Financial Report

Half-year ended 31 December 2019

Nagambie Resources Limited
and Controlled Entities

Corporate Directory

NAGAMBIE RESOURCES LIMITED ABN 42 111 587 163
CLONBINANE GOLDFIELD PTY LTD ACN 160 928 932
NAGAMBIE DEVELOPMENTS PTY LTD ABN 37 130 706 311
NAGAMBIE LANDFILL PTY LTD ABN 90 100 048 075

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS
533 Zanelli Road
Nagambie Vic 3608
PO Box 339
Telephone: (03) 5794 1750
Website: www.nagambieresources.com.au
Email: info@nagambieresources.com.au

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

CHIEF EXECUTIVE OFFICER
James C Earle

COMPANY SECRETARY
Alfonso M G Grillo

PRINCIPAL LEGAL ADVISER
GrilloHiggins Lawyers
Level 4, 114 William Street
Melbourne Vic 3000
Telephone: (03) 8621 8881
www.grillohiggins.com.au

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

SHARE REGISTRY
Automic Pty Ltd
Level 3, 50 Holt Street
Surry Hills NSW 2010
Telephone: 1300 288 664
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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 2019.

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

The loss of the Group for the half-year ended 31 December 2019 after income tax amounted to $409,133 compared to a loss of $1,159,942 for the 2018 half-year, a decrease of $750,809. Significantly there was a large non-cash charge during the half-year of $424,337 (2018: $584,730) that flowed from the value placed on the options issued as compensation to directors and employees. Another significant item was the receipt of an R&D tax incentive of $727,624 (2018 Nil) during the period.

Gold exploration for Fosterville-style high-grade underground sulphide-gold deposits in the Waranga Domain was further advanced during the half year ending 31 December 2019. The environmental and logistical advantages of underwater PASS Management at the Nagambie Mine as part of mine rehabilitation were also promoted during the half year.

Exploration Licences

Additional exploration licences covering Fosterville-style prospective ground were granted during the half year. The total area of ELs granted in the Waranga Province at 31 December 2019 was 1,877 sq km, with an additional 8 sq km under application with priority.

Waranga Geological Model (WaGM)

Nagambie Resources has continued to improve and refine the WaGM for Fosterville-style underground gold mineralisation in the Waranga Domain utilising a variety of geophysical methods (aeromagnetics, gravity and ground IP (induced polarisation)), geochemistry (proprietary soil sampling), diamond core drilling and lithogeochemical analysis for hydrothermal alteration of rocks in drill core.

The second deep diamond drillhole at Wandean, WTD002, was completed during the half year. Initial core sampling and assaying proved inconclusive and additional core sampling and assaying is being carried out.

Planning for the next round of IP work to the west and north west of the Nagambie Mine was completed and the survey was subsequently carried out in January 2020.

Strategic Partnership Discussions

The Company commenced discussions during the half year with a Canadian gold exploration company, Mawson Resources Limited, in relation to a strategic partnership and three Letter Agreements were subsequently signed on 30 January 2020.

WASS/PASS Management Project

Waste acid sulfate soil and rock (WASS) can be either potential acid sulfate soil and rock (PASS) or actual acid sulphate soil and rock (AASS). PASS exists below the water table and, if it is excavated and then stored above ground, it naturally oxidises into AASS with attendant acid drainage environmental issues. Best practice management of PASS 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. PASS capacity of the pits is around 5.0 million tonnes. The water in the Nagambie Mine open pits is naturally saline and alkaline, making it ideal for PASS management, particularly for PASS rock.

Total PASS rock to be generated from the proposed North East Link Project road tunnels in north-east Melbourne will be approximately 5.4 million tonnes, all of it from tunnelling by large-diameter tunnel boring machines. In September 2019, the Victorian Government announced the consortiums that will be bidding for the construction of North East Link, with tenders to close in mid CY2020.

Events Subsequent to Balance Date

On the 20 January 2020 the company announced to the ASX that it had raised $200,000 from the issue of 4,000,000 Series 8 Unsecured Convertible Notes with a face value of 5 cents. These notes were issued under terms similar to other Convertible Notes on issue, as shown at Note 3 above. At the same time all the Series 4 Unsecured Convertible Notes with a face value of 5 cents and a maturity date of 15 April 2020 were redeemed and rolled into Series 8 Unsecured Convertible Notes with a face value of 5 cents.

On 30 January 2020, the Company announced to the ASX a strategic partnership with a Canadian company, Mawson Resources Limited ("Mawson") and the signing of three Letter Agreements. The three Definitive Agreements are on track to be signed in March 2020. Total consideration to the Company under the agreements was valued on 30 January 2020 at approximately $3,323,000; $528,000 in cash and approximately $2,795,000 in 9.5 million Mawson shares. In addition, Mawson is committed to carry out the next $200,000 of gold exploration expenditure on two of the Company's exploration tenements in the first year. Shareholders should refer to the ASX announcement on 30 January 2020 for more information.

Adoption of new Accounting Standard AASB 16 – Leases.

The adoption of AASB 16 - Leases had a significant impact on the current period. This included an increased depreciation and amortisation expense of $32,883 and finance costs of $6,652, which were offset by a reduction in administrative related expenses (reclassification of lease expense) of $38,182.

As at 31 December 2019, non-current assets were increased by $383,640 as a result of recognition of a property lease recognised as a right of use in the period. A current and non-current liability of $119,611 and $265,382 respectively, has been recorded against this right of use asset.

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
11 March 2019

William Buck

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 2019 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

A. A. Finnis
Director

Melbourne, 11 March 2020

ACCOUNTANTS & ADVISORS
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Statement of Profit or Loss and Other Comprehensive Income
for the half-year ended 31 December 2019

	Note	Consolidated 31 Dec 2019 $	Consolidated 31 Dec 2018 $
Revenue			
Rental income		**94,471**	95,712
Sale of non-gold materials		**6,493**	88,129
Other income		**8,443**	13,912
Total Revenue		**109,407**	197,753
Expenses			
Corporate expenses		**(326,646)**	(305,147)
Cost of sales and rehabilitation		**(140,818)**	(160,934)
Depreciation		**(86,446)**	(60,622)
Directors and employee benefits expense		**(464,453)**	(651,412)
Finance costs		**(227,801)**	(179,580)
Total Expenses		**(1,246,164)**	(1,357,695)
Loss before income tax		**(1,136,757)**	(1,159,942)
Income tax benefit	6	**727,624**	-
Loss for the period		**(409,133)**	(1,159,942)
Other comprehensive income		**-**	-
Total comprehensive loss for the period		**(409,133)**	(1,159,942)
Loss per share			
Basic and diluted loss per share in cents		**(0.09)**	(0.28)

The accompanying notes form part of these financial statements

Statement of Financial Position
as at 31 December 2019

	Note	Consolidated 31 Dec 2019 $	Consolidated 30 Jun 2019 $
Current assets			
Cash and cash equivalents		**391,700**	224,988
Trade and other receivables		**70,819**	68,477
Prepayments		**49,439**	-
Total current assets		**511,958**	293,465
Non-current assets			
Security deposits		**737,040**	635,479
Property, plant and equipment	2	**1,147,128**	817,051
Exploration and evaluation assets	3	**12,108,204**	11,768,062
Total non-current assets		**13,992,372**	13,220,592
Total assets		**14,504,330**	13,514,057
Current liabilities			
Trade and other payables		**275,730**	341,553
Borrowings	4	**1,180,233**	1,060,622
Revenue in advance		**41,188**	-
Provisions		**22,288**	15,523
Total current liabilities		**1,519,439**	1,417,698
Non-current liabilities			
Borrowings	4	**3,538,008**	3,330,489
Provisions		**16,102**	10,845
Total non-current liabilities		**3,554,110**	3,341,334
Total liabilities		**5,073,549**	4,759,032
Net assets		**9,430,781**	8,755,025
Equity			
Issued capital	5	**24,784,103**	24,123,551
Reserves		**2,105,677**	1,828,340
Accumulated losses		**(17,458,999)**	(17,196,866)
Total equity		**9,430,781**	8,755,025

The accompanying notes form part of these financial statements

Statement of Changes in Equity
for the half-year ended 31 December 2019

	Consolidated			
	Issued capital $	Options reserve $	Accumulated losses $	Total $
Balance at 1 July 2018	22,091,390	1,214,896	(15,733,658)	7,572,628
Shares issued	2,025,500	-	-	2,025,500
Share issue costs	(20,749)	-	-	(20,749)
Recognition of share based payments	-	584,730	-	584,730
Transfer value of options exercised	27,410	(27,410)		-
Transfer value of options lapsed	-	(21,840)	21,840	-
Total comprehensive loss	-	-	(1,159,942)	(1,159,942)
Balance at 31 December 2018	24,123,551	1,750,376	(16,871,760)	9,002,167
Balance at 1 July 2019	**24,123,551**	**1,828,340**	**(17,196,866)**	**8,755,025**
Shares issued	**663,800**	**-**	**-**	**663,800**
Share issue costs	**(3,248)**	**-**	**-**	**(3,248)**
Recognition of share based payments	**-**	**424,337**	**-**	**424,337**
Transfer value of options lapsed	**-**	**(147,000)**	**147,000**	**-**
Total comprehensive loss	**-**	**-**	**(409,133)**	**(409,133)**
Balance at 31 December 2019	**24,784,103**	**2,105,677**	**(17,458,999)**	**9,430,781**

The accompanying notes form part of these financial statements

Statement of Cash Flows
for the half-year ended 31 December 2019

	Consolidated	
	31 Dec 2019 $	31 Dec 2018 $
Cash flows from operating activities		
Receipts from customers	**140,814**	247,096
Payments to suppliers and employees	**(635,240)**	(816,103)
Interest received	**7,439**	8,532
Interest paid	**(203,381)**	(167,205)
R&D tax incentive	**727,624**	-
Net cash used in operating activities	**37,256**	(727,680)
Cash flows from investing activities		
Purchase of plant and equipment	**-**	(9,000)
Payments for exploration expenditure	**(340,142)**	(1,124,159)
Payments for security bonds	**(101,561)**	-
Net cash used in investing activities	**(441,703)**	(1,133,159)
Cash flows from financing activities		
Proceeds from issue of shares	**663,800**	2,025,500
Payment of share issue costs	**(3,248)**	(20,749)
Proceeds from borrowings	**-**	80,000
Repayment of borrowings	**-**	(146,876)
Repayment of lease liabilities	**(89,393)**	-
Net cash provided by financing activities	**571,159**	1,937,875
Net increase in cash and cash equivalents	**166,712**	77,036
Cash and cash equivalents at the beginning of the financial period	**224,988**	352,070
Cash and cash equivalents at the end of the financial period	**391,700**	429,106

Notes to the Financial Statements for the half-year ended 31 December 2019

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 2019 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 2019 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*. For the purpose of preparing the half-year financial statements, the half-year has been treated as a discrete reporting period.

Basis of preparation

The financial statements have been prepared on an accruals basis using historical cost 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.

Changes in accounting policies

Other than the policies described below there have been no changes in accounting policies during the half-year ended 31 December 2019.

AASB 16 – Leases ("AASB 16")

The Group has adopted AASB 16 from 1 July 2019. This standard replaces AASB 117 "Leases" and for leases eliminates the classification of operating leases and finance leases. Except for short-term leases and leases of low value assets, right of use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (including operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier period of the lease, the expense associated with the lease under AASB 16 will be higher when compared to the lease expense under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification with the statement of cash-flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in the financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

Impact of adoption

As the Groups only lease expired on 14 October 2019 there was no impact on adoption of this standard as at 1 July 2019. A new lease was signed on 15 October 2019 which has been recorded as a right of use asset / lease liability on 15 October 2019.

Hire purchase assets were transferred from plant and equipment to right on use asset on 1 July 2019. This did not result in any financial impact to the Group.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable; any lease payment made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. When the Group expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with a term of 12 months or leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payment to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments, less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following; future lease payments arising from a change in an index or a rate used, residual guarantees, lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the following right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Going concern

For the half-year ended 31 December 2019 the consolidated net loss was $409,133. The net cash inflows from operations for the half-year were $37,256. The Group had a net working capital deficit of $1,007,481.

The Group has cancellable planned exploration expenditure under its leased tenements extending to 31 December 2020 of $1,099,795.

The directors have assessed the current cash balances available to the entity, along with the operating and capital expenditure plans and expected obligations over the next 12 months. They are mindful of their obligations to ensure that there is adequate working capital available for operations and in this regard the following initiatives are being planned to improve group income:

1. The Company will be tendering for the management of the PASS material in the North East Link Project road tunnels during 2020;
2. The Company maintains stockpiles of gravel and rock products from the East Overburden Dump and is tendering for all contracts within reasonable trucking distance;
3. The Company is talking to interested third parties in relation to establishing a dry screening operation on the Heap Leach Pad to produce rock aggregates for concrete manufacturers; and
4. On the 20 January 2020 the company announced to the ASX that it had raised $200,000 from the issue of 4,000,000 Series 8 Unsecured Convertible Notes with a face value of 5 cents. These notes were issued under terms similar to other Convertible Notes on issue, as shown at Note 3 above. At the same time all the Series 4 Unsecured Convertible Notes with a face value of 5 cents and a maturity date of 15 April 2020 were redeemed and rolled into Series 8 Unsecured Convertible Notes with a face value of 5 cents
5. On 30 January 2020, the Company announced to the ASX a strategic partnership with a Canadian company, Mawson Resources Limited ("Mawson") and the signing of three Letter Agreements. The three Definitive Agreements are on track to be signed in March 2020. Total consideration to the Company under the agreements was valued on 30 January 2020 at approximately $3,323,000; $528,000 in cash and approximately $2,795,000 in 9.5 million Mawson shares. In addition, Mawson is committed to carry out the next $200,000 of gold exploration expenditure on two of the Company's exploration tenements in the first year.

If necessary, the Group has additional capacity to meet its financial commitments through the following:

- Issue of additional shares and/or convertible notes;
- Reclaiming cash backed environmental bonds for mineral tenements with the Department of Economic Development, Jobs, Transport and Resources and therefore foregoing any capital commitments on those tenements surrendered, and
- Scaling back its administrative and corporate costs, including a reduction in fees payable to directors as far as possible.

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. Property, plant & equipment

	31 Dec 2019 $	30 Jun 2019 $
Property, plant & equipment	**568,098**	1,266,704
Accumulated depreciation	**(268,308)**	(449,653)
	299,790	817,051
Land & buildings – right of use	**416,523**	-
Accumulated depreciation	**(32,883)**	-
	383,640	-
Plant & equipment – right of use	**698,606**	-
Accumulated depreciation	**(234,908)**	-
	463,698	-
Total Property, plant & equipment	**1,147,128**	817,051

The balances at 30 June 2019 have not been restated for adoption of AASB 16 on 1 July 2019

3. Exploration and evaluation assets

Opening balance	**11,768,062**	9,675,955
Expenditure for the period	**340,142**	2,092,107
Closing balance	**12,108,204**	11,768,062

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 charge was deemed applicable. No tenements have been relinquished during the reporting period.

4. Borrowings

Current		
Unsecured convertible notes (a)	**934,000**	934,000
Other borrowings	**-**	126,622
Lease liabilities	**246,233**	-
Total current borrowings	**1,180,233**	1,060,622
Non-current		
Unsecured convertible notes (a)	**3,100,000**	3,100,000
Other borrowings	**-**	230,489
Lease liabilities	**438,008**	-
Total non-current borrowings	**3,538,008**	3,330,489
Total borrowings	**4,718,241**	4,391,111

The balances at 30 June 2019 have not been restated for adoption of AASB 16 on 1 July 2019

(a) As at 31 December 2019 the Company has 4 series of Unsecured Convertible Notes on issue for a total of $4,034,000.
Series 4: 18.68 million Notes issued at 5 cents on 15 April 2015 for a total of $934,000
Series 5: 3.333 million Notes issued at 18 cents on 19 September 2016 for a total of $600,000
Series 6: 18 million Notes issued at 10 cents on 17 November 2017 for a total of $1,800,000
Series 7: 7 million Notes issued at 10 cents on 27 February 2019 for a total of $700,000

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.

5. Issued capital

	31 Dec 2019 $	30 Jun 2019 $
Issued and paid up capital		
449,932,346 (30 June 2019: 437,407,802) ordinary shares fully paid	**24,784,103**	24,123,551

Movements in shares on issue during the half-year

	Shares	Issued Capital
Opening balance at 1 July 2018	407,085,912	22,091,390
Exercise of options at 10.0 cents	3,830,000	383,000
Share purchase plan at 6.2 cents (net of transaction costs)	16,814,473	1,039,751
Placement of shares at 6.2 cents (net of transaction costs)	9,677,417	582,000
Reserve transfer on options exercised	-	27,410
Balance 30 June 2019	437,407,802	24,123,551
Share purchase plan at 5.3 cents (net of transaction costs)	**11,392,468**	**600,552**
Placement of shares at 5.3 cents	**1,132,076**	**60,000**
Balance 31 December 2019	**449,932,346**	**24,784,103**

6. Income tax benefit

The amount of $727,624 relates to an R&D tax incentive refund received during the period.

7. Share options

A total of 14,900,000 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 29 November 2024. They were valued using a binomial model and the expense was $424,337.

The fair value of the share options granted during the half-year is 2.85 cents (2019: 3.90 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	29/11/2019
Options Issued	14,900,000
Share price at grant date	5.0 cents
Exercise price	10.0 cents
Expected volatility	79.5%
Option life	5 years
Dividend yield	Nil
Risk free interest rate	0.90%
Vesting date	29/11/2024

No options were exercised during the half-year. 10,100,000 options lapsed in the period.

8. 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.

9. 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 $1,099,795 for the 12 months ending 31 December 2020. 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 $585,000 are held with the Group banker to guarantee these obligations.

10. Contingent liabilities

Apart from the matter mentioned in Note 9, the Group has no contingent liabilities as at 31 December 2019.

11. Events subsequent to balance date

On the 20 January 2020 the company announced to the ASX that it had raised $200,000 from the issue of 4,000,000 Series 8 Unsecured Convertible Notes with a face value of 5 cents. These notes were issued under terms similar to other Convertible Notes on issue, as shown at Note 3 above. At the same time all the Series 4 Unsecured Convertible Notes with a face value of 5 cents and a maturity date of 15 April 2020 were redeemed and rolled into Series 8 Unsecured Convertible Notes with a face value of 5 cents.

On 30 January 2020, the Company announced to the ASX a strategic partnership with a Canadian company, Mawson Resources Limited ("Mawson") and the signing of three Letter Agreements. The three Definitive Agreements are on track to be signed in March 2020. Total consideration to the Company under the agreements was valued on 30 January 2020 at approximately $3,323,000; $528,000 in cash and approximately $2,795,000 in 9.5 million Mawson shares. In addition, Mawson is committed to carry out the next $200,000 of gold exploration expenditure on two of the Company's exploration tenements in the first year. Shareholders should refer to the ASX announcement on 30 January 2020 for more information.

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 2019 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
11 March 2020

Nagambie Resources Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Modified Conclusion

We have reviewed the accompanying half-year financial report of Nagambie Resources Limited (the company) and the entities it controlled at the half-year's end or from time to time during the half year (the consolidated entity), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, except for the matters described below in the Basis for Modified Conclusion, we have not become aware of any matter that makes us believe that the half-year financial report of Nagambie 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 2019 and of its performance for the half year ended on that date; and
b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the *Corporations Regulations 2001.*

Basis for Modified Conclusion

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

As disclosed in the financial statements in prior years, the Company has raised $2,500,000 from investors through the issue of Series 6 and Series 7 unsecured convertible notes. Both 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. 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. 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.

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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 25% for Series 7 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 two 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 2019:

Series 6
On initial recognition convertible notes held at $1,800,000 in the statement of financial position would be restated to $1,108,163. The difference between these values would be recognised as an equity reserve, worth $691,837

An additional interest expense of $213,198 (31 December 2018: $36,104) would be recognised, representing the proportionate unwind of the discount applied to the convertible notes from initial recognition through to 31 December 2019 (31 December 2018).

As at 31 December 2019 the convertible notes liability would be restated to $1,321,361 (31 December 2018: 1,226,226.

Series 7

On initial recognition convertible notes held at $700,000 in the statement of financial position would be restated to $430,952. The difference between these values would be recognised as an equity reserve worth $269,048.
An additional interest expense of $54,164 (31 December 2018: $nil) would be recognised, representing the proportionate unwind of the discount applied to the convertible notes from initial recognition through to 31 December 2019 (31 December 2018).

As at 31 December 2019 the convertible notes liability would be restated to $485,116 (31 December 2018: $nil).

Other matters relevant to the Basis for Modified 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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which describes that during the half-year ended 31 December 2019 the consolidated entity incurred a net loss of $409,133 and as at 31 December 2019 the consolidated entity had a net working capital deficit of $1,007,481. These events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Responsibilities of the Directors 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. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

— giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 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 Nagambie Resources 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.*

William Buck

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

A. A. Finnis
Director

Melbourne, 11 March 2020