



BROKEN HILL PROSPECTING LIMITED

(Incorporated in New Zealand)

NZ Company Number: 322887

NZ Financial Services Provider Number FSP32949

ARBN 003 453 503

ABN: 83 003 453 503 (Australia)

INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

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COMPANY DIRECTORY

DIRECTORS F Creagh O'Connor (Chairman) Matthew G Hill Denis Geldard Geoffrey G Hill	AUDITOR Nexia Sydney Audit Pty Ltd Level 16 1 Market Street Sydney NSW 2000
COMPANY SECRETARY Ian Morgan	BANKERS National Australia Bank, Sydney Commonwealth Bank, Sydney Wells Fargo Bank, N.A.
REGISTERED OFFICE Ground Floor Nathan House 541 Parnell Road Parnell, Auckland 1052 New Zealand	SECURITIES LISTED Australian Securities Exchange (ASX): Code: BPL (shares)
AUSTRALIAN OFFICE Suite 706, Level 7 89 York Street Sydney 2000 NSW GPO Box 1546 SYDNEY NSW 2001 Phone: (+61 2) 8054 9779 Email: info@bhpl.biz	SHARE REGISTRAR AUSTRALIA Computershare Investor Services Pty Ltd Level 5, 115 Grenfell Street Adelaide, South Australia 5001 Phone: 1300 556 161 (within Australia) (+61 3) 9415 4000 (outside Australia) www.computershare.com.au
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INTERESTS IN MINING TENEMENTS HELD BY THE COMPANY AND ITS SUBSIDIARIES

Tenement Name	Tenement Type and Number	Location	Group Ownership
Pine Ridge	Exploration Licence-EL6622*	Broken Hill NSW Australia	100%*
Felspar Creek	Exploration Licence-EL8143*	Broken Hill NSW Australia	100%*
Pyrite Hill	Mining Lease-ML86*	Broken Hill NSW Australia	100%*
Big Hill	Mining Lease-ML87*	Broken Hill NSW Australia	100%*
Broken Hill NW	Exploration Licence EL8775	Broken Hill NSW Australia	100%
Triple Chance	Exploration Licence EL8774	Broken Hill NSW Australia	100%
Main Line	Exploration Licence EL8773	Broken Hill NSW Australia	100%
Tyrell Ridge	Exploration Licence-EL6614	Mildura NSW Australia	100%
Tararra	Exploration Licence-EL8558	Mildura NSW Australia	100%
Central Para	Exploration Licence-EL8559	Mildura NSW Australia	100%
Birchip	Exploration Licence-EL006583	Victoria Australia	100%
Warrachnabeal	Exploration Licence-EL006584	Victoria Australia	100%
Ouyen	Exploration Licence-EL006585	Victoria Australia	100%
Dangalli North	Exploration Licence-EL6139	South Australia Australia	100%
La Paz	108 BLM Claims	La Paz Region, Arizona, USA	100%
La Paz	1 Section State Claim	La Paz Region, Arizona, USA	100%
La Paz	112 BLM Claims	La Paz Region, Arizona, USA	Application

* These tenements are subject to the Thackaringa Joint Venture with Cobalt Blue Holdings Ltd ("COB"). At 31 December 2019, BPL held a 100% legal interest and 30% beneficial interest, COB held no legal interest and a 70% beneficial interest. On 17 January 2020, BPL agreed to sell COB its 100% legal interest and 30% beneficial interest.

DIRECTORS' REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

The Directors present the following report including financial statements of Broken Hill Prospecting Limited (**Company**) for the six months ended 31 December 2019.

1. Directors

The names of the Directors of the Company during the half-year and up to the date of this report are:

F Creagh O'Connor	Non-Executive Chairman	Appointed 22 June 2000
Matthew G Hill	Non-Executive Director	Appointed 14 March 2012
Denis Geldard	Non-Executive Director	Appointed 3 August 2015
Geoffrey G Hill	Non-Executive Director	Appointed 27 August 2015
Anthony (Trangie) Johnston	Managing Director	Appointed 18 January 2018 Resigned 7 February 2020

2. Review of Operations

Broken Hill Prospecting Limited (ASX: BPL) is an Australian listed exploration company focused on the discovery and development of Rare Earth through its recently acquired flagship project, the La Paz Rare Earth Project. The Company also holds an exploration interest in the Murray Basin Region (Heavy Mineral Sands).

During the period under review, your Company reached a settlement on the sale of its Thackaringa Project equity interests to Cobalt Blue Holdings Limited (**ASX: COB**) for A\$6 million in cash and securities. The Board determined that, by retaining exposure to the Project by way of a royalty interest, the Company's shareholders will be able to capitalise on the upside of the Project when it commences production. The sale has been a turning point for your Company, allowing the accelerated development of its strategy to enter the global REE (rare earth elements) market and end its operational interests in the Broken Hill area.

As has recently been announced on 12 March 2020: [BPL Market Update La Paz Rare Earth Project](#), with the focus of the Company's strategy on REE through the recently formed La Paz Rare Earth LLC, which holds 100% of the project interests of the La Paz Rare Earth Project, the Board has decided to change the name of Broken Hill Prospecting Limited to American Rare Earth Limited. The change of name process is currently being finalised.

During the period, your Company consolidated its focus on the growing REE market and identified, completed due diligence, and subsequently acquired the La Paz Rare Earth Project.

Following the acquisition of the Project, the team expanded the tenement package covering a new area significantly increasing the potential footprint of this world class resource.

More recently and following an initial sampling program which resulted in further supporting the extension of the resource size covered by the 2011 [NI 43-101 Report](#) resource estimate, your Company formed a special purpose vehicle - appointing key people including Mr John Petersen the geologist who discovered La Paz and Mr Clarence McAllister a prominent local businessman appointed as Chairman of the board of La Paz Rare Earths LLC to drive the local operations.

The Board's strategy is to have the REE project driven by a local team, which provides an ability to access recent USDF announcement that an alternate supply of US based rare earths is being proactively sourced - including taking positions in various levels of the REE supply chain.

Over the next six months, your Company will continue to focus on driving the exploration program at La Paz which aims to consolidate the larger footprint in the form of a revised resource estimate, as well as completion of other exploration activities aimed at targeting higher grades which have been identified at a number of the deeper drill holes completed in the original 2011 work program.

Recent analysis by the technical team has identified the occurrence of economic grades of Scandium that substantially bolster the in-ground values given the current spot price of this rare earth currently trades at US\$3,000/kg to over US\$5,000/kg per kilogram.¹ Whilst sampled when the original resource estimate was completed, Scandium had been excluded from the resource calculation - which provides significant upside.

¹ <http://www.scandiummining.com/scandium/scandium-faq/> (12 March 2020)

Outlined below are the key achievements of the Company over the last six months and the salient features of the La Paz REE Project.

Following the completion of the recent rights issue which successfully raised A\$1.3 million, your Company is now progressing the development and exploration at its La Paz Rare Earths Project.

Additional information about the Company is available on BPL's website at www.bhpl.biz.

La Paz Rare Earths Project- 100% BPL via La Paz Rare Earths LLC

The La Paz Rare Earth Project is a large tonnage, bulk deposit comprising high value rare earth REE, which is owned by the Company's wholly owned subsidiary La Paz Rare Earth LLC. Key features of the Project are as follows:-

- Advanced rare earth project located in mining friendly jurisdiction with world class infrastructure – potential to be largest in North America
- US Federal & Pentagon mandate/initiatives to secure strategic technology metals for growth sectors - EV and military use
- La Paz is ideally located to supply environmentally friendly, sustainable rare earth products to US domestic market
- Field work demonstrated the resource's upgrade/expansion opportunities
- metallurgical test work advanced through initial work by Wood



- Independent [NI 43-101 Report](#) and Resource estimate completed 2011
- Majority of deposit outcrops at surface and only defined to 30m depth (open in all directions).
- Exploration resource-growth potential
- No penalty elements such as radioactive thorium/uranium, plaguing rare earth projects globally
- Discovering Geologist appointed to drive the exploration activities
- Fully funded Phase 1 exploration budget currently being undertaken
- Excellent local infrastructure

Figure 1 Location of La Paz Rare Earth Project – Arizona, USA

- Electricity, water, gas within 7kms
- Skilled local workforce and network of transport routes
- Preliminary metallurgical test work demonstrated
 - excellent separation (up to 70%) of high - value, LREE-rich, allanite (Saskatchewan Research Council, SRC)
 - Successful leaching of concentrate via H_2SO_4 acid roast dilute H_2SO_4 solution leach method (SRC)
 - Current TREO assemblage split: 81% LREE, 19% HREE

La Paz Resource Estimate 2011 (NI 43-101)				
	Mt	Grade (%)	Contained REE (kg)	Contained REE (Mlbs)
Inferred	112	0.037	37,586,080	83.3
Indicated	16.2	0.037	5,436,558	12.1
Total	128.2	0.037	43,022,638	95.4

Figure 2 Independent [NI 43-101 Report](#) and Resource estimate completed 2011



Figure 3 View looking west across the La Paz Rare Earth Project area.

Key ASX Announcements

This ASX announcement refers to information extracted from the following reports, which are available for viewing on BPL's website <http://www.bhpl.net.au>:

12 March 2020	BPL Market Update La Paz Rare Earth Project
10 February 2020	Broken Hill Prospecting Market Update
3 February 2020	Quarterly Activities and Cash Flow Reports December 2019
23 January 2020	Chairman's Letter to Shareholders
17 January 2020	BPL Completes Thackaringa Transfer to COB
17 December 2019	Renounceable Rights Offer Document
9 December 2019	Proposed Issue of Securities – BPL
9 December 2019	Funding Package to Accelerate La Paz Rare Earth Project
4 December 2019	COB Settlement with BPL
4 December 2019	BPL and COB Agree Terms for COB to Acquire Thackaringa
2 December 2019	Independent Expert's Determination
1 November 2019	Quarterly Cash Flow Report September 2019
1 November 2019	Quarterly Activities Report September 2019
29 October 2019	Major Expansion at La Paz Rare Earth Project, Arizona
30 September 2019	Annual Report June 2019
30 September 2019	BPL Share Purchase Plan Offer Booklet
30 September 2019	BPL Placement and Share Purchase Plan Offer
24 September 2019	La Paz Rare Earth Project Titles Approvals Received
21 August 2019	La Paz Rare Earth Project Acquisition Update
20 August 2019	BPL to Acquire Advanced La Paz Rare Earth Project USA
31 July 2019	Quarterly Cash Flow Report June 2019
31 July 2019	Quarterly Activities Report June 2019
23 July 2019	CEO Letter to Shareholders

The Company confirms it is not aware of any new information or data that materially affects the information included in the original market announcements, and, in the case of exploration targets, that all material assumptions and technical parameters underpinning the exploration targets in the relevant market announcements continue to apply and have not materially changed. The Company confirms that the form and context in which the Competent Person's findings presented have not been materially modified from the original market announcements.

3. Auditor's Independence Declaration

We confirm that we have obtained the Auditor's Independence Declaration as required under section 307C of the *Corporations Act 2001* (Cth) which is set out on page 11.

4. Subsequent Events

Sale of Broken Hill (Thackaringa) Cobalt Project

On 4 December 2019 Cobalt Blue Holdings Limited (ASX: COB) announced it had executed a binding Heads of Agreement (HOA) with Broken Hill Prospecting Limited (ASX: BPL) for COB to acquire 100% ownership and legal title of the Broken Hill (Thackaringa) Cobalt Project (including all tenements), through the acquisition of BPL's 30% holding for \$5,850,000 (excluding interest receivable).

The consideration payable under the final agreements remained unchanged from that announced on 4 December 2019. Namely, BPL is receiving:

1. A\$500,000 cash.
2. 9,000,000 COB fully paid ordinary shares at a deemed issue price of A\$0.15 per share.
3. A\$1,000,000 three-year Convertible Note (CN), with interest of 6% per annum payable annually in arrears. BPL is able to convert the CN to COB fully paid ordinary shares at maturity or on 18 January 2021 or on 17 January 2022. The CN is convertible with a A\$0.20 conversion price. The issuer of the note has the ability to redeem the CN early.
4. A\$3,000,000 five-year Promissory Note (PN), interest free for years 1, 2 and 3 and interest of 6% per annum payable in arrears. The PN is secured over the title to the tenements.

The consideration is not reflected in the interim financial statements.

The documentation completing the transfer of the Company's interest in the Thackaringa cobalt project joint-venture to its partner Cobalt Blue [COB] was signed 17 January 2020.

Completion of the transaction occurred on 25 February 2020, which will result in BPL receiving \$5,850,000 (excluding interest receivable) in cash, shares and deferred consideration, whilst retaining its 2.0% royalty on all cobalt production from the project and its interest in the Broken Hill style mineralisation (excluding cobalt mineralisations) on part of the tenements.

The tenements themselves are being transferred to Cobalt Blue, which will enable it to progress and commercialise the Thackaringa project efficiently.

Completion of this important transaction significantly underpins the value of BPL itself and will allow it, whilst retaining its interest in its Broken Hill assets and its mineral sands, to focus on developing and commercialising its exciting La Paz Rare Earths project in Arizona.

Renounceable Rights Offer

The Company raised A\$1,310,227 before capital raising costs from a renounceable rights issue announced on 9 December 2019, which closed 17 February 2020. The funds raised are to be used for:

1. Assessing upgrading the current NI 43-101 Resource estimate to JORC 2012 standards
2. Commencing detailed metallurgical test work programs
3. Completing a Scoping Study level economic assessment for the La Paz Project
4. Meeting general corporate and capital raising costs

The Offer includes the issue to each Eligible Shareholder who successfully subscribed for New Shares with one (1) Loyalty Share for every eight (8) New Shares subscribed for and which are continuously held by the shareholder up to and including the date which is 12 months after the date of issue of the New Shares. Each Loyalty Share will be issued for nil consideration, as soon as practicable after the date which is 12 months from the date of issue of the New Shares or Shortfall Shares as applicable.

Senior Management Changes

Mr. Anthony (Trangie) Johnston resigned as Managing Director on 7 February 2020 and the Company has appointed an eminent Arizona based geologist, Mr. John Petersen as Chief Technical Advisor in respect of the development and commercialisation of our rare earth deposit at La Paz in Arizona, which is held by our wholly-owned subsidiary La Paz Rare Earth LLC.

Apart from the above, the Directors are not aware of any other material events subsequent to the end of the period that have not been reflected in the financial statements.

Signed for and on behalf of the Board



Creagh O'Connor
Chairman



Matthew Hill
Director

Date: 13 March 2020

Independent Auditor's Review Report to the members of Broken Hill Prospecting Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Broken Hill Prospecting Limited, 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 the 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.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the 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 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 Broken Hill Prospecting 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*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Broken Hill Prospecting Limited is not in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of Group's financial position as at 31 December 2019 and of its performance for the period ended on that date; and
- ii. complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Nexia Sydney Audit Pty Ltd



Andrew Hoffmann

Director
Sydney, NSW

13 March 2020

The Board of Directors
Broken Hill Prospecting Limited
GPO Box 1546
SYDNEY NSW 2001

Dear Board Members

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

As lead audit partner for the review of the financial statements of Broken Hill Prospecting Limited for the half year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



Nexia Sydney Audit Pty Ltd



Andrew Hoffmann

Director

Dated: 13 March 2020

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR
THE SIX MONTHS ENDED 31 DECEMBER 2019**

	6 months ended 31/12/2019 A\$	6 months ended 31/12/2018 A\$
Continuing Operations		
Interest received	585	10,149
Other income	16,425	-
Auditor's remuneration – auditing the accounts	(13,237)	(17,202)
Marketing & promotion	(26,702)	(40,526)
Employee expenses	(179,631)	(240,548)
Accounting, secretarial, legal	(120,363)	(345,232)
Consulting fees	(130,677)	(36,933)
Administration expenses	(81,790)	(105,967)
Directors' fees	(43,750)	(56,250)
Rent & outgoings	-	(19,217)
Depreciation expenses	(31,872)	(650)
Interest expenses	(1,498)	-
Impairment loss of tenements	(113,274)	-
Loss for the period before income tax	(725,784)	(852,376)
Income tax benefit	2,131	-
Loss for the period after income tax	(723,653)	(852,376)
Other comprehensive income	-	-
Net loss attributable to members of the Parent entity	(723,653)	(852,376)
Net Loss per share		
Basic loss per share from continuing operations	(0.47) cents	(0.58) cents
Diluted loss per share from continuing operations	(0.47) cents	(0.42) cents

This statement is to be read in conjunction with the accompanying notes and the previous year's annual financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Note	Share capital A\$	Option reserve A\$	Accumulated losses A\$	Foreign currency translation A\$	Total A\$
2019						
Equity at 1 July 2019		8,194,159	312,229	(5,281,675)	-	3,224,713
Adoption of NZ IFRS 16	1	-	-	499	-	499
Adjusted Equity at 1 July 2019		<u>8,194,159</u>	<u>312,229</u>	<u>(5,281,176)</u>	<u>-</u>	<u>3,225,212</u>
Issue of share capital net of costs		384,837	-	-	-	384,837
Net loss and other comprehensive income		-	-	(723,653)	-	(723,653)
Share based payments		-	10,521	-	-	10,521
Exchange difference arising on foreign operations		-	-	-	(20,408)	(20,408)
Options lapsed transferred to accumulated losses		-	(48,000)	48,000	-	-
Movement in equity for the period		<u>384,837</u>	<u>(37,479)</u>	<u>(675,653)</u>	<u>(20,408)</u>	<u>(348,703)</u>
Equity at 31 December 2019		<u>8,578,996</u>	<u>274,750</u>	<u>(5,956,829)</u>	<u>(20,408)</u>	<u>2,876,509</u>
2018						
Equity at 1 July 2018		8,194,159	216,136	(3,923,067)	-	4,487,228
Net loss and other comprehensive income		-	-	(852,376)	-	(852,376)
Share based payments		-	79,040	-	-	79,040
Movement in equity for the period		<u>-</u>	<u>79,040</u>	<u>(852,376)</u>	<u>-</u>	<u>(773,336)</u>
Equity at 31 December 2018		<u>8,194,159</u>	<u>295,176</u>	<u>(4,775,443)</u>	<u>-</u>	<u>3,713,892</u>

This statement is to be read in conjunction with the accompanying notes and the previous year's annual financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

	Note	31/12/2019 A\$	30/6/2019 A\$
ASSETS			
Current assets			
Cash and cash equivalents		166,852	490,509
Receivables		31,099	46,260
Other assets		52,952	60,177
Total current assets		250,903	596,946
Non-current assets			
Property, plant & equipment	6	144,644	3,902
Exploration and evaluation assets	7	3,049,305	2,736,528
Security deposits		80,000	80,000
Total non-current assets		3,273,949	2,820,430
Total assets		3,524,852	3,417,376
LIABILITIES			
Current liabilities			
Trade and other payables		451,235	152,178
Lease liability		60,807	-
Provisions		56,344	40,485
Total current liabilities		568,386	192,663
Non-current liabilities			
Lease liability		79,957	-
Total non-current liabilities		79,957	-
Total liabilities		648,343	192,663
Net Assets		2,876,509	3,224,713
EQUITY			
Share capital	2	8,578,996	8,194,159
Reserves		274,750	312,229
Foreign currency reserve		(20,408)	-
Accumulated losses		(5,956,829)	(5,281,675)
Total equity		2,876,509	3,224,713

Signed for and on behalf of the Board



Creagh O'Connor
Chairman



Matthew Hill
Director

Date: 13 March 2020

This statement is to be read in conjunction with the accompanying notes and the previous year's annual financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

	Note	6 months ended 31/12/2019	6 months ended 31/12/2018
Cash flows from operating activities			
Interest received		438	10,149
Cash received in the course of operations		37,606	-
Research & development tax incentive received		-	77,568
Income tax refunded		-	17,445
Interest expenses		(1,498)	-
Payments to suppliers and employees		(316,639)	(692,421)
Net cash used in operating activities	3	<u>(280,093)</u>	<u>(587,259)</u>
Cash flows from investing activities			
Payment for Property, plant & equipment		(31,402)	-
Exploration and evaluation expenditure		<u>(380,590)</u>	<u>(196,340)</u>
Net cash used in investing activities		<u>(411,992)</u>	<u>(196,340)</u>
Cash flows from financing activities			
Share capital issued		455,000	-
Shares issue costs		<u>(66,164)</u>	<u>-</u>
Net cash provided by financing activities		<u>388,836</u>	<u>-</u>
Net decrease in cash and cash equivalents held		(303,249)	(783,599)
Exchange difference		(20,408)	-
Cash and cash equivalents at the beginning of the period		<u>490,509</u>	<u>2,091,196</u>
Cash and cash equivalents at the end of the period		<u>166,852</u>	<u>1,307,597</u>
Cash comprises:			
Cash at bank		<u>166,852</u>	<u>1,307,597</u>

This statement is to be read in conjunction with the accompanying notes and the previous year's annual financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

1. *Summary of Significant Accounting Policies*

Reporting entity

Broken Hill Prospecting Limited (**BPL** or **Company**) is a profit-oriented company incorporated in New Zealand registered under the New Zealand *Companies Act 1993* and listed on the Australian Securities Exchange (ASX).

BPL is a FMC Reporting Entity under the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

The financial statements of Broken Hill Prospecting Limited have been prepared in accordance with the New Zealand Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

The principal activity of the Company and its subsidiaries (the "Group") is minerals exploration.

The Group consists of Broken Hill Prospecting Limited and its wholly-owned subsidiaries, Broken Hill Uranium Pty Ltd, Broken Hill Chemical Pty Limited, Broken Hill Minerals Pty Ltd, Murray Basin Minerals Pty Limited and La Paz Rare Earth LLC.

These consolidated financial statements have been reviewed but not audited.

Reporting currency

The functional and presentation currency is Australian dollars.

Basis of preparation: These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with NZ IAS-34, Interim Financial Reporting and should be read in conjunction with the accounting policies set out in the annual financial statements for the year ended 30 June 2019.

These accounts have been prepared in accordance with generally accepted accounting practice in New Zealand and therefore also comply with International Financial Reporting Standards. For this purpose, the Company has designated itself as profit-oriented.

These financial statements also comply with the New Zealand Financial Markets Conduct Act 2013.

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis have been followed by the Group.

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period:

NZ IFRS 16 Leases

The Group has adopted NZ IFRS 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications 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 (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under NZ IFRS 16 will be higher when compared to lease expenses 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 within 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 financing activities.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (continued)

Impact of adoption

NZ IFRS 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on operating accumulated losses as at 1 July 2019 was as follows:

	1 July 2019 A\$
Operating lease commitments as at 1 July 2019	199,416
Operating lease commitments discount based on the incremental borrowing rate of 8.66%	(27,301)
Accumulated depreciation as at 1 July 2019	(15,692)
Reduction in opening retained losses as at 1 July 2019	16,191
Right-of-use assets	<u>172,614</u>
Lease liabilities- current	(62,068)
Lease liabilities- non - current	<u>(110,047)</u>
Total lease liabilities	<u>(172,115)</u>
Tax effect on the above adjustments	-
Reduction in accumulated losses at 1 July 2019	<u>499</u>

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 payments 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. Where 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 re-measurement of lease liabilities.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and 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 payments 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 re-measured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is re-measured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Seasonality of operations

The results are unaffected to any significant extent by seasonal factors.

Changes in accounting policies

There have been no changes in accounting policies during the period. The accounting policies and method of computation applied during the previous year were applied on a consistent basis during the current period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (continued)

2. Share capital

	31/12/2019	30/06/2018
	A\$	A\$
Ordinary shares – 166,083,401 (30/06/2018: 147,883,401)	8,578,996	8,194,159
Movement in share capital		
Balance at beginning	8,194,159	8,194,159
Shares issued under Share Purchase Plan	455,000	-
Share issued costs	(70,163)	-
Balance at end	8,578,996	8,194,159
Movement in share issued	No. of shares	No. of shares
Shares on issued at beginning	147,883,401	147,883,401
Shares issued under Placement	10,800,000	-
Shares issued under Share Purchase Plan	7,400,000	-
Shares on issued at end	166,083,401	147,883,401
Movement in Options issued	No. of options	No. of options
Options on issued at beginning	54,479,388	54,479,388
Options lapsed	(46,579,388)	-
Options on issued at end	7,900,000	54,479,388

All shares have equal voting rights and will share equally in dividends and surplus on winding up.

3. Reconciliation of operating cash flow & net income

	6 months ended	6 months ended
	31/12/2019	31/12/2018
	A\$	A\$
Net loss attributable to members of parent entity	(723,653)	(852,376)
Add non-cash items:		
Depreciation expenses	31,872	650
Share based payments	10,521	79,040
Impairment loss of tenements	113,274	-
Changes in assets and liabilities:		
Decrease in receivables and prepayments	22,437	119,243
Increase in payables & accruals	265,456	66,184
Net cash used in operating activities	(280,093)	(587,259)

4. Commitments

Tenements: in order to maintain current rights of tenure to exploration and mining tenements, the Company is required to meet minimum expenditure requirements.

Expenditure requirements for tenements	31/12/2019	31/12/2018
	A\$	A\$
Not later than 1 year	594,734	280,644
Later than 1 year but not later than 5 years	89,793	866,541
Total	684,527	1,147,185

5. Controlled entities

Interests in subsidiaries

Name of Entity	Equity Held 2019	2018	Country of Incorporation
Broken Hill Uranium Pty Ltd	100%	100%	Australia
Broken Hill Chemical Pty Ltd	100%	100%	Australia
Broken Hill Minerals Pty Ltd	100%	100%	Australia
Murray Basin Minerals Pty Ltd	100%	100%	Australia
La Paz Rare Earth LLC	100%	-	United States

All subsidiaries are direct subsidiaries of the Company and have the same balance date.

6. Property, plant and equipment

	31/12/2019 A\$	30/06/2019 A\$
Office equipment:		
Balance at beginning of period	3,902	5,202
Depreciation	(488)	(1,300)
Balance at end of period	<u>3,414</u>	<u>3,902</u>
Right-of-use asset: office lease		
Balance at beginning of period	172,614	-
Depreciation	(31,384)	-
Balance at end of period	<u>141,230</u>	<u>-</u>
Total property, plant and equipment	<u>144,644</u>	<u>3,902</u>
Additional information on right-of-use asset: office lease		
(i) Depreciation charge for period	(31,384)	-
(ii) Income on sub-leasing	16,425	-
(iii) Total cash outflow on lease	(32,850)	-
(iv) Interest expenses for period	(1,498)	-

7. Exploration and evaluation assets

	31/12/2019 A\$	30/06/2019 A\$
Balance at beginning of period	2,736,528	2,422,495
Exploration & evaluation expenses	426,051	314,033
Amount impaired	(113,274)	-
Balance at end of period	<u>3,049,305</u>	<u>2,736,528</u>

8. Contingent liabilities

There were no contingent liabilities at 31 December 2019 (31 December 2018: \$nil).

9. Seasonality of operations

The results are unaffected to any significant extent by seasonal factors.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (continued)

10. Related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Amount paid to directors' related entities for directors' and consulting fees were, for both for the Company and the Group:

	6 months ended 31/12/2019 A\$	6 months ended 31/12/2018 A\$
Directors' fees	43,750	56,250
Consulting fees		
Winkara Pty Ltd – an entity related to D Geldard	-	14,000
Asia Pacific Capital Group – an entity related to M Hill	25,000	-
	68,750	70,250

11. Segment Information

The Company has identified its operating segments based on internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. The Company does not yet have any products or services from which it derives an income.

During the half year to 31 December 2019, CODM has identified the Company as having two reportable segment, being the geographic location of assets in United States and Australia.

The CODM review EBITDA (earnings before interest, tax, depreciation and amortisation). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

	USA A\$	Australia A\$	Total A\$
Consolidated 6 Months Ended December 2019			
Other revenue			
Interest income	-	585	585
Other income	-	16,425	16,425
	-	17,010	17,010
Expenses			
General operating expenses	-	(628,022)	(628,022)
Interest expenses	-	(1,498)	(1,498)
Impairment of tenements	-	(113,274)	(113,274)
Loss before income tax	-	(725,784)	(725,784)
 Consolidated 6 Months Ended December 2018			
Other revenue			
Interest income	-	10,149	10,149
	-	10,149	10,149
Expenses			
General operating expenses	-	(862,525)	(862,525)
Impairment of tenements	-	-	-
Loss before income tax	-	(852,376)	(852,376)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (continued)

Below is an analysis of the Company's assets and liabilities from reportable segments:

	USA A\$	Australia A\$	Total A\$
Consolidated December 2019			
Current assets	550	250,353	250,903
Non- current assets	340,923	2,933,026	3,273,949
Total assets	341,473	3,183,379	3,524,852
Current liabilities	11,667	556,719	568,386
Non-current liabilities	-	79,957	79,957
Total liabilities	11,667	636,676	648,343
Net segment assets	329,806	2,546,703	2,876,509
Consolidated June 2019			
Current assets	-	596,946	596,946
Non- current assets	-	2,820,430	2,820,430
Total assets	-	3,417,376	3,417,376
Current liabilities	-	192,663	192,663
Non-current liabilities	-	-	-
Total liabilities	-	192,663	192,663
Net segment assets	-	3,224,713	3,224,713

12. Going concern

The financial report has been prepared on a going concern basis.

The Group had a net loss of \$723,653 and had net operating cash outflows of \$280,093 for the 6 months ending 31 December 2019. As of 31 December 2019, the Group has cash and cash equivalents of \$166,852, net assets of \$2,876,509.

Since 31 December 2019, the Company:

1. By selling its 30% interest in Thackaringa joint venture to Cobalt Blue Holdings Limited, secured \$5,850,000 (excluding interest receivable) in cash, shares and deferred consideration. The Group will generate interest revenue from the convertible note and promissory note in the next 12 months. The Group will be able to access funds from the \$1,850,000 consideration. Refer to 'Subsequent Events' Note 13 below; and
2. Raised A\$1,310,227 before capital raising costs from a renounceable rights offer

These events ensure that expected financial obligations can continue to be met for longer than 12 months from the date of this report.

The Company expects that the majority of exploration and evaluation expenses in the next financial year will be funded from joint venture partners. On top of this, the Company's management has implemented plans to preserve operating cash.

13. Subsequent Events

Sale of Broken Hill (Thackaringa) Cobalt Project

On 4 December 2019 Cobalt Blue Holdings Limited (ASX: COB) announced it had executed a binding Heads of Agreement (HOA) with Broken Hill Prospecting Limited (ASX: BPL) for COB to acquire 100% ownership and legal title of the Broken Hill (Thackaringa) Cobalt Project (including all tenements), through the acquisition of BPL's 30% holding for \$5,850,000 (excluding interest receivable).

The consideration payable under the final agreements remained unchanged from that announced on 4 December 2019. Namely, BPL is receiving:

1. A\$500,000 cash.
2. 9,000,000 COB fully paid ordinary shares at a deemed issue price of A\$0.15 per share.
3. A\$1,000,000 three-year Convertible Note (CN), with interest of 6% per annum payable annually in arrears. BPL is able to convert the CN to COB fully paid ordinary shares at maturity or on 18

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019 (continued)

January 2021 or on 17 January 2022. The CN is convertible with a A\$0.20 conversion price. The issuer of the note has the ability to redeem the CN early.

4. A\$3,000,000 five-year Promissory Note (PN), interest free for years 1, 2 and 3 and interest of 6% per annum payable in arrears. The PN is secured over the title to the tenements.

The consideration is not reflected in the interim financial statements.

The documentation completing the transfer of the Company's interest in the Thackaringa cobalt project joint-venture to its partner Cobalt Blue (COB) was signed 17 January 2020.

Completion of the transaction occurred on 25 February 2020, which will result in BPL receiving \$5,850,000 (excluding interest receivable) in cash, shares and deferred consideration, whilst retaining its 2.0% royalty on all cobalt production from the project and its interest in the Broken Hill style mineralisation (excluding cobalt mineralisations) on part of the tenements.

The tenements themselves are being transferred to Cobalt Blue, which will enable it to progress and commercialise the Thackaringa project efficiently.

Completion of this important transaction significantly underpins the value of BPL itself and will allow it, whilst retaining its interest in its Broken Hill assets and its mineral sands, to focus on developing and commercialising its exciting La Paz Rare Earths project in Arizona.

Renounceable Rights Offer

The Company raised A\$1,310,227 before capital raising costs from a renounceable rights issue announced on 9 December 2019, which closed 17 February 2020. The funds raised are to be used for:

1. Assessing upgrading the current NI 43-101 Resource estimate to JORC 2012 standards
2. Commencing detailed metallurgical test work programs
3. Completing a Scoping Study level economic assessment for the La Paz Project
4. Meeting general corporate and capital raising costs

The Offer includes the issue to each Eligible Shareholder who successfully subscribed for New Shares with one (1) Loyalty Share for every eight (8) New Shares subscribed for and which are continuously held by the shareholder up to and including the date which is 12 months after the date of issue of the New Shares. Each Loyalty Share will be issued for nil consideration, as soon as practicable after the date which is 12 months from the date of issue of the New Shares or Shortfall Shares as applicable.

Senior Management Changes

Mr. Anthony (Trangie) Johnston resigned as Managing Director on 7 February 2020 and the Company has appointed an eminent Arizona based geologist, Mr. John Petersen as Chief Technical Advisor in respect of the development and commercialisation of our rare earth deposit at La Paz in Arizona, which is held by our wholly-owned subsidiary La Paz Rare Earth LLC.

Apart from the above, the Directors are not aware of any other material events subsequent to the end of the period that have not been reflected in the financial statements.

DIRECTORS' STATEMENT

The Directors of the Company declare that:

1. The financial statements and notes, as set out in the half yearly report to 31 December 2019:
 - (a) comply with New Zealand International Accounting Standard 34, Interim Financial Reporting, and
 - (b) give a true and fair view of the Company's financial position as at 31 December 2019 and its performance and cash flows for the period ended on that date.
2. In the Directors' opinion 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 for and on behalf of the Board



Creagh O'Connor
Chairman



Matthew Hill
Director

Date: 13 March 2020