Canyon Resources Limited

ABN 13 140 087 261

Interim Financial Report
31 December 2013

CORPORATE INFORMATION

Canyon Resources Limited

ABN 13 140 087 261

Directors

Rhoderick Grivas

Phillip Gallagher

Matthew Shackleton

Company Secretary

Phillip MacLeod

Registered office and principal place of business

353 Rokeby Road

Subiaco WA 6008

PO Box 270

West Perth WA 6872

Tel: +61 8 6143 4256
Fax: +61 8 9324 1502
Web: www.canyonresources.com.au

Share Register

Computershare Limited

Level 2, 45 St Georges Terrace

Perth WA 6000

Tel: +61 8 9323 2000
Fax: +61 8 9323 2033
Web: computershare.com.au

Solicitors

Steinepreis Paganin

Level 4, 16 Milligan Street

Perth WA 6000

Auditors

HLB Mann Judd

Level 4, 130 Stirling Street

Perth WA 6000

Securities Exchange Listing

ASX Limited

ASX Code: CAY

CONTENTS PAGE

DIRECTORS' REPORT

Your Directors submit the financial report of the consolidated entity (or Group) comprising Canyon Resources Limited ("the Company" or "Canyon") and the entities it controlled for the half-year ended 31 December 2013. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names of directors who held office during or since the end of the interim period and until the date of this report are noted below. Directors were in office for the entire period unless otherwise stated.

Rhoderick Grivas	Executive Chairman
Phillip Gallagher	Managing Director
Matthew Shackleton	Non-executive Director

Review of Operations

Canyon Resources Ltd ("Canyon" or "the Company") is a West African focused mineral exploration company with four gold projects in Burkina Faso and a bauxite project in Cameroon.

Cameroon

Birsok project

On 24 December 2013, Canyon announced that it had entered into a Joint Venture agreement with Altus Strategies Limited ("Altus") for the Birsok bauxite project in Cameroon. Canyon can acquire up to a 75% interest in the project over a 5 year period.

The Birsok project is located in central Cameroon and is contiguous to the world class high grade Minim Martap bauxite deposit. The project is comprised of two permits over 1,462km^2 and is located along raised plateaus similar to the nearby Minim Martap deposit. The project is highly prospective for high grade, low contaminant, DSO bauxite, and importantly, is located approximately 10km from the rail line to the Douala port facility.

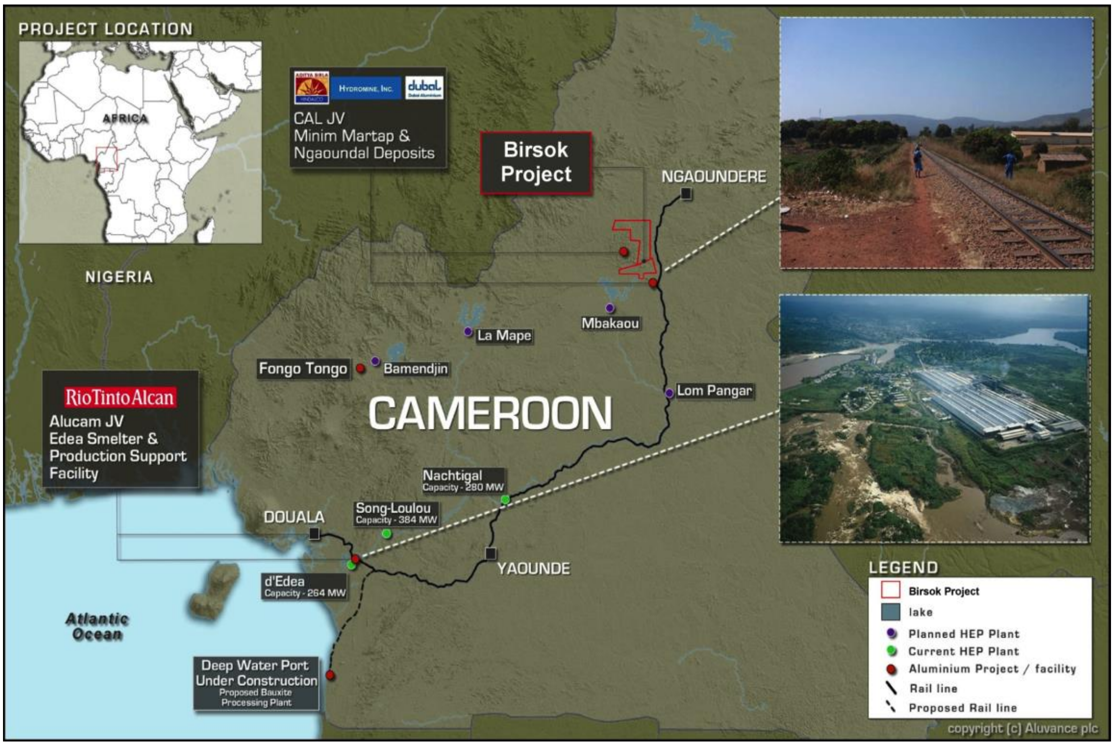

Figure 1 - Location plan showing Birsok project licenses and infrastructure

DIRECTORS' REPORT (CONTINUED)

Review of Operations (continued)

Birosk project (continued)

The project is located approximately 75km south west by road from the town of Ngaoundal in central Cameroon. A rail line, which transports both freight and passenger trains passes approximately 10km from the project licence. Access to Ngaoundal is generally via a sealed road from the capital Yaounde.

Altus have completed an initial rock chip sampling program which has confirmed the presence of high grade gibbsite hosted bauxite and indicated the potential for premium grade DSO ore.

From 2,485 observation points a total of 634 rock chip samples have been taken and analysed by XRF by Altus. Sampling completed by Altus has shown the following:

- Four plateau style targets identified;
- 58% of analysed samples recording over 50% Al_2O_3;
- Highest grade assay returned of 68.2% Al_2O_3;
- 80% of all samples to date returned grading above 35% Al_2O_3;
- Contaminant levels remain low for samples with Al_2O_3 grading above 50%;
    - Average SiO_2: 2.64%
    - Average TiO_2: 4.63%
    - Average Fe_2O_3: 6.21%.

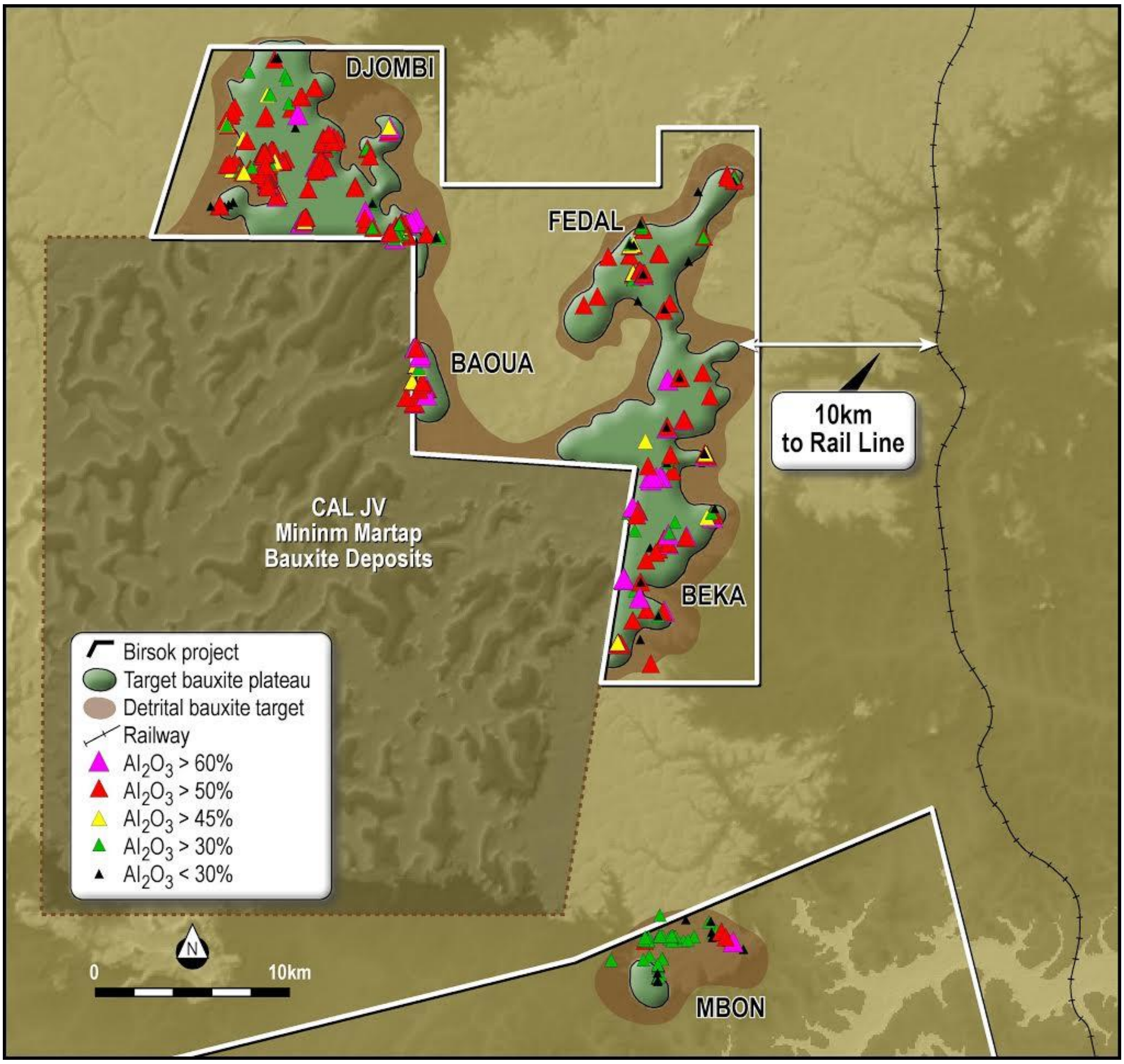

Figure 2 – Bauxite rockchip results on a greyscale elevation back ground.

DIRECTORS' REPORT (CONTINUED)

Review of Operations (continued)

Birosk project (continued)

The target bauxite plateaus have been outlined by a combination of geological reconnaissance, elevation modelling and sampling of outcrop, boulder and block and float material. The target bauxite plateaus highlight primary areas of abundant bauxite outcrop but also secondary areas of sub-crop and transported float bauxite material.

The Birsok project has a number of features that the Company considers advantageous for future commercial development including:

- potential for DSO grade bauxite;
- proximity (~10km) to and potential for access to an operating rail line capable of transporting commercial quantities of bauxite;
- multiple port options;
- scale for long-life operation; and
- several options for development of the project.

Canyon's planned work programme

Initial exploration by Canyon has involved detailed field reconnaissance to optimise the best bauxite target horizons and access for drilling. This will be followed by a first pass scout drilling program to confirm the surface extent of the bauxite plateaus and provide an understanding of the depth profile.

An exploration camp has already been established, and priority drill targets identified. Drilling is planned to commence in March/April 2014.

Burkina Faso

Canyon continued to conduct exploration and evaluation throughout the period on its Burkina Faso gold projects, focusing on the Pinarello and Konkolikan projects in the south west of the country.

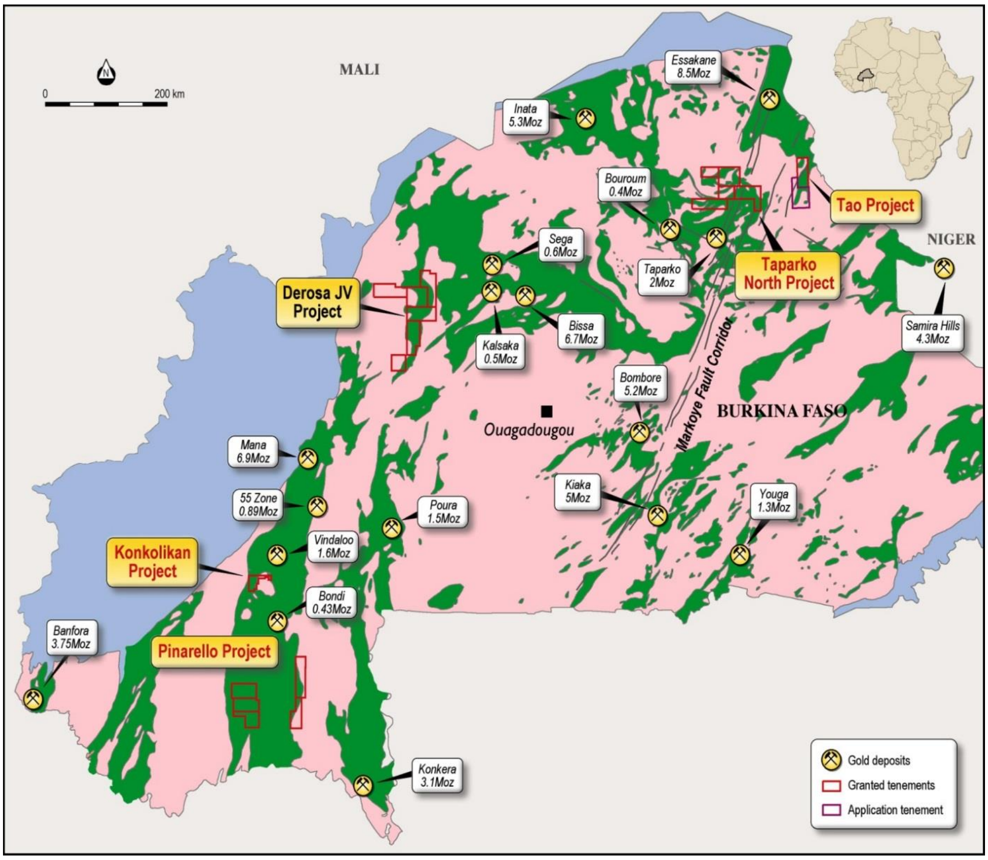

Figure 3 - Location plan showing Canyon's Burkina Faso projects

DIRECTORS' REPORT (CONTINUED)

Review of Operations (continued)

Pinarello project

The Pinarello project is situated in the Houndé Gold Belt and comprises five permits covering approximately 1,000km². The project is contiguous to the south of TSX-V listed Sarama Resources Limited's ("Sarama") Tankoro permit, which hosts their MM, Phantom and MM East prospects, and ASX listed Orbis Gold Limited's Dynikongolo permit, hosting their Bantou and Tankoro prospects. Soil geochemistry results from these companies exploring along the Tankoro mineralised corridor have demonstrated good continuity, and that the mineralisation at Sarama's MM prospect is disseminated in feldspar porphyry dykes, which may also continue onto Canyon's permit.

The Company continued regolith mapping programs on the project area to assist in the planning of follow up exploration sampling and drilling.

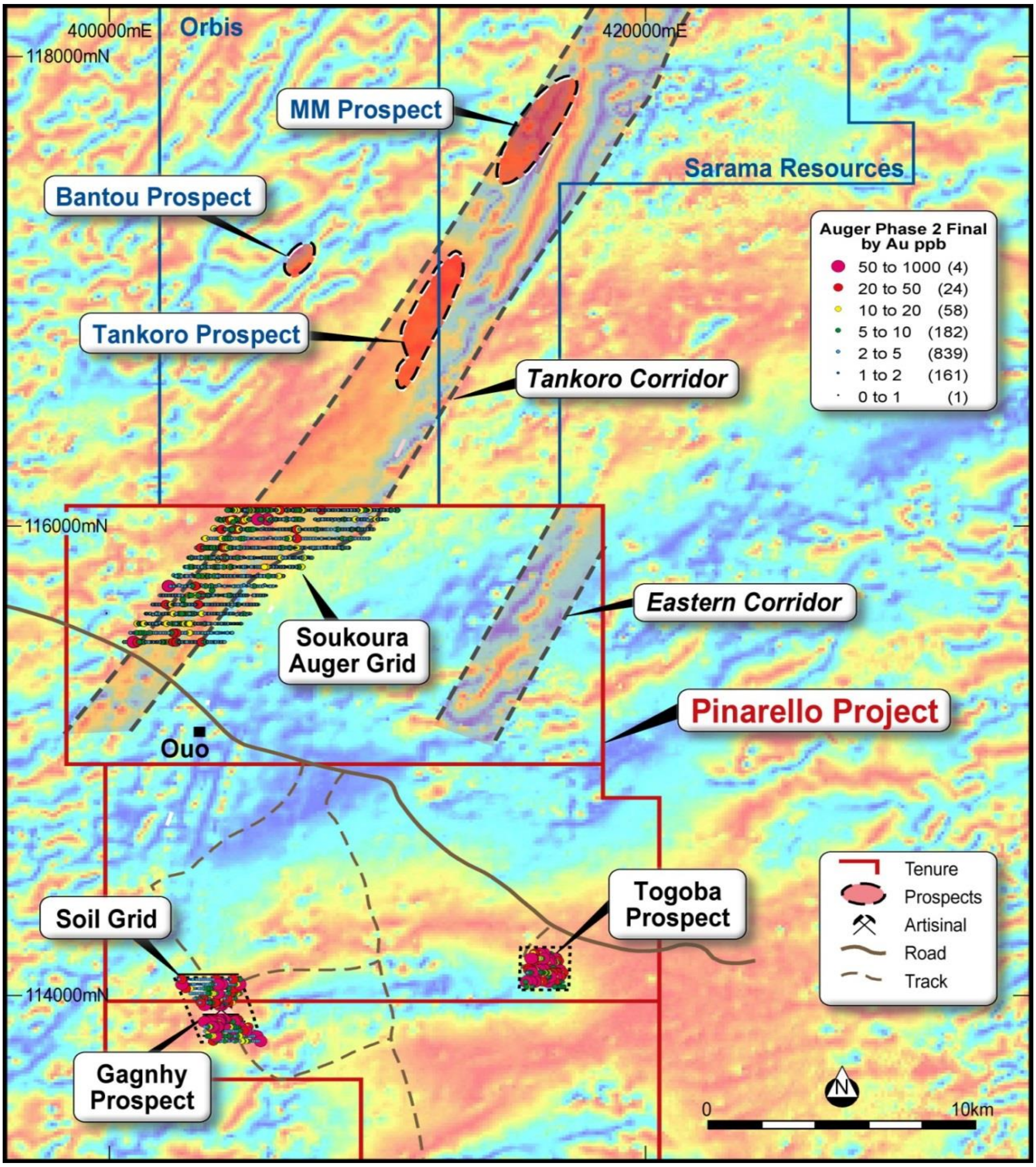

Figure 4 - Pinarello project western permit package and prospects

DIRECTORS' REPORT (CONTINUED)

Review of Operations (continued)

Konkolikan project

Canyon's Konkolikan project is a single permit of 100.1km² situated in the Houndé Greenstone Belt. The project lies on the same regional mineralised structure that hosts Endeavour Mining Corporation's Houndé project (indicated resource of 1,456,000 oz. @ 1.91g/t Au and inferred resource of 752,000oz @ 1.91 g/t Au) and Rox Gold Inc.'s Yaramoko project (indicated resource of 679,000oz @ 15.7 g/t Au and an inferred resource of 215,811oz @ 8.9 g/t Au).

The central area of the Houndé Greenstone Belt, where the Konkolikan project is situated, is known to host high grade gold deposits. The Konkolikan project lies on a granite intrusion that is a similar geological type and age as the Rox Gold's high grade Zone 55 deposit located at the Yaramoko Project.

During the period the Company completed a detailed mapping program to identify target areas for further exploration.

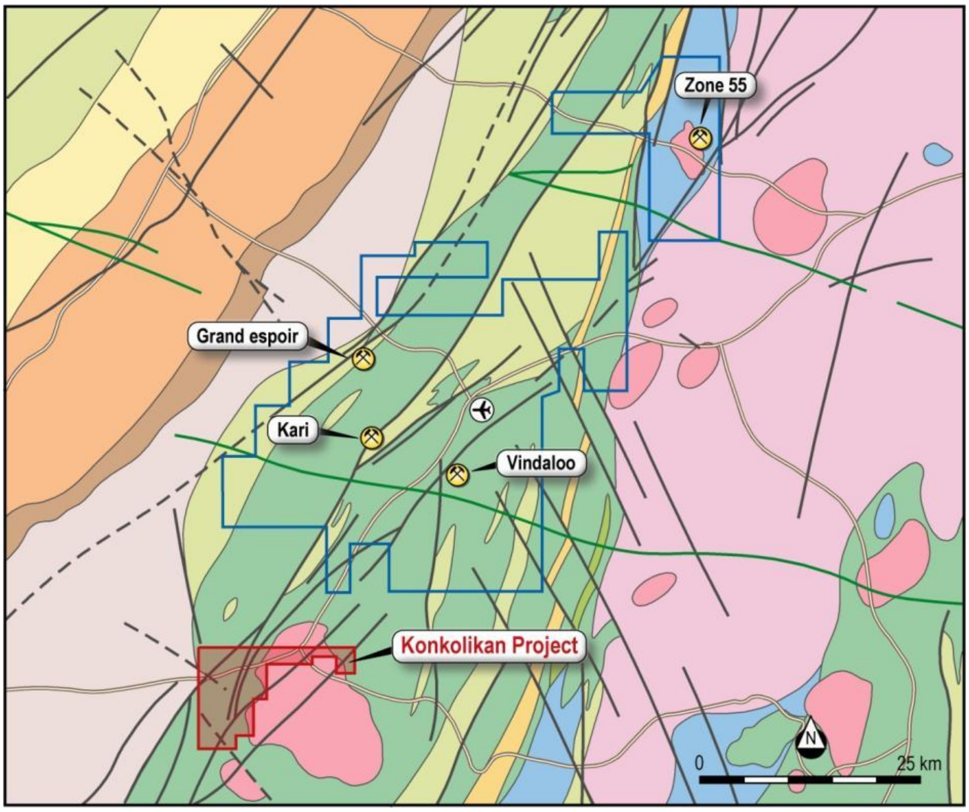

Figure 5: Regional geology map highlighting Konkolikan project in red

DIRECTORS' REPORT (CONTINUED)

Review of Operations (continued)

Taparko North project

Canyon previously conducted a broad auger geochemistry campaign that identified two multi element copper zinc rich soil anomalies over 4km. A follow up Moving Loop ground EM (Electro Magnetic) survey, identified conductors consistent with a potential VMS (Volcanic Massive Sulphides) deposit.

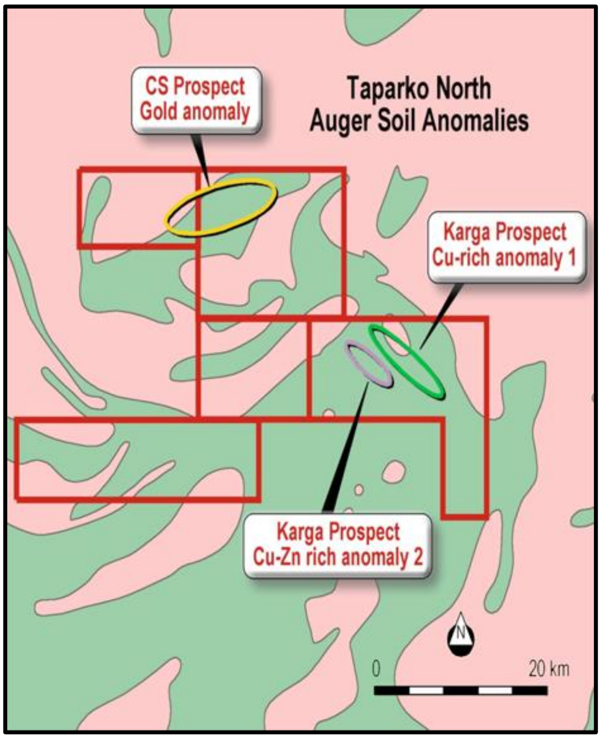

Figure 6: Location of Karga prospect auger geochemical anomalies

Canyon completed a review of the EM survey results and has identified targets for further testing. A field reconnaissance program has been completed to determine the geological significance of the target.

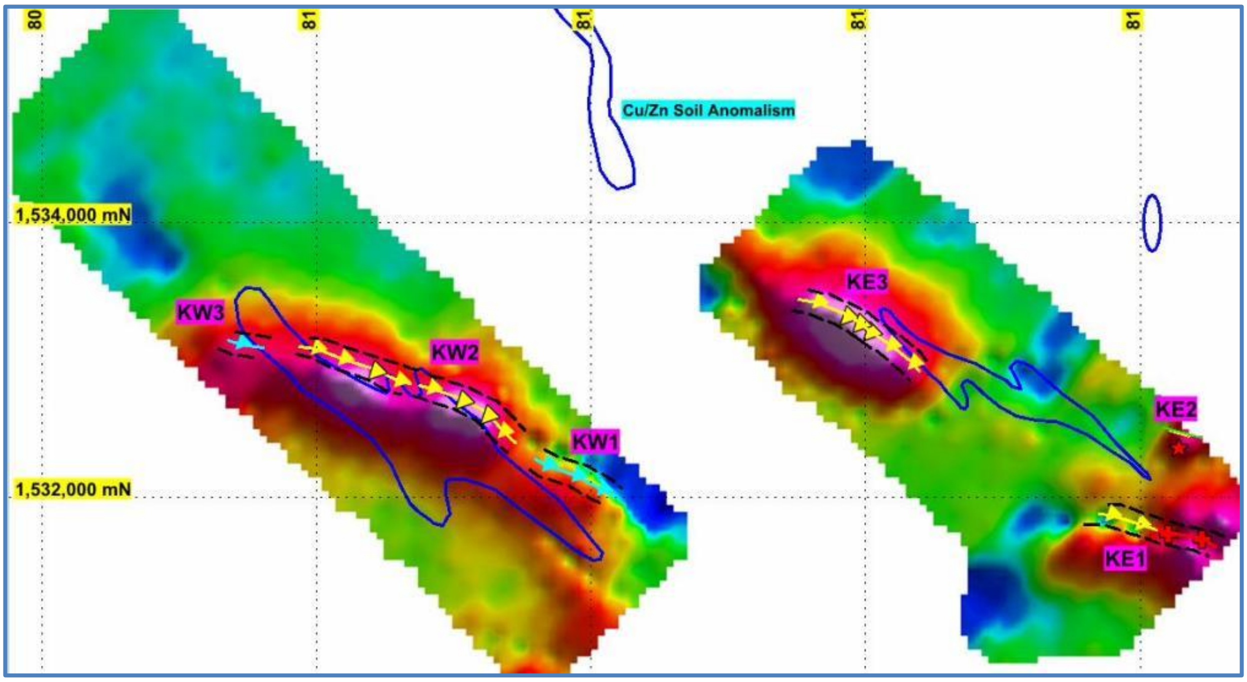

Figure 7: Cu/Zn auger geochemical anomalies (blue) over EM image showing Karga East (KE) and Karga West (KW) electromagnetic trend lines in coloured triangles and dashed lines.

DIRECTORS' REPORT (CONTINUED)

Review of Operations (continued)

Tao project

The Tao project is located in north west Burkina Faso. Exploration conducted on the project has identified a 13km strike along a shear zone.

Due to the focus on the Pinarello and Konkolikan projects in Burkina Faso and the acquisition of the Birsok Bauxite project in Cameroon, no further exploration was conducted on the Tao project during the period.

Competent Person's Statement

The information in this report that relates to Exploration Targets, Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Rhoderick Grivas, a Director and employee of the Company and a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. Mr Grivas has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Grivas 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 Exploration Results is extracted from the December 2013 Quarterly Activities Report lodged with ASX on 31 January 2014 and is available to view on the Company website. Some of the information relating to Pinarello, Konkolikan and Taparko North Projects was released to the market under the 2004 JORC Code. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements.

Corporate

On 24 December 2013 the Company announced a non-renounceable entitlement issue, together with a placement on the same terms which subsequently raised a total of $1,158,478. Refer to "significant events after the balance date" for full details.

Operating Result for the Period

The consolidated entity's operating loss for the half-year ended 31 December 2013 was $843,802 (half-year ended 31 December 2012: $999,654).

Review of Financial Condition

At 31 December 2013, the consolidated entity held $921,737 in cash and cash equivalents (30 June 2013: $2,076,136).

Significant Events Subsequent to Balance Date

Subsequent to the balance date the Company completed a non-renounceable entitlement issue raising $839,478 before issue costs through the issue of 18,655,061 shares at an issue price of $0.045 each and a share placement raising $319,000 before issue costs through the issue of 7,088,905 shares on the same terms. Each share was issued with a free attaching option with an exercise price of $0.06 per option and an expiry date of 31 January 2017.

Subsequent to the balance date the Company granted 6,500,000 Director incentive options to Directors of the Company. The options over ordinary shares are exercisable at $0.06 per option and expire on 31 January 2017.

No matter or circumstance, other than the above, has arisen which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

DIRECTORS' REPORT (CONTINUED)

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, 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 2013.

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.

………………………………………………..

Phillip Gallagher

Managing Director

Perth, 14 March 2014

HLB Mann Judd
Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Canyon Resources Limited for the half-year ended 31 December 2013, 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.

Perth, Western Australia
14 March 2014

L Di Giallonardo
Partner

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Notes	31 December 2013 $	31 December 2012 $
Interest received		20,964	48,093
Consideration received from Farm-out agreement		-	561,501
Sundry income		-	26,979
		20,964	**636,573**
Employee expenses		(31,883)	(68,230)
Consultants and contractors		(98,626)	(136,426)
Director fees		(131,971)	(153,838)
Legal and professional fees		(45,796)	(34,462)
Occupancy		(10,917)	(39,655)
Depreciation		(24,486)	(30,130)
Compliance and regulatory		(15,669)	(23,646)
Administration		(85,594)	(94,897)
Share-based payment expense		-	(4,394)
Impairment of financial assets	2	-	(180,000)
Impairment of exploration assets	3	(110,099)	(160,849)
Exploration expensed as incurred		(309,725)	(709,700)
Loss before income tax		**(843,802)**	**(999,654)**
Income tax expense		-	-
Net loss after tax		**(843,802)**	**(999,654)**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net change in fair value of available-for-sale financial assets		17,072	-
Movement in foreign exchange on translation		168,052	(8,544)
Total other comprehensive income/(loss)		**185,124**	**(8,544)**
Total comprehensive loss for the period		**(658,678)**	**(1,008,198)**
Basic loss per share (cents per share)		**(1.18)**	**(1.74)**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Notes	31 December 2013 $	30 June 2013 $
Assets			
Current Assets			
Cash and cash equivalents		921,737	2,076,136
Trade and other receivables		55,332	19,099
Other current assets		34,101	66,642
Total Current Assets		1,011,170	2,161,877
Non-Current Assets			
Other financial assets	2	48,050	30,000
Property, plant and equipment		202,966	212,501
Deferred exploration expenditure	3	6,037,728	5,838,671
Total Non-Current Assets		6,288,744	6,081,172
Total Assets		7,299,914	8,243,049
Liabilities			
Current Liabilities			
Trade and other payables		184,053	461,964
Provisions		39,391	45,937
Total Current Liabilities		223,444	507,901
Total Liabilities		223,444	507,901
Net Assets		7,076,470	7,735,148
Equity			
Issued capital	4	17,514,184	17,514,184
Reserves		561,094	375,970
Accumulated losses		(10,998,808)	(10,155,006)
Total Equity		7,076,470	7,735,148

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	Issued capital	Accumulated losses	Available-for-sale reserve	Foreign currency reserve	Option reserve	Total Equity
	$	$	$	$	$	$
Balance at 1 July 2012	**15,709,055**	**(8,026,292)**	**-**	**135,093**	**573,942**	**8,391,798**
Loss for the period	-	(999,654)	-	-	-	(999,654)
Movement in foreign exchange on translation	-	-	-	(8,544)	-	(8,544)
Total comprehensive loss for the period	**-**	**(999,654)**	**-**	**(8,544)**	**-**	**(1,008,198)**
Shares issued for tenements	149,500	-	-	-	-	149,500
Share based payment	-	-	-	-	4,394	4,394
Balance at 31 December 2012	**15,858,555**	**(9,025,946)**	**-**	**126,549**	**578,336**	**7,537,494**
Balance at 1 July 2013	**17,514,184**	**(10,155,006)**	**-**	**231,961**	**144,009**	**7,735,148**
Loss for the period	-	(843,802)	-	-	-	(843,802)
Net change in fair value of available-for-sale financial assets	-	-	17,072	-	-	17,072
Movement in foreign exchange on translation	-	-	-	168,052	-	168,052
Total comprehensive loss for the period	**-**	**(843,802)**	**17,072**	**168,052**	**-**	**(658,678)**
Balance at 31 December 2013	**17,514,184**	**(10,998,808)**	**17,072**	**400,013**	**144,009**	**7,076,470**

The accompanying notes form part of these financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

	31 December 2013	31 December 2012
	$	$
Cash flows from operating activities		
Cash receipts from customers	-	26,979
Payments to suppliers and employees	(390,882)	(530,875)
Interest received	23,508	63,611
Net cash outflow from operating activities	(367,374)	(440,285)
Cash flows from investing activities		
Payments to term deposit investments	-	(15,876)
Payments for exploration and evaluation	(629,991)	(757,815)
Proceeds from Farm-out agreement	-	201,501
Proceeds from disposal of exploration interests	-	50,000
Payments for acquisition of projects	(160,205)	(350,067)
Payments for plant and equipment	(2,682)	(4,246)
Net cash outflow from investing activities	(792,878)	(876,503)
Net decrease in cash held	(1,160,252)	(1,316,788)
Cash and cash equivalents at the beginning of the period	2,076,136	2,258,811
Effect of foreign exchange on cash balances held	5,853	(8,002)
Cash and cash equivalents at the end of the period	921,737	934,021

The accompanying notes form part of these financial statements

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including 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 IAS 34 'Interim Financial Reporting'.

The condensed consolidated financial statements are for the consolidated entity consisting of Canyon Resources Limited and its subsidiaries.

This condensed consolidated interim financial 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 the interim financial report be read in conjunction with the annual financial report for the year ended 30 June 2013 and any public announcements made by Canyon Resources Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

Basis of preparation

The interim report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

For the purpose of preparing the interim report, the half-year has been treated as a discrete reporting period.

Significant accounting judgments and key estimates

The preparation of interim financial reports requires management to make judgments, 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 interim report, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report for the year ended 30 June 2013.

Accounting policies and methods of computation

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim period. These accounting policies are consistent with Australian Accounting Standards and with International Reporting Standards.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 2: OTHER FINANCIAL ASSETS

	6 months to 31 December 2013 $	Year to 30 June 2013 $
Available-for-sale financial assets carried at fair value:		
Listed shares		
Balance at beginning of period	30,000	-
Fair value of available-for-sale assets acquired during the period	928	360,000
Net change in fair value	17,072	-
Impairment charge	-	(330,000)
	48,050	30,000

Listed shares comprise 1,500,000 ordinary shares in Rumble Resources Limited (“Rumble”) received on 9 November 2012 in accordance with a Farm-out agreement entered into with Rumble on the Derosa project in Burkina Faso. The shares were revalued at 30 June 2013 in line with the Group’s accounting policy to their fair value thus incurring an impairment charge of $330,000. A further 50,000 shares were received in July 2013 and an incease in fair value of $17,072 was credited to a revaluation reserve at 31 December 2013.

NOTE 3: DEFERRED EXPLORATION EXPENDITURE

	6 months to 31 December 2013 $	Year to 30 June 2013 $
Exploration and evaluation phase		
Acquisition of tenements – at cost		
Balance at beginning of the period	5,838,671	5,261,732
Purchase of tenements - cash	160,205	383,327
Purchase of tenements - shares	-	149,500
Impairment of exploration assets (1)	(110,099)	(164,359)
Effect of movement in exchange rates on carrying value	148,951	208,471
Total	**6,037,728**	**5,838,671**

(1) During the current period the Group relinquished its interest in the Tyekobu exploration project in Burkina Faso. The carrying value of the project was $110,099.

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phase is dependent on the successful development and commercial exploitation or sale of the respective areas.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 4: ISSUED CAPITAL

	31 December 2013 $	30 June 2013 $
Ordinary shares		
Issued and fully paid	17,514,184	17,514,184

	31 December 2013 No.	30 June 2013 No.	31 December 2013 $	30 June 2013 $
Movements in ordinary shares on issue				
At beginning of period	71,506,962	56,750,832	17,514,184	15,709,055
- Shares issued for cash	-	14,106,130	-	1,833,800
- Shares issued for exploration assets	-	650,000	-	149,500
- Cost of options issued to brokers	-	-	-	(139,615)
- Cost of share issues	-	-	-	(176,302)
- Transfer from option reserve (1)	-	-	-	137,746
At end of period	71,506,962	71,506,962	17,514,184	17,514,184

(1) Issue costs relating to options issued to brokers amounting to $137,746 were transferred from the option reserve to share capital on their expiry date of 30 June 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 5: SEGMENT REPORTING

The following table presents the profit & loss and assets & liabilities information by segment provided to the Board of Directors for the half-year periods ended 31 December 2013 and 31 December 2012.

	Cue Project (Western Australia)	Project Generation (Africa)	Unallocated (Corporate)	Total
	$	$	$	$
31 December 2013				
Segment revenue	-	-	20,964	20,964
Segment result	-	(437,752)	(406,050)	(843,802)
Included within segment results:				
Depreciation	-	(17,928)	(6,558)	(24,486)
Interest revenue	-	-	20,964	20,964
Impairment of exploration assets	-	(110,099)	-	(110,099)
Segment assets	-	6,222,625	1,077,289	7,299,914
Segment liabilities	-	(29,890)	(193,554)	(223,444)
31 December 2012				
Segment revenue	-	588,480	48,093	636,573
Segment result	-	(282,069)	(717,585)	(999,654)
Included within segment results:				
Depreciation	-	(19,169)	(10,961)	(30,130)
Interest revenue	-	-	48,093	48,093
Impairment of financial assets	-	-	(180,000)	(180,000)
Impairment of exploration assets	-	(160,849)	-	(160,849)
Segment assets	200,000	5,756,268	2,031,405	7,987,673
Segment liabilities	-	(272,490)	(177,689)	(450,179)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 6: FINANCIALINSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and liabilities.

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis
Some of the Group's financial assets and liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation technique(s) and key input(s) used).

	Fair value as at					
Financial assets/liabilities	**31 December 2013**	**30 June 2013**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable input(s)**	**Relationship of unobservable input(s) to fair value**
	$	**$**				
Available-for-sale financial instruments	48,050	30,000	Level 1	Share price	None	None

There were no transfers between Level 1 and Level 2 in the period.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The Directors consider that the carrying value of the financial assets and financial liabilities are recognised in the consolidated financial statements approximate their fair values.

All gains and losses included in other comprehensive income relate to available-for-sale assets held at the balance date are reported as changes of available-for-sale reserve.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 7: COMMITMENTS

a) Exploration expenditure commitments

In order to maintain current rights of tenure to mining tenements and permits, the Group has the following discretionary exploration expenditure requirements up until expiry of leases. These obligations, which are subject to renegotiation upon expiry of the leases, are not provided for in the financial statements and are payable:

	31 December 2013	30 June 2013
	$	$
Within one year	1,426,689	1,310,293
Later than one year but not later than 5 years	5,706,756	5,241,172
	7,133,445	6,551,465
b) Operating lease commitments		
Within one year	16,988	16,988
Later than one year but not later than 5 years	2,831	9,910
	19,819	26,898

In addition to the above commitments is the minimum annual expenditure of $882,864 required to maintain rights to the Derosa project in Burkina Faso. The project is the subject of a Farm-out agreement with Rumble Resources Limited. Rumble can earn a 75% interest in the project through expenditure of $3,000,000.

If the Company decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the statement of financial position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties will reduce or extinguish these obligations.

NOTE 8: CONTINGENT LIABILITIES

a) Under the agreement to acquire the Tigou permit which forms part of the Taparko North project, the consolidated entity is required to pay a 2% net smelter royalty to the vendors or pay US$2,000,000 per permit to pay out the royalty.

b) Under the agreement to acquire the Derosa project the consolidated entity is required to make the following payments and share issues:

- US$100,000 on the second anniversary of the permits being granted
- US$290,000 and the issue of 100,000 shares on the third anniversary of the permits being granted

Canyon may withdraw from the agreement at any time however, should Canyon not make the purchase payments the agreement will be terminated and Canyon will forfeit its right to ownership and will not have the right to be reimbursed.

The project is the subject of a Farm-out agreement with Rumble Resources Limited. Rumble can earn a 75% interest in the project through expenditure of $3,000,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 8: CONTINGENT LIABILITIES (CONTINUED)

c) Under the joint venture agreement with Altus Strategies Limited ("Altus") dated 24 December 2013 to acquire the Birsok project the consolidated entity is required to make the following payments and share issues:

- Cash payment of $150,000
- Expenditure of $2 million over a two year period to acquire a 51% interest
- Expenditure of an additional $3 million over a further three year period to acquire a 75% interest

The agreement is subject to the following conditions precedent:

- The renewal of the Birsok License;
- Canyon obtaining all necessary shareholder approvals required to issue the Initial Consideration Shares and any other approvals required by ASX;
- Canyon and the Owner obtaining all statutory and regulatory approvals and any other third party consents or waivers which are necessary or desirable to complete the Acquisition;
- the absence of any material adverse change in the financial and operational condition of the assets of each of the parties; and
- Canyon announcing through ASX a capital raising of not less than A$650,000 (Capital Raising) in the 30 business days following announcement of the Acquisition, on terms acceptable to Canyon. This condition may be waived by Canyon in its sole discretion under the Agreement.

The conditions precedent are to be satisfied by 30 April 2014 or can be extended by mutual agreement between the parties.

Canyon is required to spend a minimum of $500,000 before it can choose to withdraw from the agreement.

Once Canyon has earned a 75% interest, Altus may elect to contribute and if they elect not to, their remaining 25% interest can be diluted to 10% by the expenditure of an additional A$1.5 million for each 5% interest. If Altus is diluted to 10%, Canyon can elect to buy out the remaining 10% at a value to be determined by an independent valuation.

A 5% net profit from the Birsok Project (Royalty) is held by a third party and Canyon may purchase the Royalty for a cash payment of US$1 million at any time.

Upon achievement of certain value-adding milestones to the project, Altus Group may earn deferred consideration, as follows:

- $1.5 million worth of Canyon shares, at a deemed issue price equal to the 45 trading day volume weighted average price of Canyon's ordinary shares trading on ASX ending on the day immediately prior to the date of satisfaction of this milestone, upon the definition of a minimum 150Mt JORC compliant resource with a minimum grade of 45% Al_2O_3 and a maximum of 2% reactive SiO_2 (as opposed to total SiO_2 content); and
- $1.5 million worth of Canyon shares upon the completion of a feasibility study (to a bankable or definitive level), the grant of a mining lease on the Project, and the completion of a capital raising by Canyon to provide for 100% of Canyon's required capital expenditure to reach first production of bauxite from the Project, to be issued at the same price as that capital raising.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

NOTE 8: CONTINGENT LIABILITIES (CONTINUED)

d) As part of the agreement whereby Canyon through its subsidiary CSO Sarl will have the option to acquire 100% of the Pinarello project the following payments are required to be made:

- US$90,000 on 30th April 2014
- US$310,000 on 21st October 2014

Canyon may withdraw from the agreement at any time however, should Canyon not make the purchase payments the agreement will be terminated and Canyon will forfeit its right to ownership and will not have the right to be reimbursed.

Under the agreement the consolidated entity is required to pay a 1% net smelter royalty to the vendors.

Other than those disclosed above there are no contingent liabilities outstanding at the end of the year.

NOTE 9: EVENTS SUBSEQUENT TO BALANCE DATE

Subsequent to the balance date the Company completed a non-renounceable entitlement issue raising $839,478 before issue costs through the issue of 18,655,061 shares at an issue price of $0.045 each and a share placement raising $319,000 before issue costs through the issue of 7,088,905 shares on the same terms. Each share was issued with a free attaching option with an exercise price of $0.06 per option and an expiry date of 31 January 2017.

Subsequent to the balance date the Company granted 6,500,000 Director incentive options to Directors of the Company. The options over ordinary shares are exercisable at $0.06 per option and expire on 31 January 2017.

No matter or circumstance, other than the above, has arisen which has significantly affected, or may significantly affect the operations of the Group, the result of those operations, or the state of affairs of the Group in subsequent financial years.

DIRECTORS' DECLARATION

In the opinion of the directors:

1 the financial statements and notes set out on pages 10 to 21 are in accordance with the *Corporations Act 2001*, including:

(a) complying with Accounting Standards, AASB 134 *"Interim Financial Reporting*" the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

2 there are reasonable grounds to believe that Canyon Resources Limited 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.

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Phillip Gallagher

Managing Director

Perth, 14 March 2014

HLB Mann Judd

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INDEPENDENT AUDITOR'S REVIEW REPORT
To the members of Canyon Resources Limited.

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Canyon Resources Limited which comprises the condensed consolidated statement of financial position as at 31 December 2013, 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 and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, 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*.

HLB Mann Judd

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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 Canyon Resources Limited is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

L Di Giallonardo
Partner

Perth, Western Australia
14 March 2014