Financial Report

Half-year ended 31 December 2017

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
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Website: www.nagambieresources.com.au
Email: info@nagambieresources.com.au

DIRECTORS
Michael W Trumbull (Executive Chairman)
Kevin J Perrin (Non-Executive Director)
Alfonso M G Grillo (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
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AUDITOR
William Buck (Vic) Audit Pty Ltd
Level 20, 181 William Street
Melbourne Vic 3000

SHARE REGISTRY
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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 2017.

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)	
Kevin J Perrin	(Non-Executive Director)	
Geoff R Turner	(Non-Executive Director)	retired 24 November 2017
Alfonso M G Grillo	(Non-Executive Director)	appointed 24 November 2017

Principal activities

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

Review of operations

The loss of the Group for the half-year ended 31 December 2017 after income tax amounted to $827,161 compared to a loss of $840,624 for the 2016 half-year, a decrease of $13,463. Significantly there was a large non-cash charge during the half-year of $413,676 (2016: $497,570) that flowed from the value placed on the options issued during the period.

Gold Projects

The Mining Licence at the Nagambie Mine, MIN 5412, was renewed by Earth Resources Regulation and next comes up for renewal in January 2031.

Ground IP (Induced Polarisation) geophysical readings at the Nagambie Mine and at the Racecourse Prospect, 2 km to the north of the Nagambie Mine, commenced late in the period. Diamond drilling of the better IP underground sulphide-gold targets generated will then follow.

Quarrying Operations

An Astec GT205S Multi-Frequency Mobile Tracked Screening Plant was ordered late in the half. Made in the USA, it is the first unit imported into Australia. Nagambie Resources is considering the purchase of a second unit.

Four sizes of aggregates (7mm, 10mm, 14mm and 20mm) and a coarse sand (plus 0.5mm, minus 4mm) can be produced from over 5 million tonnes of mine tailings, together with the fines (minus 0.5mm) containing residual gold. There are also over 7 million tonnes of overburden material at the Nagambie Mine that can be screened into beaching rock, coarse aggregates, 20mm road gravel and crusher dust.

PASS Project

Backfilling of the Nagambie Mine pits with PASS material from Melbourne construction sites, and the subsequent capping of the PASS material with clay, will greatly enhance the rehabilitation of the old mine site, will result in significant investment and employment opportunities in the Nagambie area, and will be a strong revenue base for the Company.

The Company will be tendering for the management of the significant quantity of PASS material in the tunnels of the Melbourne Metro Rail 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
15 March 2018

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 2017 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

N. S. Benbow
Director

Dated this 15th day of March, 2018

CHARTERED ACCOUNTANTS & ADVISORS

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Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 31 December 2017

	Consolidated	
	31 Dec 2017 $	31 Dec 2016 $
Revenue		
Rental income	**94,862**	90,331
Sale of non-gold materials	**64,506**	74,053
Other income	**11,048**	28,981
Total Revenue	**170,416**	193,365
Expenses		
Corporate expenses	**(302,347)**	(353,620)
Depreciation and amortisation	**(38,700)**	(11,291)
Directors and employee benefits expense	**(508,529)**	(508,750)
Finance costs	**(111,396)**	(106,206)
Impairment of exploration and evaluation assets	**-**	(54,122)
Rehabilitation and other costs	**(36,605)**	-
Total Expenses	**(997,577)**	(1,033,989)
Loss before income tax	**(827,161)**	(840,624)
Income tax benefit	**-**	-
Loss for the period	**(827,161)**	(840,624)
Other comprehensive income	**-**	-
Total comprehensive income for the period	**(827,161)**	(840,624)
Loss per share		
Basic and diluted loss per share in cents	**(0.20)**	(0.23)

The accompanying notes form part of these financial statements

Statement of Financial Position
as at 31 December 2017

	Note	Consolidated 31 Dec 2017 $	Consolidated 30 Jun 2017 $
Current assets			
Cash and cash equivalents		**1,187,267**	124,184
Trade and other receivables		**77,518**	70,212
Prepayments		**36,366**	-
Total current assets		**1,301,151**	194,396
Non-current assets			
Security deposits		**635,000**	635,520
Property, plant and equipment		**1,017,935**	535,300
Exploration and evaluation assets	2	**8,887,510**	8,629,565
Total non-current assets		**10,540,445**	9,800,385
Total assets		**11,841,596**	9,994,781
Current liabilities			
Trade and other payables		**242,209**	226,429
Borrowings	3	**184,521**	42,013
Revenue in advance		**39,306**	-
Provisions		**27,475**	26,281
Total current liabilities		**493,511**	294,723
Non-current liabilities			
Borrowings	3	**3,719,352**	1,660,536
Provisions		**11,005**	8,309
Total non-current liabilities		**3,730,357**	1,668,845
Total liabilities		**4,223,868**	1,963,568
Net assets		**7,617,728**	8,031,213
Equity			
Issued capital	4	**21,751,540**	21,751,540
Reserves		**1,239,746**	846,495
Accumulated losses		**(15,373,558)**	(14,566,822)
Total equity		**7,617,728**	8,031,213

The accompanying notes form part of these financial statements

Statement of Changes in Equity
for the half-year ended 31 December 2017

	Consolidated			
	Issued capital $	Options reserve $	Accumulated losses $	Total $
Balance at 1 July 2016	19,018,777	353,005	(12,944,850)	6,426,932
Shares issued	1,243,000	-	-	1,243,000
Share issue costs	(15,000)	-	-	(15,000)
Recognition of share based payments	-	497,570	-	497,570
Transfer value of options exercised	4,080	(4,080)		-
Total comprehensive income	-	-	(840,624)	(840,624)
Balance at 31 December 2016	20,250,857	846,495	(13,785,474)	7,311,878
Balance at 1 July 2017	**21,751,540**	**846,495**	**(14,566,822)**	**8,031,213**
Recognition of share based payments	**-**	**413,676**	**-**	**413,676**
Transfer value of options lapsed	**-**	**(20,425)**	**20,425**	**-**
Total comprehensive income	**-**	**-**	**(827,161)**	**(827,161)**
Balance at 31 December 2017	**21,751,540**	**1,239,746**	**(15,373,558)**	**7,617,728**

The accompanying notes form part of these financial statements

Statement of Cash Flows
for the half-year ended 31 December 2017

	Consolidated	
	31 Dec 2017 **$**	31 Dec 2016 $
Cash flows from operating activities		
Receipts from customers	**154,561**	183,874
Payments to suppliers and employees	**(433,150)**	(241,807)
Interest received	**8,549**	9,491
Interest paid	**(83,104)**	(104,729)
Net cash used in operating activities	**(353,144)**	(153,171)
Cash flows from investing activities		
Purchase of plant and equipment	**(30,024)**	(275,970)
Payments for exploration expenditure	**(257,945)**	(747,441)
Payments for security bonds	**-**	(56,712)
Receipts from security bonds	**520**	-
Net cash used in investing activities	**(287,449)**	(1,080,123)
Cash flows from financing activities		
Proceeds from issue of shares	**-**	780,000
Payment of share issue costs	**-**	(15,000)
Proceeds from issue of convertible notes	**1,800,000**	600,000
Proceeds from borrowings	**393,631**	-
Repayment of borrowings	**(489,955)**	(5,059)
Net cash provided by financing activities	**1,703,676**	1,359,941
Net increase in cash and cash equivalents	**1,063,083**	126,647
Cash and cash equivalents at the beginning of the financial period	**124,184**	318,594
Cash and cash equivalents at the end of the financial period	**1,187,267**	445,241

Notes to the Financial Statements
for the half-year ended 31 December 2017

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 2017 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 consolidated entity as the full financial statements. The half-year financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2017 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.

Going concern

For the half-year ended 31 December 2017 the consolidated net loss was $827,161 (2016: $840,624). The net cash outflows used in operations for the half-year were $353,144 (2016: $153,171). The Group had a net working capital surplus of $807,640 (2016: deficiency $100,327).

The Group has cancellable planned exploration expenditure under its leased tenements extending to 31 December 2018 of $964,050 (2017: $684,800).

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 tunnels of the Melbourne Metro Rail Project;
2. The Company is increasing its 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 establishing a dry screening operation on the Heap Leach Pad to produce rock aggregates and rock sand for concrete manufacturers; and
4. The Company is planning to establish a sand and quartz aggregates operation at the western end of the West Pit to supply to concrete manufacturers.

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. Exploration and evaluation assets

	31 Dec 2017 $	30 Jun 2017 $
Opening balance	**8,629,565**	7,627,371
Expenditure for the period	**257,945**	1,056,315
Impairment charge	-	(54,121)
Closing balance	**8,887,510**	8,629,565

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.

3. Borrowings

Current		
Equipment finance	**175,754**	42,013
Non-current		
Unsecured convertible notes (a)	**3,334,000**	1,534,000
Equipment finance	**394,119**	126,536
Total non-current borrowings	**3,728,119**	1,660,536
Total borrowings	**3,903,873**	1,702,549

(a) The Company currently has 3 series of Unsecured Convertible Notes on issue for a total of $3,334,000.

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

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.

4. Issued Capital

	31 Dec 2017 $	30 Jun 2017 $
Issued and paid up capital		
403,935,912 (30 June 2017: 403,935,912) ordinary shares fully paid	**21,751,540**	21,751,540

No shares were issued during the half-year.

5. Share Options

A total of 14,750,000 options were issued to directors and employees during the half-year. All options vested immediately on issue. 13,750,000 options were issued with an exercise price of 10.0 cents per share and an expiry date of 24 November 2022. 1,000,000 options were issued with an exercise price of 14.1 cents per share and an expiry date of 20 December 2022. They were all valued using a binomial model and the expense was $413,676.

No options were exercised during the half-year. 4,750,000 options lapsed during the half-year.

6. Segment Information

The Group operates in one principal geographical area – in Australia. The Group carries out the exploration for gold and associated minerals. It is currently developing revenue streams from the sale of construction industry materials located on its freehold land. 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.

7. 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 $964,050 for the 12 months ending 31 December 2018. Thereafter it expects to spend approximately $980,000 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 $635,000 are held with the Group banker to guarantee these obligations.

8. Contingent Liabilities

Apart from the matter mentioned in Note 7, the Group has no contingent liabilities as at 31 December 2017.

9. Loan Facility

The Group has an undrawn loan facility for $1,000,000 with PPT Nominees Pty Ltd. The facility provides for a maximum drawdown of $1,000,000 at any time up to 18 July 2019. The interest rate is 10% on the amount drawn at any time and is payable quarterly in arrears. The facility is unsecured. PPT Nominees is the largest shareholder in the Company.

10. Events Subsequent to Balance Date

No matters of significance have arisen since the end of the reporting period.

11. Fair Value Measurement

The Directors are of the view that the carrying value of all amounts detailed in the financial statements for both Financial Assets and Liabilities approximates fair value measurement.

Directors' Declaration

In the Directors' opinion:

1. the financial statements and notes set out on pages 5 to 11 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 2017 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.

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

On behalf of the directors

Michael W Trumbull
Executive Chairman

Melbourne
15 March 2018

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 2017, 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, except for the effects of the matter described in the Basis for Modification of Review Conclusion below, nothing has come to our attention that causes us to 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 2017 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 Modification of Review Conclusion
Fair valuation of the debt component of convertible notes upon initial recognition

As disclosed in Note 3 to the financial statements, for the half year ended 31 December 2017 the Company has raised $1,800,000 from investors through the issue of unsecured convertible notes, which have a coupon interest rate of 10% per annum. These notes 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 requires such convertible notes with fixed conversion formulae to be valued at fair value upon initial recognition (the date of that both the Company and the convertible noteholder became party to contract), with any difference between the face value of those notes and the fair value recognised in equity.

Consistent with the treatment it has applied in previous accounting periods, management has assessed that there is no reliable basis for measuring the fair value component of the notes at initial recognition, principally upon the basis that there is no readily accessible market for unsecured debt with no equity conversion rights for exploration companies with similar market capitalisation levels either in Australia or in any other foreign jurisdiction.

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Upon that basis, they have assessed fair value at issue date to be the face value of the convertible notes.

Notwithstanding this, we consider that a market value for the debt component of such convertible notes can be imputed from the issue of similar convertible notes by other exploration companies with similar levels of operation and activity, which have become more and more prevalent as an alternative to raising share capital over past few years in Australia. Based upon our analysis, we believe that 24% would be an appropriate discount rate to apply to apply in calculating the fair value of convertible notes at initial recognition.

Based upon this key assumption, had such a discount been applied against the tranche which was issued during the period, the following adjustments would be required to be made in the financial statements as at 31 December 2017:

- Convertible notes held at $1,800,000 in the statement of financial position would be restated to $1,128,918;
- 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 $20,755, representing the proportionate unwind of the discount applied to the convertible notes from initial recognition through to 31 December 2017.

Material Uncertainty Related to Going Concern
We draw attention to Note 1 in the half-year financial report, which indicates that the consolidated entity incurred a net loss of $827,161 during the half year ended 31 December 2017 and also incurred net cash outflows from operating activities of $353,144. As stated in Note 1, these events or conditions, indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our opinion 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 2017 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

N. S. Benbow
Director

Melbourne, 15th March 2018