL ASSETS

| | | |
|---|---|---|
| Loan to associate | - | 2,832,861 |
| Deposits paid (i) | 750,000 | 750,000 |
| | 750,000 | 3,582,861 |

(i) The Company has entered into an agreement to acquire the Salman South and Mame gold prospects in Southern Ghana and paid a deposit of $750,000. The agreement is contingent on the vendor obtaining approvals from the relevant minister of the Government of the Republic of Ghana ('Government') to transfer the ownership of the prospecting licences. Under the terms of the agreement, the Company can have the deposit refunded by ending the agreement or Government approval to transfer is not granted.

## 5 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

| | Consolidated 31 December 2011 $ | Consolidated 30 June 2011 $ |
|---|---|---|
| Listed shares – at cost | 20,820 | 14,220 |

## 6 OTHER FINANCIAL ASSETS

| | | |
|---|---|---|
| Loan to associate | 2,948,693 | - |

In March 2011, the Company and the shareholders of Jaquar Ventures (Pty) Ltd ('Jaquar') put in place an agreement whereby the Company could acquire up to 90% of the equity of Jaquar. Jaquar owns 100% of the Moiyabana Coal Prospect in Botswana. Under the terms of the agreement the Company has provided a US$3 million loan facility to Jaquar. The loan was funded from the part proceeds of the capital raised in May 2011 and is secured by all the issued shares in Jaquar Ventures (Pty) Ltd. The shares are held in trust by the Company lawyers (Collins Newman & Co). At the discretion of the Company, the loan will be repaid on the 18 month milestone or converted into shares of Jaquar.

## 7 CAPITALISED EXPLORATION EXPENDITURE

Costs carried forward in respect of:

| | | |
|---|---|---|
| Exploration & evaluation phase – at cost | | |
| Balance at beginning of half year | 3,948,359 | - |
| Exploration assets acquired | - | 3,712,227 |
| Exploration expenditure incurred | 1,223,761 | 680,011 |
| | 5,172,120 | 4,392,238 |
| Exploration expenditure written off | (32,746) | (443,879) |
| Total Exploration Expenditure | 5,139,374 | 3,948,359 |

Additional expenditure incurred relating to tenements investigated during the year that were not pursued, were written off. The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases are dependent on the rights to tenure, the successful development and commercial exploitation or sale of the respective areas.

## 8 TRADE AND OTHER PAYABLES

| | | |
|---|---|---|
| Trade creditors and accruals | 48,954 | 71,131 |
| Other payables | 42,206 | 320,901 |
| | 91,160 | 392,032 |

## 9 ISSUED CAPITAL

**Issued and paid up capital**

| | | |
|---|---|---|
| Number of ordinary fully paid shares | 78,204,029 | 74,854,029 |

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| | | 31 Dec 2011 Number | 31 Dec 2011 $ | 30 June 2011 Number | 30 June 2011 $ |
|---|---|---|---|---|---|
| **(a) Movements in ordinary shares on issue** | | | | | |
| Balance at the beginning of the year | | 76,354,029 | 17,999,017 | 47,354,029 | 8,805,595 |
| Issue of shares at $0.32 each | (i) | - | - | 7,000,000 | 2,240,000 |
| Issue of shares at $0.32 each | (ii) | - | - | 18,000,000 | 5,760,000 |
| Issue of shares at $0.41 each | (iii) | - | - | 2,500,000 | 1,025,000 |
| Issue of shares at $0.20 each | (v) | 1,850,000 | 370,000 | - | - |
| Less: transaction costs | | - | - | - | (446,578) |
| Sub Total | | 78,204,029 | 18,369,017 | 74,854,029 | 17,384,017 |
| Shares to be issued at $0.41 each | (iv) | - | - | 1,500,000 | 615,000 |
| Balance at the end of the year | | 78,204,029 | 18,369,017 | 76,354,029 | 17,999,017 |

(i) 7,000,000 shares were issued as a private placement (Tranche 1) and ratified by shareholders on 10 May 2011.

(ii) 18,000,000 shares were issued as a private placement (Tranche 2) and ratified by shareholders on 10 May 2011. Funds received from Tranches 1 and 2 will be used to fund the cost of acquisition of the Morupule South Coal Project and for continued exploration on the Morupule South and Moiyabana Coal Projects.

(iii) 2,500,000 shares were issued to a consultant as a finder's fee for the Moiyabana coal project. The issue was ratified by shareholders on 10 May 2011.

(iv) 1,500,000 shares were issued to a consultant on 28 July 2011 as a finder's fee for the Morupule coal project. The issue was ratified by shareholders on 10 May 2011 and was therefore recorded at 30 June 2011.

(v) 1,850,000 shares were issued on the conversion of 1,850,000 options at $0.20 each.

**(b) Movements in Options over ordinary shares**

| Exercise Period | Exercise Price | Number on issue at 30 June 2011 | Issued during the half year | Exercised/ Expired/ Cancelled | Number on issue at 31 December 2011 |
|---|---|---|---|---|---|
| On or before 30 November 2011 | $0.20 | 2,150,000 | - | (2,150,000) | - |
| On or before 13 May 2012 | $0.30 | 1,000,000 | - | - | 1,000,000 |
| On or before 13 May 2012 | $0.50 | 1,000,000 | - | - | 1,000,000 |
| On or before 23 December 2012 | $0.38 | 500,000 | - | - | 500,000 |
| On or before 10 May 2013 | $0.53 | 2,200,000 | - | - | 2,200,000 |
| On or before 28 January 2014 | $0.20 | 150,000 | - | - | 150,000 |
| On or before 28 July 2012 | $0.50 | 1,000,000 | - | - | 1,000,000 |
| On or before 28 July 2012 | $0.30 | 1,000,000 | - | - | 1,000,000 |
| On or before 27 September 2013 | $0.45 | - | 100,000 | - | 100,000 |
| On or before 15 December 2013 | $0.48 | - | 750,000 | - | 750,000 |
| On or before 15 November 2015 | $0.65 | - | 750,000 | - | 750,000 |
| On or before 15 November 2018 | $0.85 | - | 750,000 | - | 750,000 |
| On or before 15 May 2014 | $0.55 | - | 1,000,000 | - | 1,000,000 |
| | | 9,000,000 | 3,350,000 | (2,150,000) | 10,200,000 |

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## 10 SHARE BASED PAYMENTS

Options are issued to vendors as part of purchase consideration and also to directors, employees and consultants as part of their remuneration. The options issued may be subject to performance criteria, and are issued to directors and employees of the Company to increase goal congruence between executives, directors and shareholders.

Options granted carry no dividend or voting rights.

The fair value of the options granted is determined by using the Black-Scholes methodology. The following table lists the inputs to the models used for the half year ended 31 December 2011:

| Allottee | Fair Value at Grant Date | Estimated Volatility | Life of Option (Years) | Exercise Price | Share Price at Grant Date | Risk Free Interest Rate |
|---|---|---|---|---|---|---|
| Directors (i) | $0.11 | 100% | 2.1 | $0.48 | $0.26 | 4.75% |
| Directors (Tranche 1)(ii) | $0.11 | 100% | 2.5 | $0.55 | $0.26 | 4.75% |
| Directors (Tranche 2)(iii) | $0.15 | 100% | 4.0 | $0.65 | $0.26 | 4.75% |
| Directors (Tranche 3)(iv) | $0.19 | 100% | 7.0 | $0.85 | $0.26 | 4.75% |
| Other (i) | $0.18 | 100% | 2.0 | $0.45 | $0.36 | 4.75% |

The expected volatility is based on the historical volatility (based on remaining life of the options), adjusted for any expected changes to future volatility based on publicly available information.

(i). These options vested immediately on grant.
(ii). These Managing Director options vest 6 months from issue date, but subject to the delineation of a JORC resource totalling 500 million tonnes or more of coal
(iii). These Managing Director options vest 2 years from issue date, but subject to Board approval of a positive Pre-Feasibility Study or Offtake Agreement in respect of coal
(iv). These Managing Director options vest 5 years from issue date, but subject to the delineation of a JORC resource totalling one billion tonnes or more of coal

## 11 CONTINGENT LIABILITIES AND ASSETS

Since the last annual reporting date there has been no other material change in any contingent liabilities or contingent assets.

In the normal course of operations the entity may receive from time to time claims and suits for damages including workers compensation, vehicle accidents or other items of similar nature. The entity maintains specific insurance policies to transfer such risks. No provision has been included in the accounts unless Directors believe that a liability has been crystallised. In circumstances where the claim is material, has merit and is not covered by insurance, the financial effect will be provided for within the financial statements.

## 12 RELATED PARTY DISCLOSURES

Transactions with directors and director-related entities continue to be in place. For details on these arrangements, please refer to the 30 June 2011 annual financial report. No other related party transactions were entered into during the half year ended 31 December 2011.

Key management personnel continue to receive compensation in the form of short term employee benefits, post-employment benefits and share based payments.

## 13 SUBSEQUENT EVENTS

There have been no matters or circumstances that have arisen since the end of the financial year which have significantly affected or may significantly affect the operations, results or state of affairs of the Group in subsequent financial years.

## 14 SEGMENT INFORMATION

The Group's operating segments at 31 December 2011 were the same as reported in the financial report for the year ended 30 June 2011.

| | Continuing Operations | | | |
|---|---|---|---|---|
| **31 December 2011** | **Australia $** | **Sweden $** | **Africa $** | **Consolidated $** |
| Segment revenue | 240,757 | - | - | 240,757 |
| Segment result | (699,019) | (44,105) | - | (743,124) |
| Segment assets | 3,563,472 | 63,120 | 9,154,957 | 12,781,549 |
| Segment liabilities | 91,160 | - | - | 91,160 |

| | Continuing Operations | | | |
|---|---|---|---|---|
| **31 December 2010** | **Australia $** | **Sweden $** | **Africa $** | **Consolidated $** |
| Segment revenue | 100,861 | - | - | 100,861 |
| Segment result | (310,469) | (41,683) | | (352,152) |
| Segment assets | 3,703,934 | 30,552 | - | 3,715,896 |
| Segment Liabilities | 78,262 | - | - | 78,262 |

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**Independent Auditor's Review Report to the members of Hodges Resource Limited**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Hodges Resources Limited ('the Consolidated Entity') which comprises the condensed consolidated statement of financial position as at 31 December 2011, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entity 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 Consolidated Entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2011 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 Hodges Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an 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*.

***Conclusion***

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hodges 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 2011 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001.*

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**MGI Perth Audit Services Pty Ltd**

Amar Nathwani

**Amar Nathwani B.Eng, CA**
**Director**

Perth
9 March 2012



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