

Queensland Bauxite Limited

ABN 18 124 873 507

and Controlled Entities

Half-Year Report

For the half-year ended 31 December 2016

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Corporate Directory

Directors

Pnina Feldman

(Executive Chairman)

Sholom Feldman

(Executive Director, CEO)

Meyer Gutnick

(Non Executive Director)

David Austin

(Alternate Director)

Company Secretary

Sholom Feldman

Bankers

National Australia Bank

Law Courts Branch

75 Elizabeth Street

Sydney NSW 2000

Share Registry

Computershare Investor Services Pty
Limited

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Telephone: (02) 9291 9000

Facsimile: (02) 9291 9099

Email: sfeldman@queenslandbauxite.com.au

Auditors

Nexia Sydney Partnership

Level 16

1 Market Street

Sydney NSW 2000

Telephone: (02) 9251 4600

Stock Exchange Listing

The Company is listed on the Australian
Stock Exchange Ltd (ASX)

Website

www.queenslandbauxite.com.au

Australian Securities Exchange Code:

QBL

Directors' report

Your Directors present their report on Queensland Bauxite Limited, consisting of Queensland Bauxite Limited ("the Company") and the entities it controlled at the end of or during the half-year ended 31 December 2016.

Directors

The names of the Directors of the Company at any time during or since the end of the financial year are:

Pnina Feldman - Executive Chairman

Sholom Feldman - Executive Director, Chief Executive Officer and Company Secretary

Meyer Gutnick - Non-Executive Director

David Austin - Alternate Director.

Principal Activities

The principal activities of the Group during the half-year ended 31 December 2016 were mineral exploration and identification of potential mining exploration assets for acquisition and development.

Review of Operations and Outlook

The consolidated loss for the half-year ended 31 December 2016 was \$713,955 (2015 loss \$629,421).

OPERATIONS REPORT

QBL presents the following report on activities for the half year ending 31 December 2016.

Highlights:

- Working towards final approval from the Department to Secure the Minerals Development Licence (MDL) for the South Johnstone Bauxite Project;
- Granting of MDL should enable immediate shipping from South Johnstone Bauxite project to effectively prove the long-term economic and operational feasibility of the project;
- South Johnstone project of the lowest cost bauxite projects in projected production costs, thereby giving confidence in the long term viability of the project;
- South Johnstone project remains main focus for short term production;
- Rights Issue successfully completed;
- QBL to acquire 55% of unlisted public company Medical Cannabis Limited (MCL);
- Excellent market positioning for the anticipated rapid economic growth in the medical Cannabis sector and hemp seed food industry, in Australia and globally;
- MCL founding Director, Andrew Kavasilas, is a pioneer in the hemp growing industry and medical Cannabis research;
- Mr Kavasilas conducted an Australian first high THC cannabis growing and research study in 2001/02, which established cannabinoid testing capabilities at the Southern Cross University;
- Andrew Kavasilas will remain a key technical director of MCL;
- In a first for a company with exposure to the ASX, MCL controls its own unique Australian Cannabis seed bank and genetics for industrial, medical and scientific research in Australia, which currently is generating sales with potential for significant sales growth;
- The unique sub-tropical Australian seed bank has been developed since 2010 with Mr Kavasilas growing, breeding and importing varieties of Cannabis for industrial hemp and now for introduction into medical Cannabis exploration, research and development;
- MCL's licenses for 'live seed' importation enables the Company to secure commercialisation opportunities in the hemp seed food market;
- Vitahemp, owned by MCL, is a hemp seed food company aiming to produce Australia's first legal hemp seed food products;
- MCL has technical and regulatory knowledge with ongoing Cannabis breeding projects, including public displays and research under existing NSW low THC hemp permits and Cannabis import licenses;
- Andrew Kavasilas published his book '*Medical Uses of Cannabis - Information for Medical Practitioners*' in May 2004, after having worked under Australia's first permit to grow high THC Cannabis. The publication also featured an Australian first survey of medical Cannabis users. This survey was then used by the National Drug and Alcohol Research Centre (NDARC) on a wider National scale; <http://www.queenslandbauxite.com.au/wp-content/uploads/2017/03/Medical-Uses-of-Cannabis-2004-By-AndrewKavasilas.pdf>
- Mr Kavasilas's research included a study on Terpenes and Volatiles which are produced by the Cannabis plant and may be associated with the therapeutic effect of Cannabis;

- The research also included a quantitative analysis of nutrient loads and heavy metals in illicit Cannabis in order to give impetus to fast tracking developing cleaner safer medical cannabis products. This study also initiated a wider research project by NDARC into contaminants present in 'street Cannabis'; and
- MCL will be able to focus on enriching its research into cannabinotherapies and its exclusivity of these results.

During the half year, Queensland Bauxite Limited (ASX: QBL, or the "Company") continued to progress the development of its flagship South Johnstone DSO bauxite project in northern Queensland.

The Company also concluded a deal to acquire a 55% interest in Medical Cannabis Limited.

A number of corporate and operational milestones were achieved during this period, with the Company aiming to generate positive net cash flows in the short term through the commencement of DSO bauxite production and shipping.

During the half year, the Company continued to progress the development of its flagship South Johnstone DSO bauxite project in northern Queensland. The Company was actively working with the Department of Natural Resources and Mines, and the Department of Environment and Heritage Protection to achieving the grant of the MDL for the project, with the aim to generate positive net cash flows in the short term through the commencement of DSO bauxite production and shipping.

In addition, the Company and its team have been actively evaluating and assessing a number of additional opportunities that the Board believes may greatly enhance the Company's market value.

The Queensland Department of Natural Resources and Mines (DNRM) had previously notified the Company that they had concluded their technical review of the Minerals Development Licence (MDL) application for the South Johnstone Bauxite project in Northern Queensland. The DNRM had notified the Company that its technical assessment has formed a view that it would be appropriate for a MDL to be granted to the Company to enable the Company to conduct trial operations and export, with the express purpose of definitively finalising the feasibility assessment of the larger South Johnstone project. The Department during the period asked for a number of amendments to be made to the Work Plan, and the Company and its consultants finalised those requested amendments.

Following review of Northern Resources Consultant's 177 page submission to vary the conditions of the Environmental Authority held by Queensland Bauxite Limited (QBL) – i.e. those conditions enabling QBL to conduct its South Johnstone bauxite pilot operation at Camp Creek - the Department of Environment and Heritage Protection (DEHP) recently requested further clarification on a number of matters.

The Department of Natural Resources and Mines (DNRM) have decided to withhold decision on grant of the MDL until the issues raised by EHP have been fully addressed.

QBL's technical, engineering and environmental consultants Northern Resource Consultants (NRC) and Sea Transport are currently modifying the reports and work program in accordance with the matters raised by EHP and DNRM. It is anticipated that these reports should be resubmitted to the Department in the coming weeks.

The Company is confident that the revised reporting should give the DEHP and the DNRM the confidence to finally grant the MDL.

QBL already enjoys significant support for its project from all levels of government, community groups, including traditional owners and freehold landowners, interested in seeing improved employment opportunities created in the region.

QBL will update shareholders further once the revised reports are given to the Departments, and we look forward to finally being able to progress this project to the next level for the benefit of all stakeholders.

Granting of the MDL will enable the Company to begin initial trial production of bauxite to the customer refinery, which should consequently prove the long-term economic and operational feasibility of the entire project. The technical view of the Department was that full feasibility should be able to be confirmed with trial production of up to approximately 50,000 tonnes of bauxite. It is open to the Company to make submissions to the Department for further shipments under the MDL should the Company believe it to be required for the formal feasibility.

Once the project feasibility has been confirmed under the MDL, any further production will require a full Mining Lease to be granted. The Company is currently preparing the ML application, and it is the Company's understanding that due to the extensive technical and environmental work already completed and in place with the MDL, that a full ML grant should not take much longer to achieve.

The work under the MDL will also give the local farmers and community an ability to see first-hand the results of the production and rehabilitation of the area to be mined. The successful trial production should ensure the local support for the granting of the intended full Mining Leases for long term production. The Mining Lease applications will be progressed in parallel with the work to be undertaken under the MDL to ensure as smooth a transition as possible, and to ensure the Company is in a position to profitably mine as soon as possible after operations are proven successful under the now expected MDL.

The granting of the MDL is also subject to an appropriate security being provided by the Company to the DNRm as required under sections 190 and 277 of the Mineral Resources Act 1989. The amount of the security to be provided has not yet been determined.

The bauxite mineralisation at South Johnstone being close to surface and right off the main highway adjacent to port, close to the Asian markets, means that the Company's capital and operational costs are estimated to be of the lowest cost producers in the world. As previously reported in the Company's released scoping study, capital expenditure is expected to be only approximately \$5 million, and operating expenditure is expected to be only AUD\$20.87 per tonne FOB Mourilyan Harbour. For the full summary of the scoping study please see the announcement released by the Company on 29 December 2014 which can be accessed using the following link:

<http://www.asx.com.au/asx/statistics/displayAnnouncement.do?display=pdf&idsId=01588588>

The operational results from the working of the MDL will be a key part of the overall strategy to develop an export operation in a staged development of South Johnstone that allows for long term mining and export on a prospect by prospect basis at low cost within the entire project area.

This anticipated MDL grant will help the Company to determine its ability to enter into the large international bauxite market in the short term, apply for larger ML's throughout the project area, and to generate positive net cash flows in the near term.

The Company has ensured that it has consulted and thoroughly briefed relevant federal and state members of parliament on all aspects of the project, including federal MP the Hon Bob Katter. The South Johnstone Bauxite project is located in Mr Katter's electorate of Kennedy.

QBL is encouraged by the positive feedback it has received from government stakeholders, particularly in regard to the future economic benefits that the project will deliver to the region and to the state of Queensland.

The Directors look forward to updating shareholders on our progress with the MDL and intended ML applications, and on all further developments at the South Johnstone Bauxite project. The Directors have every confidence in the project's future.

The Company is continuing to progress South Johnstone and is currently preparing for work under the expected MDL to progress the short term development of the project, while evaluating strategic opportunities where they are considered to provide additional value to the Company and its shareholders.

With two major gibbsitic projects at hand, and particularly following the highly encouraging progress at South Johnstone in North Queensland, the directors believe that QBL will become a significant force in the bauxite industry.

Rights Issue

On 21 July 2016, the Company lodged a prospectus with ASIC pursuant to which the Company proposed to undertake a non-renounceable entitlement issue of one (1) share for every two (2) shares held by those shareholders registered at the record date at an issue price of \$0.007 per share to raise up to \$3,052,095, together with one free attaching option with an exercise price of \$0.012 and an expiry date of 31 July 2017 for every two shares subscribed for and issued (Offer).

The closing date of the Offer was 5.00 pm (EST) on 17 August 2016.

The Board of QBL was extremely pleased that on the closing date the Company had received applications under the rights issue from eligible shareholders for 156,090,577 shares. Upon close of the rights issue 279,923,122 shares became available for subscription under the shortfall offer. Many shareholders applied for significant oversubscriptions as part of the shortfall, and on the same date the company placed 174,879,556 shortfall shares available exclusively to shareholders who subscribed for the shortfall.

The amount raised totals \$2,317,790.

The shares were issued to all the applying shareholders on Wednesday 24th August.

The successful Rights Issue assists in ensuring adequate funding for the South Johnstone project development, and gave the Company the flexibility to be able to take advantage of new project opportunities.

Agreement to acquire 55% of Medical Cannabis Limited

The Company has signed an agreement to acquire 55% of Australian unlisted public company Medical Cannabis Limited ("MCL").

This agreement diversifies QBL's portfolio by becoming part of what is expected to be a new great Australian Industry, and the QBL Board views this acquisition as both timely and opportunistic in the context of the rapidly evolving Australian Cannabis business sector and the remarkable rapid success of this business overseas. This is a strategic acquisition poised for growth in the fledgling medical Cannabis and hemp seed food industries in Australia and globally.

MCL is the first of the Australian medical Cannabis companies to come to market with local expertise, including a long history of legal Cannabis importation and production in Australia, its own cultivars, ongoing trial projects and technical direction.

The Department of Health reports that The Commonwealth intends to fast track and develop amendments to the Narcotic Drugs Act 1967 that will establish the authority of the officer drug control (ODC) to regulate the cultivation of Cannabis for medical and scientific use required under the Single Convention on Narcotic Drugs 1961.

Background to the acquisition

QBL has agreed to acquire an immediate 55% interest in Medical Cannabis Limited (“MCL”) with the issue of 49 million ordinary shares in QBL in exchange for 55% of MCL. A first tranche of 24.5 million ordinary shares in QBL will be issued in exchange for 27.5% of MCL with a second tranche of 24.5 million ordinary shares in QBL to be issued in exchange for the further 27.5% of MCL following a shareholder meeting to enable the issue of these shares under Listing Rule 7.1 of the ASX Listing Rules.

An additional 50 million performance shares will be issued to the vendor shareholders of MCL upon MCL obtaining a permit from the Australian Government to grow cannabis varieties for medical cannabis research leading to product development. These performance shares will also be subject to shareholder approval under Listing Rule 7.1 of the ASX Listing Rules.

50% of any shares issued to MCL shareholders will be subject to voluntary escrow for a 12 month period.

MCL is a public unlisted Australian based Cannabis company, formed by Andrew Kavasilas in early 2015 to specifically target the global potential of the fast growing medical Cannabis and hemp seed foods markets while utilizing its nearly two decades of Australian Cannabis and hemp industry experience. MCL is the holding company of Vitahemp Pty Ltd (Vitahemp). The acquisition of MCL also includes 100% of the assets of Vitahemp. MCL and Vitahemp are Australian medical Cannabis and hemp foods pioneer companies with significantly established track records in the Cannabis sector in NSW.

Vitahemp is currently licensed to possess, cultivate, process and supply Cannabis under the NSW Hemp Act. It is farming Cannabis (low THC high CBD or non-psychoactive Cannabis) at its Tabulam Cannabis Project in northern New South Wales and producing vast amounts of cannabinoids which it intends to incorporate in its business plan. MCL is well positioned ahead of the competition in the Australian medical Cannabis market which is now rapidly growing due to recent changes to the Australian Narcotics Act.

MCL/Vitahemp aims to establish state of the art breeding facilities with a view to upgrading to cultivation for medical research and develop its unique foundation seed bank including sub-tropical hemp varieties. The company will work towards gaining ‘plant breeder’s rights’ for a variety of applications, placing it in a prime position to license and tailor-make specific varieties with known Cannabinoid profiles for the medical Cannabis manufacturing industry.

A revenue stream is anticipated from future royalties on licensed hemp varieties as well as from being a premier supply hub for bulk and packaged seed for the local and international marketplace.

MCL’s strategy is to develop, register, and commercialise pharmaceutical grade Cannabis, hemp based products and treatments, to the highest GMP quality standards.

Medical Cannabis refers to the use of Cannabis and its constituent cannabinoids, such as tetrahydrocannabinol (THC) and cannabidiol (CBD), as medical therapy to treat disease or alleviate symptoms. The Cannabis plant has a history of medicinal use dating back thousands of years across many cultures.

Further Information

The transaction is only conditional on the issue of the shares as per above. The directors believe that this transaction represents a value adding acquisition taking into account the current market dynamics and the value of MCL and Vitahemp’s assets. QBL intends to bring MCL to IPO and list independently on the ASX.

The ASX have confirmed to QBL that listing rules 11.1.2 and 11.1.3 do not apply to the Acquisition subject to the following undertakings:

QBL will not:

increase its interest beyond 75% in MCL;

invest via direct equity or loans an amount of more than \$750,000 in MCL; or

other than on a board level, will not be involved in the day to day management of MCL, MCL will continue to have its own dedicated management team.

QBL must also report in its Appendix 5B on the investment and the status of the matters relating to the points above.

Should the Company choose to vary any of the above undertakings, it must first consult with the ASX about the possible application of Listing Rules 11.1.2 and 11.1.3 at that time.

In addition, the Company will seek a formal legal opinion which will be provided to ASX and confirm the validity of the MCL business, and to ensure that the business is in compliance with all Australian laws, and is not in breach of any relevant law. This will be provided and must be to the satisfaction of ASX, before QBL issues any shares to the MCL vendors.

Shareholder approval under Listing Rule 7.1 will be sought for the issue of the second tranche of shares and the performance shares as soon as practicable.

Further Information on Andrew Kavasilas, Technical Director & founder

Andrew Kavasilas is a Director of Medical Cannabis Limited/Vitahemp Pty Ltd and Secretary of the Australian HEMP Party. Andrew Kavasilas is recognised for pioneering work and his name is synonymous within the fledgling Australian hemp growing industry and medical Cannabis research. Andrew has successfully set up and operated state of the art and Australian first indoor and outdoor breeding facility for MCL's low THC Cannabis varieties. Andrew has a high profile in Australia's fledgling cannabis industry having first published his book in May 2004 "Medical Uses of Cannabis" Information for Medical Practitioners. Author of the first medical cannabis user survey in Australia. The 2004 book sparked a national survey by the National Drug and Alcohol Research Center (NDARC). A regular participant at Parliamentary Inquiries on medical and other Cannabis related law reform issues with significant contact and communication with Members of Parliament including senior Ministerial staff and bureaucrats, leading scientific researchers and medical practitioners.

Links to some previous interviews and studies attributed to Andrew Kavasilas:

<http://www.abc.net.au/landline/content/2012/s3506777.htm>

<http://www.abc.net.au/landline/content/2014/s4049599.htm>

<https://harmreductionjournal.biomedcentral.com/articles/10.1186/1477-7517-2-18>

<http://www.abc.net.au/landline/content/2016/s4561595.htm>

The Board are very appreciative of the level of support and confidence that the Company's shareholders have shown in the Company and its projects. The Board are confident that the Company and its management will be able to repay that confidence to its shareholders in what should be a very rewarding period for the company.



Pnina Feldman
Executive Chairperson
Queensland Bauxite Limited

For further information, please contact:

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For further information or any queries please email the Company at:

sfeldman@queenslandbauxite.com.au



www.twitter.com/QLDBauxite

About Queensland Bauxite

Queensland Bauxite Ltd is an Australian listed company focused on the exploration and development of its bauxite tenements in Queensland and New South Wales. The Company's lead project is the South Johnstone Bauxite Deposit in northern Queensland which has rail running through the project area and is approximately 15-24 kilometres from the nearest deep water port. The Company intends to become a bauxite producer with a focus on commencing production at South Johnstone as early as possible.

As at 31st December 2016, the Company held the following tenements:

Project Name			Interest Held %
Eastern Australia Bauxite Projects			
South Johnstone QLD	EPM18463	Granted	100%
Nullamana NSW	EL7301	Granted	81%

Competent Person Statement

The information in this announcement that relates to exploration results, Exploration Targets or Mineral Resources is based on, and fairly represents, information compiled by Dr Robert Coenraads. Dr Robert Coenraads is a Fellow of the Australasian Institute of Mining and Metallurgy. Dr Coenraads contracts services to Queensland Bauxite Limited. Dr Coenraads has sufficient experience, which is relevant to the style of mineralisation and type of deposit under consideration and the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the JORC Code. Dr Coenraads has given his consent to the inclusion in the announcement of the matters based on this information in the form and context in which it appears.

Auditor's independence declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 13 and forms part of the directors' report for the half-year ended 31 December 2016.

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

A handwritten signature in black ink, appearing to read 'Pnina Feldman', written in a cursive style.

Pnina Feldman

Chairperson

Sydney

15 March 2017

The Board of Directors
Queensland Bauxite Limited
67 Penkivil Street
BONDI NSW 2026

To the Board of Directors of Queensland Bauxite Limited

Auditor's Independence Declaration under section 307C of the Corporations Act 2001

As lead audit partner for the review of the financial statements of Queensland Bauxite Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the Corporations Act 2001 in relation to the review;
and
- (b) any applicable code of professional conduct in relation to the review.

Yours sincerely



Nexia Sydney Partnership



Joseph Santangelo
Partner

Sydney
15 March 2017

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Financial statements

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2016

Continuing Operations	Consolidated Entity	
	31 Dec 2016 \$	31 Dec 2015 \$
Interest received	97,927	105,876
Corporate and administrative expenses	(308,783)	(199,343)
Depreciation	(2,308)	(2,307)
Directors fees	(201,000)	(214,881)
Legal expenses	(62,200)	(47,341)
Finance costs	(44,150)	(68,194)
Occupancy expenses	(54,000)	(54,000)
Exploration written off (Note 6)	-	(75,896)
Other expenses	(2,122)	(10,678)
Travelling expenses	(93,010)	(41,436)
Exchange loss realised	691	5,828
Impairment of receivable	-	(6,842)
Share based payments expense (Note 5)	(45,000)	(20,207)
Loss before income tax	(713,955)	(629,421)
Income tax expense	-	-
Loss after tax from continuing operations	(713,955)	(629,421)
Other comprehensive income, net of tax	-	-
Total comprehensive income	(713,955)	(629,421)
Loss attributable to members of Queensland Bauxite Limited	(713,955)	(629,421)
Total comprehensive income attributable to members of Queensland Bauxite Limited	(713,955)	(629,421)
Basic earnings per share (cents per share)	(0.07)	(0.08)
Basic earnings per share from continuing operations (cents per share)	(0.07)	(0.08)
Diluted earnings per share (cents per share)	(0.07)	(0.08)
Diluted earnings per share from continuing operations (cents per share)	(0.07)	(0.08)

The accompanying notes form part of these financial statements.

Condensed consolidated statement of financial position

as at 31 December 2016

	Consolidated Entity	
	31 Dec 2016 \$	30 June 2016 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	6,661,988	5,513,749
Trade and other receivables (Note 6)	250,858	63,605
TOTAL CURRENT ASSETS	6,912,846	5,577,354
NON-CURRENT ASSETS		
Exploration and evaluation (Note 7)	2,923,591	2,731,581
Property, plant and equipment	26,270	28,578
TOTAL NON-CURRENT ASSETS	2,949,861	2,760,159
TOTAL ASSETS	9,862,707	8,337,513
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	230,161	386,475
Other financial liabilities	52,073	240,094
TOTAL CURRENT LIABILITIES	282,234	626,569
NON-CURRENT LIABILITIES		
Other financial liabilities	-	-
TOTAL NON-CURRENT LIABILITIES	-	-
TOTAL LIABILITIES	282,234	626,569
NET ASSETS	9,580,473	7,710,944
EQUITY		
Issued capital (Note 8)	22,521,477	19,982,993
Share based payments reserve	4,539,798	4,914,098
Accumulated losses	(17,480,802)	(17,186,147)
TOTAL EQUITY	9,580,473	7,710,944

The accompanying notes form part of these financial statements.

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2016

Consolidated Entity				
	Issued Capital	Accumulated Losses	Share Based Payments Reserve	Total Equity
	\$	\$	\$	\$
Balance at 1 July 2015	19,134,223	(16,087,345)	4,961,241	8,008,119
Loss for the half-year attributable to members of consolidated entity	-	(629,421)	-	(629,421)
Transfer from share based payment reserve to accumulated losses	-	-	-	-
Share and option based payments	-	-	20,207	20,207
Shares issued during the half year	110,082			110,082
Transfer from share based payment reserve to accumulated losses	-	125,350	(125,350)	-
Balance at 31 December 2015	19,244,305	(16,591,416)	4,856,098	7,508,987
Balance at 1 July 2016	19,982,993	(17,186,147)	4,914,098	7,710,944
Loss for the half-year attributable to members of consolidated entity	-	(713,955)	-	(713,955)
Transfer from share based payment reserve to accumulated losses	-	-	-	-
Share and option based payments	-	-	45,000	45,000
Shares issued during the half year	2,538,484			2,538,484
Transfer from share based payment reserve to accumulated losses	-	419,300	(419,300)	-
Balance at 31 December 2016	22,521,477	(17,480,802)	4,539,798	9,580,473

The accompanying notes form part of these financial statements.

Condensed consolidated statement of cash flows

for the half-year ended 31 December 2016

	Consolidated Entity	
	31 Dec 2016 \$	31 Dec 2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(858,372)	(518,237)
Interest received	97,927	105,876
Income tax refund	-	54,522
Finance cost	-	(68,194)
Net cash outflow from operating activities	(760,445)	(426,033)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for exploration assets	(192,010)	(327,562)
Net cash outflow from investing activities	(192,010)	(327,562)
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan provided to related company – Australian Gemstone Mining Pty Ltd	(207,096)	(108,137)
Loan provided to Medical Cannabis Limited	(10,000)	-
Proceeds from share issue	2,317,790	-
Proceeds from issue of convertible notes/bonds	-	752,365
Net cash inflow from financing activities	2,100,694	644,228
Net increase/(decrease) in cash held	1,148,239	(109,367)
Cash and cash equivalents at the beginning of the half - year	5,513,749	6,103,305
Cash and cash equivalents at the end of the half – year	6,661,988	5,993,938

The accompanying notes form part of these financial statements.

Notes to the consolidated financial statements for the half-year ended 31 December 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report for the interim half year reporting period ended 31 December 2016 has been prepared in accordance with applicable Accounting Standards including Accounting Standard AASB 134 *Interim Financial Reporting*, Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Queensland Bauxite Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

The Group has adopted all of the new and revised Accounting Standards and Accounting Interpretations issued by the AASB that are relevant to their operations and effective for the current half-year.

NOTE 2: USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The only area involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, is in relation to share and option based payments and convertible notes/bonds.

NOTE 3: SEGMENT INFORMATION

The Group has applied AASB 8 *Operating Segments* from 1 July 2010. AASB 8 requires a management approach under which segment information is presented on the same bases as that used for internal reporting purposes. The QBL Group consists of one business segment operating predominately in Australia relating to the exploration of mining tenements. It is in this manner that internal reporting is provided to the chief operating decision maker of the QBL Group, being the Board of Queensland Bauxite Limited.

NOTE 4: LOSS FOR THE HALF-YEAR

The consolidated loss for the half- year ended 31 December 2016 was (\$713,955) (2015: loss (\$629,421))

NOTE 5: SHARE BASED PAYMENTS EXPENSE

The share based payments expense for the half-year ended 31 December 2016 relates to the following share issues:

	Half-Year Ended 31.12.2016 \$	Half-year ended 31.12.2015 \$
Shares issued to employees of related entity Australian Gemstone Mining Pty Ltd	24,000	-
Shares issued to consultants	21,000	-
Options issued to Magna Equities II, LLC in accordance with the convertible notes agreement	-	20,207
	<u>45,000</u>	<u>20,207</u>

NOTE 6: TRADE AND OTHER RECEIVABLES

	31 December 2016 \$	30 June 2016 \$
Loan to related party – Australian Gemstone Mining Pty Ltd	197,895	-
Loan to Medical Cannabis Limited	10,000	-
Security deposit	10,000	10,000
GST receivable	32,963	53,605
	<u>250,858</u>	<u>63,605</u>

NOTE 7: EXPLORATION AND EVALUATION

	31 December 2016 \$	30 June 2016 \$
NON-CURRENT		
Balance as at beginning of the period	2,731,581	2,012,272
Mining permits, tenement acquisition and administration and geologist expenses	192,010	719,309
Balance as at reporting date	<u>2,923,591</u>	<u>2,731,581</u>
Exploration expenses written off during the period	<u>-</u>	<u>75,896</u>

The value of the Company's interest in exploration expenditure is dependent upon the:

- continuance of the economic entity's right to tenure of the areas of interest;
- results of future exploration, and
- recoupment of costs through successful development and exploitation of the areas of interest, or alternatively, by their sale.

The exploration and evaluation asset balance relating to the mining tenement EL 7301 is as at 31 December 2016 \$1,624,847 (30 June 2016 \$1,611,246). The mining tenement EL 7301 expired on 23 February 2016. Application forms have been lodged to renew and transfer the tenement to Queensland Bauxite Limited ("QBL") for a further 5 years to 23 February 2021. This process has not yet been finalised with the NSW Department of Industry. The Directors of QBL consider the renewal and transfer of EL 7301 to be processed in the ordinary course of business and therefore QBL holds current rights to tenure over its exploration and evaluation assets.

NOTE 8: ISSUED CAPITAL

	31.12.2016 No.	31.12.2016 \$.	30.06.2016 No.	30.06.2016 \$.
Ordinary shares				
At the beginning of reporting period	854,592,485	19,982,993	737,908,636	19,134,223
Share based payments	7,000,000	-	7,000,000	-
Conversion of convertible notes into ordinary shares	34,174,375	220,694	81,368,654	650,564
Placement shares NRRI	330,970,133	2,317,790	-	-
Investment in New England Bauxite Pty Ltd	-	-	28,315,195	198,206
At reporting date	1,226,736,993	22,521,477	854,592,485	19,982,993

NOTE 9: RELATED PARTY TRANSACTIONS

Identity of related parties

The Group has related party relationships with its subsidiaries, its key management personnel and companies related due to common directorships, Pnina Feldman being a Director of both Queensland Bauxite Limited and the director of related companies.

Related party transactions with Australian Gemstone Mining Pty Limited.

The Company and Australian Gemstone Mining Pty Limited (**AGMPL**) are parties to a management services agreement (**Management Services Agreement**) dated 1 July 2007, for the provision by AGMPL of executive and corporate services, including geological and technical expertise, to the Group by the following executives:

- Pnina Feldman – Executive Director, Business Development;
- Dr Robert Coenraads – Head Geologist, Exploration and Mining; and
- Sholom Feldman – Chief Executive Officer and Company Secretary.

In respect of each of these executives (**Key Management Personnel**), AGMPL was paid a retainer for the half-year ended 31 December 2016. The Company was also reimbursed for all reasonable expenses incurred by or on behalf of the Key Persons.

AGMPL is a company owned and controlled by Pnina Feldman.

Each of Pnina Feldman, Dr Robert Coenraads and Sholom Feldman has entered into an executive services agreement with AGMPL. Each of these executive services agreements contains standard provisions dealing with employment obligations and standard covenants dealing with general duties and the protection of AGMPL's interests and mirrors the Management Services Agreement in respect of termination provisions.

AGMPL also provided suitable fully serviced offices to the Group at its Sydney offices at 67 Penkivil Street, Bondi, which includes use of office space, kitchen, daily cleaning, and essential office infrastructure, including telephones, fax, printer, broadband internet connections and suitable office furniture.

AGMPL also provided additional administrative services to the Group, such as secretarial, accounting and office management services. These services were provided to the Group by AGMPL on reasonable arm's length terms as approved by the independent director(s).

	Half-year ended 31.12.2016 \$	Half-year ended 31.12.2015 \$
Consulting services – Geologist Fees	180,000	180,000
Rent	54,000	54,000
Management and secretarial	72,000	72,000
Exploration and geological	-	9,110
Executive and corporate services	156,000	156,000
Administrative fee	18,000	9,000
Reimbursement of expenses	1,200	4,085
TOTAL	481,200	484,195

Other transactions with related parties

The Company paid directors' fees of \$35,000(2015: \$35,000) for the non-executive director, Meyer Gutnick, during the half-year ended 31 December 2016.

The Company paid directors' fees of \$10,000 (2015: \$10,000) to the non-executive director, David Austin, during the half-year ended 31 December 2016.

NOTE 10: RELATED PARTY TRANSACTIONS

<u>Loans advanced to director related companies</u>	31.12.2016 \$	30.06.2016 \$
Loan to Australian Gemstone Mining Pty Ltd	197,895	-
Volcan Australia Corporation Pty Ltd	1,200,000	1,200,000
Impairment recognised as at 31 December 2016	(1,200,000)	(1,200,000)
Due for repayment on 14 December 2012*		
Volcan Australia Corporation Pty Ltd	79,258	79,258
Impairment recognised as at 31 December 2016	(79,258)	(79,258)
No due date for repayment.		

The above loans are unsecured and interest free.

*The loan to Volcan Australia Corporation Pty Ltd was not a cash advance from the company to Volcan, but was the amount that was to be paid in consideration for the purchase by Volcan Australia Corporation Pty Ltd (VAC) of ML1492 from the Company pursuant to the transactions completed on 14 December 2010 as approved at the time by shareholders at an EGM. Volcan was to have invested in ML1492, and from the profits of the development of that asset was to have paid QBL \$1.2M. Volcan subsequently invested in the asset's development, but due to the prevailing market conditions, Volcan was not able to make a profit from that asset at that time. As a result, Volcan was unable to meet the acquisition cost of \$1.2M at the due date. The amount due was unsecured, due for payment in cash on 14

December 2012, and there was no interest payable on the amount due. The Directors have agreed that it is in QBL's interest to allow VAC further time to seek to further develop that asset in more favourable market conditions to enable Volcan to make the necessary amounts from the asset to make the payment. As the timing of this payment is at present uncertain, it is considered prudent for this amount to be impaired in the financial statements until the payment is able to be made.

NOTE 11: FINANCIAL INSTRUMENTS

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	31.12.2016 Total Carrying Amount \$	31.12.2016 Net Fair Value \$	30.06.2016 Total Carrying Amount \$	30.06.2016 Net Fair Value \$
Financial assets				
Trade and other receivables	250,858	250,858	63,605	63,605
Financial liabilities				
Trade and other payables	230,161	230,161	386,475	386,475
Other financial liabilities	52,073	52,073	240,094	240,094

NOTE 12: COMMITMENTS FOR EXPENDITURE

	31 December 2016 \$	30 June 2016 \$
Exploration and evaluation		
– not later than 1 year	175,000	955,500
– later than 1 year but no later than 5 years	235,000	-
	<u>410,000</u>	<u>955,500</u>

NOTE 13: EVENTS SUBSEQUENT TO BALANCE DATE

Since 31 December 2016, the following events have occurred:

- On 1 March 2017, QBL entered an agreement to purchase a 55% interest in the unlisted public company, Medical Cannabis Limited.
- On 3 March 2017, QBL secured the support of a large New York based Institutional Investor, who has invested \$125,000 in QBL at a share price of \$0.007.

There have been no further material subsequent events since the balance date.

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and accompanying notes set out on pages 14 to 23 are in accordance with the *Corporations Act 2001*, and:
 - (i) comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors:



Pnina Feldman
Chairperson

Sydney
15 March 2017

INDEPENDENT AUDITORS' REVIEW REPORT TO THE MEMBERS OF QUEENSLAND BAUXITE LIMITED

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Queensland Bauxite Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2016, condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors declaration of the Company and the consolidated entity (the Group), comprising the Company and the entities it controlled at the half-year's 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 control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Queensland Bauxite Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Basis for Qualified Conclusion

Included in Note 7 to the Financial Statements is an exploration and evaluation asset with a value of \$1,624,847, being the amount relating to the tenement EL 7301.

We have not been provided with nor been able to gather by the application of alternate procedures, sufficient appropriate evidence to satisfy ourselves as to the right of tenure held by Queensland Bauxite Limited in its interest in EL 7301. Consequently, we have not been able to determine whether this amount should be recognised as an exploration and evaluation asset and whether this asset has any value.

Qualified Conclusion

Based on our review, which is not an audit, except for the possible effect of the matter described in the Basis for Qualified Conclusion paragraph, we have not become aware of any matter that makes us believe that the half-year financial report of Queensland Bauxite Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Nexia Sydney Partnership



Joseph Santangelo
Partner

Sydney
15 March 2017