



# Financial Report

Half-year ended 31 December 2020

**Nagambie Resources Limited  
and Controlled Entities**

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## Corporate Directory

**NAGAMBIE RESOURCES LIMITED** ABN 42 111 587 163  
**NAGAMBIE DEVELOPMENTS PTY LTD** ABN 37 130 706 311  
**NAGAMBIE LANDFILL PTY LTD** ABN 90 100 048 075

### PRINCIPAL LEGAL ADVISER

GrilloHiggins Lawyers  
 Level 4, 114 William Street  
 Melbourne Vic 3000  
 Telephone: (03) 8621 8881  
[www.grillohiggins.com.au](http://www.grillohiggins.com.au)

### REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

533 Zanelli Road  
 Nagambie Vic 3608  
 PO Box 339  
 Telephone: (03) 5794 1750  
 Website: [www.nagambieresources.com.au](http://www.nagambieresources.com.au)  
 Email: [info@nagambieresources.com.au](mailto:info@nagambieresources.com.au)

### AUDITOR

William Buck (Vic) Audit Pty Ltd  
 Level 20, 181 William Street  
 Melbourne Vic 3000

### DIRECTORS

Michael W Trumbull (Executive Chairman)  
 Alfonso M G Grillo (Non-Executive Director)  
 Gary R Davison (Non-Executive Director)

### SHARE REGISTRY

Automic Pty Ltd  
 Level 3, 50 Holt Street  
 Surry Hills NSW 2010  
 Telephone: 1300 288 664  
[www.automic.com.au](http://www.automic.com.au)

### CHIEF EXECUTIVE OFFICER

James C Earle

### COMPANY SECRETARY

Alfonso M G Grillo

### SECURITIES EXCHANGE LISTING

Nagambie Resources Limited shares are listed on the Australian Securities Exchange  
 ASX code: NAG

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## Directors' Report

The Directors of Nagambie Resources Limited (the Company) submit herewith the Financial Report of the Company and its controlled entities (the Group) for the half-year ended 31 December 2020.

### Directors

The names of the Directors in office during the half-year and until the date of this report were:

Michael W Trumbull	(Executive Chairman)
Alfonso M G Grillo	(Non-Executive Director)
Gary R Davison	(Non-Executive Director)

### Principal activities

The principal activities of the group during the financial period were the exploration for, and development of, gold, associated minerals, and construction materials in Australia and the investigation and development of waste handling assets.

### Review of Operations

Gold exploration for high-grade gold deposits in central Victoria was further advanced during the half year, both as standalone projects and as joint-venture projects with Mawson Gold. The potential recovery of residual gold in the heap leach pad at the Nagambie Mine utilising naturally-occurring bacteria is to be tested at an Australian laboratory. The environmental and logistical advantages of underwater PASS Management at the Nagambie Mine as part of mine rehabilitation were also further promoted during the half year.

### Nagambie Resources' Gold Exploration

The probable location of the sulphide-gold feeder zone for the Nagambie Mine is becoming clearer with the drilling of the NWD001 diamond hole and the commencement of the RAD004 hole.

The feeder zone is now considered to be immediately to the west/south-west of the West Pit as was indicated by the Radial Induced Polarisation (IP) survey carried out on the NND002 hole in the 2019/2020 year.

### Joint Ventures with Mawson Gold

Mawson Gold have carried out extensive geophysics and drilled 15 diamond holes (MDDRE001-015) for 2,775m at the Redcastle JV Property (Nagambie Resources can retain a 30% interest) and comprehensive results are expected shortly.

The drilling at Redcastle was completed immediately prior to Christmas 2020 and the drill rig was then moved to the Doctors Gully prospect in the Whroo JV Property (Nagambie Resources will be able to retain up to 30% or 40% at its option).

### Bacterial Recovery of Residual Gold in the Heap Leach Pad

Nagambie Resources established that an Australian laboratory is well equipped to carry out the bacterial speciation and ongoing testwork required to investigate the recovery of residual gold from the 1989-1997 Nagambie Mine heap leach pad using naturally-occurring bacteria. With the assistance of that organisation, Nagambie Resources successfully applied for an initial federal grant of \$50,000 for the bacterial testwork program.

### PASS Management Project

Best practice management of PASS, potential acid sulfate soil or rock, is to store it under water, preventing oxidation and acid formation. Nagambie Resources has an Environment Protection Authority of Victoria (EPA)-approved Environment Management Plan (EMP) to store PASS in the legacy water-filled pits at the Nagambie Mine as part of the proposed rehabilitation of those pits.

Total PASS to be generated from the proposed North East Link Project (NELP) road tunnels in north-east Melbourne will be around 6.6 million tonnes. Nagambie Resources was asked to provide pricing for PASS management by a bidding consortium, and did so, ahead of the NELP tender which closed in May 2020.

During the half year, Nagambie Resources continued to promote the Nagambie Mine's environmental and logistical advantages for PASS management, particularly for large tonnage projects such as NELP.

### Subsequent Events

The NAD004 hole, while still being drilled, has visually shown the best primary sulphide mineralisation intersected to date by Nagambie Resources. The predominant sulphide has been pyrite in the form of pyritohedron crystals (12 faces with each face being an irregular pentagon shape). Arsenian pyrite, which consists of layers of pyrite and arsenopyrite and contains microscopic or "invisible" gold in both the pyrite and arsenopyrite, is known to have this pyritohedron crystal shape. Assays are pending for half core samples in the first 400m of NAD004 and will confirm if the pyrite does contain arsenic, iron and gold as anticipated.

Nagambie Resources has provided more detailed pricing to a bidding consortium, after being requested to do so, for the underwater management of tunnel PASS at the Nagambie Mine for the North East Link Project.

### Auditor's independence declaration

The auditor's independence declaration is attached to this directors' report.

Signed in accordance with a resolution of directors.

On behalf of the directors



Michael W Trumbull  
Executive Chairman

Melbourne  
12 March 2021

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**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF NAGAMBIE RESOURCES  
LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2020 there have been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

*William Buck*

**William Buck Audit (Vic) Pty Ltd**  
ABN: 59 116 151 136

*Alan Finnis*

**A. A. Finnis**  
Director  
Melbourne, 12 March 2021

**ACCOUNTANTS & ADVISORS**

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Melbourne VIC 3000

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## Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2020

	Consolidated	
	31 Dec 2020 \$	31 Dec 2019 \$
<b>Revenue</b>		
Rental income	104,280	94,471
Sale of non-gold materials	19,764	6,493
Other income	36,126	8,443
<b>Total Revenue</b>	<b>160,170</b>	109,407
<b>Expenses</b>		
Corporate expenses	(252,165)	(326,646)
Cost of sales and rehabilitation	(15,308)	(140,818)
Depreciation	(113,078)	(86,446)
Directors and employee benefits expense	(626,108)	(464,453)
Finance costs	(235,580)	(227,801)
<b>Total Expenses</b>	<b>(1,242,239)</b>	(1,246,164)
<b>Loss before income tax</b>	<b>(1,082,069)</b>	(1,136,757)
Income tax benefit	-	727,644
<b>Loss for the period</b>	<b>(1,082,069)</b>	(409,133)
<b>Other Comprehensive Income</b>		
<i>Items that will not be re-classified to profit or loss</i>		
Movement in Fair Value of investments	(96,062)	-
<b>Total comprehensive loss for the period</b>	<b>(1,178,131)</b>	(409,133)
<b>Loss per share</b>		
Basic and diluted loss per share in cents	(0.22)	(0.09)

The accompanying notes form part of these financial statements.

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## Statement of Financial Position as at 31 December 2020

	Note	Consolidated	
		31 Dec 2020 \$	30 Jun 2020 \$
<b>Current assets</b>			
Cash and cash equivalents		84,497	224,057
Trade and other receivables		88,443	75,235
Prepayments		73,104	-
Equity investments at fair value	2	2,157,875	1,977,054
<b>Total current assets</b>		<b>2,403,919</b>	<b>2,276,346</b>
<b>Non-current assets</b>			
Security deposits		739,378	709,213
Equity investments at fair value	2	944,692	1,977,055
Property, plant and equipment		267,103	284,013
Right of use assets		643,980	743,579
Exploration and evaluation assets	3	12,646,432	12,149,498
<b>Total non-current assets</b>		<b>15,241,585</b>	<b>15,863,358</b>
<b>Total assets</b>		<b>17,645,504</b>	<b>18,139,704</b>
<b>Current liabilities</b>			
Trade and other payables		470,547	246,725
Borrowings	4	900,000	300,000
Lease liabilities		278,024	279,349
Provisions		41,925	32,303
Contract liability		41,188	41,188
<b>Total current liabilities</b>		<b>1,731,684</b>	<b>899,565</b>
<b>Non-current liabilities</b>			
Borrowings	4	3,634,000	4,234,000
Lease liabilities		165,975	287,092
Provisions		20,238	18,927
<b>Total non-current liabilities</b>		<b>3,820,213</b>	<b>4,540,019</b>
<b>Total liabilities</b>		<b>5,551,897</b>	<b>5,439,584</b>
<b>Net assets</b>		<b>12,093,607</b>	<b>12,700,120</b>
<b>Equity</b>			
Issued capital	5	27,284,103	27,284,103
Options reserve		2,562,295	2,105,677
Asset revaluation reserve		714,370	1,236,697
Accumulated losses		(18,467,161)	(17,926,357)
<b>Total equity</b>		<b>12,093,607</b>	<b>12,700,120</b>

The accompanying notes form part of these financial statement

## Statement of Changes in Equity for the half-year ended 31 December 2020

	Consolidated				
	Issued capital \$	Options reserve \$	Asset revaluation reserve \$	Accumulated losses \$	Total \$
<b>Balance at 1 July 2019</b>	24,123,551	1,828,340	-	(17,196,866)	8,755,025
Loss for the year	-	-	-	(409,133)	(409,133)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(409,133)	(409,133)
Recognition of share based payments	-	424,337	-	-	424,337
Transfer value of options lapsed	-	(147,000)	-	147,000	-
Shares issued	663,800	-	-	-	663,800
Share issue costs	(3,248)	-	-	-	(3,248)
<b>Balance at 31 December 2019</b>	24,784,103	2,105,677	-	(17,458,999)	9,430,781
<b>Balance at 1 July 2020</b>	<b>27,284,103</b>	<b>2,105,677</b>	<b>1,236,697</b>	<b>(17,926,357)</b>	<b>12,700,120</b>
Loss for the half year	-	-	-	(1,082,069)	(1,082,069)
Other comprehensive income	-	-	(96,062)	-	(96,062)
Total comprehensive income	-	-	(96,062)	(1,082,069)	(1,178,131)
Recognition of share based payments	-	571,618	-	-	571,618
Transfer of gain on disposal of investment	-	-	(426,265)	426,265	-
Transfer value of options lapsed	-	(115,000)	-	115,000	-
<b>Balance at 31 December 2020</b>	<b>27,284,103</b>	<b>2,562,295</b>	<b>714,370</b>	<b>(18,467,161)</b>	<b>12,093,607</b>

The accompanying notes form part of these financial statements



## Statement of Cash Flows for the half-year ended 31 December 2020

	Consolidated	
	31 Dec 2020 \$	31 Dec 2019 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	142,106	140,814
Payments to suppliers and employees	(160,312)	(635,240)
Interest received	3,121	7,439
Interest paid	(235,579)	(203,381)
R&D tax incentive	-	727,624
<b>Net cash used in operating activities</b>	<b>(250,664)</b>	37,256
<b>Cash flows from investing activities</b>		
Receipts from disposal of plant and equipment	5,000	-
Receipts from disposal of investments	755,480	-
Payments for exploration expenditure	(496,934)	(340,142)
Payments for security bonds	(30,000)	(101,561)
<b>Net cash used in investing activities</b>	<b>233,546</b>	(441,703)
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	-	663,800
Payment of share issue costs	-	(3,248)
Repayment of lease liabilities	(122,442)	(89,393)
<b>Net cash provided by financing activities</b>	<b>(122,442)</b>	(571,159)
<b>Net decrease in cash and cash equivalents</b>	<b>(139,560)</b>	166,712
Cash and cash equivalents at the beginning of the financial period	224,057	224,988
<b>Cash and cash equivalents at the end of the financial period</b>	<b>84,497</b>	391,700

## Notes to the Financial Statements for the half-year ended 31 December 2020

### 1. Significant accounting policies

#### Reporting Entity

Nagambie Resources Limited (Nagambie Resources or the Company) is a company domiciled in Australia. The half-year financial report of the Company as at and for the half-year ended 31 December 2020 comprises the Company and its subsidiaries (together referred to as the Group).

#### Statement of Compliance

These general purpose financial statements have been prepared in accordance with *AASB 134 Interim Financial Reporting* and *the Corporations Act 2001*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard *IAS 134 Interim Financial Reporting*.

The half-year financial statements do not include all notes of the type normally included with the Annual Financial Statements. They therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full annual financial statements. The half-year financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2020 and any public announcements made by the Company during the half-year reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

#### Basis of preparation

The financial statements have been prepared on an accruals basis using historical cost with the exception of equity investments which are measured at fair value and the going concern basis of accounting. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, which is the functional and presentation currency of the Company and its controlled entities. Comparative information where necessary has been reclassified in order to achieve consistency in presentation with amounts disclosed in the current period.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to the operations and effective for the current reporting period. The adopting of those Standards has not had any impact on the disclosures, or the amounts recognised in the Group's consolidated financial statements.

#### New or amended Accounting Standards and Interpretations adopted

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of The Group's annual consolidated financial statements for the year ended 30 June 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments and interpretations apply for the first time in 2020, but do not have an impact on the interim condensed consolidated financial statements of the Group.

This financial report has been prepared on a going concern basis and does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to amounts and classification of liabilities that may be necessary should the Group be unable to continue as a going concern.

**2. Equity Investments at fair Value****Current assets as at 30 June 2020**

Shares in Mawson Gold Limited	1,977,054
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**Non-current assets as at 30 June 2020**

Shares in Mawson Gold Limited	1,977,055
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Total Equity Investments at fair value as at 30 Jun 2020	3,954,109
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Sale of investments during the period at fair value	(755,480)
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Revaluation on investments held at 31 December	(96,062)
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<b>Total Equity Investments at fair value as at 31 December 2020</b>	<b>3,102,567</b>
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	<b>31 Dec 2020</b>	30 Jun 2020
<b>Current assets</b>	<b>\$</b>	<b>\$</b>
Shares in Mawson Gold Limited	<b>2,157,875</b>	1,977,054
<b>Non-current assets</b>		
Shares in Mawson Gold Limited	<b>944,692</b>	1,977,055
<b>Total Equity Investments at fair value as at</b>	<b>3,102,567</b>	3,954,109

The shares shown above as current assets are those which are available for sale within the next 12 months. Those shown as non-current assets are subject to escrow periods which expire beyond that time.

The difference between fair value at balance date and the cost at the date of the transaction for equity investments is \$714,370 which is reflected in the Asset revaluation reserve.

Financial assets at fair value through other comprehensive income relate to Mawson Gold Limited which are ordinary shares in a company listed on the Toronto Stock Exchange. These have been valued at the quoted prices at accordance with AASB 13, using Level 1 of the fair value hierarchy – quoted price (unadjusted) in active markets for identical assets or liabilities.

AASB 13 'Fair Value Measurement' requires disclosure of fair value measurements by level of the fair value hierarchy, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**3. Exploration and evaluation assets**

	<b>31 Dec 2020</b>	30 Jun 2020
	<b>\$</b>	<b>\$</b>
<b>Opening balance</b>	<b>12,149,498</b>	10,917,480
Expenditure for the period	<b>496,934</b>	1,235,018
<b>Closing Balance</b>	<b>12,646,432</b>	12,149,498

During the half-year the Group reassessed the recoverable value of all tenement areas of interest to which exploration costs had been capitalised and no impairment was deemed applicable. No tenements have been relinquished during the reporting period.

**4. Borrowings****Current**

Unsecured convertible notes (a)	600,000	-
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Loan – Shareholder (b)	300,000	300,000
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<b>Total current borrowings</b>	<b>900,000</b>	300,000
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**Non-Current**

Unsecured convertible notes (a)	3,634,000	4,234,000
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<b>Total non-current borrowings</b>	<b>3,634,000</b>	4,234,000
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<b>Total borrowings</b>	<b>4,534,000</b>	4,534,000
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- (a) As at 31 December 2020 the Company has 4 series of Unsecured Convertible Notes on issue for a total of \$4,234,000.
- Series 5: 3,333,333 Notes issued at 18 cents on 19 September 2016 for a total of \$600,000  
 Series 6: 18,000,000 Notes issued at 10 cents on 17 November 2017 for a total of \$1,800,000  
 Series 7: 7,000,000 Notes issued at 10 cents on 27 February 2019 for a total of \$700,000  
 Series 8: 22,680,000 Notes issued at 5 cents on 19 January 2020 for a total of \$1,134,000
- Each series of Convertible Note has the following terms:
- Interest is payable at 10% per annum every six months in arrears after the issue date;
  - Convertible on a 1 for 1 basis into ordinary shares in the company at any time prior to the maturity date at the option of the note holder;
  - Redeemable for cash in full after 5 years, if not converted;
  - Unsecured but rank ahead of shareholders; and
  - Protected for reorganisation events such as bonus issues and share consolidations.
- (b) The Company has a short term unsecured loan from a shareholder. The loan is repayable on 31 March 2021 and bears interest at a rate of 10%.

## 5. Issued Capital

### Issued and paid up capital

	No. Shares	\$ Issued Capital
Opening Balance at 1 July 2020	449,932,346	27,284,103
<b>Balance 31 December 2020</b>	<b>449,932,346</b>	<b>27,284,103</b>

## 6. Share options

A total of 14,150,000 options were issued to directors and employees during the half-year. All options vested immediately on issue. All options were issued with an exercise price of 10.0 cents per share and an expiry date of 1 December 2025. They were valued using a binomial model and the expense was \$571,618.

The fair value of the share options granted during the half-year is 4.04 cents. Options were priced using a Binomial option valuation model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations. Expected volatility is based on the historical share price volatility over the past 3 years. The options may be exercised early, but not before vesting date.

Inputs into the valuation model	
Grant date	01/12/2020
Options Issued	14,150,000
Share price at grant date	6.3 cents
Exercise price	10.0 cents
Expected volatility	94.6%
Option life	5 years
Dividend yield	Nil
Risk free interest rate	0.32%
Vesting date	01/12/2020

No options were exercised during the half-year. 11,500,000 options lapsed in the period.

	Date	Options on issue	Options reserve balance
Opening balance	30 June 2020	72,450,000,	\$ 2,105,677
Lapsed	16 Nov 2020	(11,500,000)	\$ (115,000)
Grant	1 Dec 2020	14,150,000	\$ 571,618
<b>Closing balance</b>	<b>31 Dec 2020</b>	<b>75,100,000</b>	<b>\$ 2,562,295</b>

## 7. Segment information

The Group operates in one principal geographical area – in Australia. The Group carries out the exploration for gold and associated minerals. The Group is also progressing opportunities available from the underwater storage of PASS material from Melbourne construction projects and the development of waste handling facilities. The Group is currently developing revenue streams from the sale of construction industry materials located on its freehold land. This is not a separate segment but arises as a by-product of gold exploration and evaluation.

## 8. Planned capital expenditure

The Group holds various tenements for its mineral exploration activities. These tenements require the Group to meet minimum capital expenditure requirements. To satisfy those requirements, the Group has to expend \$1,286,983 for the 12 months ending 31 December 2021. Thereafter it expects to spend approximately \$1,100,000 every 12 months indexed at CPI for as long as it maintains its current portfolio of tenements.

The tenements also have environmental clauses that require the Group to restore the disturbed area of interest back to a condition that satisfies the Department of Economic Development, Jobs, Transport and Resources (DEDJTR). Security deposits of \$557,000 are held with the Group banker to guarantee these obligations with a further \$30,000 held directly by DEDJTR.

## 9. Contingent liabilities

Apart from the matter mentioned in Note 8, the Group has no contingent liabilities as at 31 December 2020.

## 10. Events subsequent to balance date

The NAD004 hole, while still being drilled, has visually shown the best primary sulphide mineralisation intersected to date by Nagambie Resources. The predominant sulphide has been pyrite in the form of pyritohedron crystals (12 faces with each face being an irregular pentagon shape). Arsenian pyrite, which consists of layers of pyrite and arsenopyrite and contains microscopic or “invisible” gold in both the pyrite and arsenopyrite, is known to have this pyritohedron crystal shape. Assays are pending for half core samples in the first 400m of NAD004 and will confirm if the pyrite does contain arsenic, iron and gold as anticipated.

Nagambie Resources has provided more detailed pricing to a bidding consortium, after being requested to do so, for the underwater management of tunnel PASS at the Nagambie Mine for the North East Link Project.

## Directors' Declaration

In the Directors' opinion:

1. the financial statements and notes set out on pages 5 to 13 are 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 2020 and of its performance for the half-year ended on that date; and
  - (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting*; and
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.

Signed in accordance with a resolution of the Directors made pursuant to s.303(5) of the *Corporations Act 2001*.

On behalf of the directors



Michael W Trumbull  
Executive Chairman

Melbourne  
12 March 2021

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# Nagambie Resources Limited

## Independent auditor's review report

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

#### Qualified Opinion

We have audited the financial report of Nagambie Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the matters described below in the Basis for Qualified Opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Qualified Opinion

*Fair valuation of the debt component of convertible notes upon initial recognition*

As disclosed in Note 3 to the financial statements in the current and prior year, the Company has raised \$3,634,000 from investors through the issue of Series 6, Series 7 and Series 8 unsecured convertible notes. All tranches of unsecured convertible notes have a coupon interest rate of 10% per annum and include an equity conversion feature, entitling the noteholder to convert the principal value of each note into ordinary shares at 10 cents per share for Series 6 and Series 7, and 5 cents per share for Series 8. AASB 132 *Financial Instruments: Presentation* requires that the debt component of such convertible notes, with fixed conversion formulae, be valued at fair value upon initial recognition (the date upon which the Company and the convertible noteholder became party to contract), with any difference between the face value of those notes and the fair value of the debt component recognised in equity.

The directors of the Company believe there is no reliable basis for measuring at fair value the debt component at initial recognition, principally upon the basis that there is no readily accessible market for unsecured debt with no equity conversion rights for exploration enterprises with similar market capitalisation levels either in Australia or any other foreign jurisdiction, upon which it could benchmark a reliable discount rate to fair value the debt.

#### ACCOUNTANTS & ADVISORS

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Upon that basis, they have assessed the fair value of the debt component to equal the face value of the convertible notes for both tranches of convertible notes.

Notwithstanding this, we consider that a market value for the debt component of such convertible notes can be imputed from other like-for-like Australian-based listed exploration companies, principally due to the growth in popularity of convertible notes as a mechanism for obtaining finance in recent years. Our view is that the depth of the active market has become sufficient for our basis of opinion around the time that the Series 6 notes were issued. Based upon our analysis, we believe that 25% would be an appropriate discount rate for Series 6 and Series 7 and a 20% discount rate for Series 8 to apply in calculating the fair value of the debt component of convertible notes at initial recognition.

Based upon this key assumption, had such a discount been applied against the three tranches of convertible notes which were issued during the current and prior years, the following adjustments would be required to these financial statements as at 31 December 2020:

#### **Series 6**

- Convertible notes held at \$1,800,000 in the statement of financial position would be restated to \$1,416,496;
- An equity reserve would be created, worth \$691,837, representing the difference between the face value and fair value of the Convertible Note at initial recognition; and
- An additional interest charge of \$308,333, representing the proportionate unwind of the discount applied to the convertible notes from initial recognition through to 31 December 2020.

#### **Series 7**

- Convertible notes held at \$700,000 in the statement of financial position would be restated to \$522,113;
- An equity reserve would be created, worth \$269,048, representing the difference between the face value and fair value of the Convertible Note at initial recognition; and
- An additional interest charge of \$91,161, representing the proportionate unwind of the discount applied to the convertible notes from initial recognition through to 31 December 2020.

#### **Series 8**

- Convertible notes held at \$1,134,000 in the statement of financial position would be restated to \$901,041;
- An equity reserve would be created, worth \$322,951, representing the difference between the face value and fair value of the Convertible Note at initial recognition; and
- An additional interest charge of \$91,992, representing the proportionate unwind of the discount applied to the convertible notes from initial recognition through to 31 December 2020.

#### **Other matters relevant to the Basis for Qualified Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to



our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, has been provided on the date of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

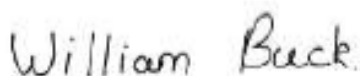
### **Responsibility of Management for the Half-Year Financial Report**

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.

### **Auditor's Responsibilities for the Review of the Half-Year Financial Report**

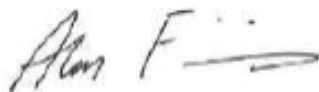
Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2020 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*.

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.

A handwritten signature in black ink that reads 'William Buck'.

**William Buck Audit (Vic) Pty Ltd**

ABN: 59 116 151 136

A handwritten signature in black ink that reads 'Alan A. Finnis'.

**A. A. Finnis**

Director

Melbourne, 12 March 2021