

UNREVIEWED FINANCIAL REPORT

For the half year ending 31 December 2020



Heron Resources Limited

ACN 068 263 098

Heron Resources Limited

Corporate Directory

ABN 30 068 263 098

DIRECTORS

Chairman (Non-Executive)

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Director (Non-Executive)

Mark Sawyer LLB

Director (Non-Executive)

Ricardo De Armas B.S. M.B.A (Harvard)

Director (Non-Executive)

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SOLICITORS TO THE COMPANY

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ASX CODE HRR

INDUSTRY CLASSIFICATION

GICS classification code is 15104020

Diversified Metals and Mining

ISIN AU000 000 HRR6

Heron Resources Limited
ABN 30 068 263 098

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For the half year ended 31 December 2020

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This interim unreviewed financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Heron Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDING 31 DECEMBER 2020

	Notes	31 Dec 2020 \$'000	31 Dec 2019 \$'000
OTHER INCOME	2	1,502	683
Administrative expenses		(474)	(442)
Professional services and consultants		(1,371)	(1,022)
Depreciation and amortisation expense	3a	(185)	(1,065)
Directors fees		(149)	(336)
Employee benefits expense		(330)	(1,792)
Equity settled share based reversal / (expense)	15	216	816
Exploration expenditure expensed		(230)	(509)
General expenses from ordinary activities	3b	(463)	(350)
Care and maintenance costs		(4,116)	-
Finance expense	3c	(8,858)	(787)
Fair value gain / (loss) on financial instruments	3d	(133)	(4,978)
Fair value gain / (loss) on equity instruments		(704)	12
Lease termination gain / (loss)		(1,403)	-
Unrealised foreign exchange gain / (loss)	3e	15,207	26
Impairment of mine property		-	(29,834)
Sedgman provision		-	2,985
		<hr/>	<hr/>
INCOME / (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		(1,491)	(36,593)
INCOME TAX EXPENSE		-	-
INCOME / (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE		<hr/>	<hr/>
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		<hr/>	<hr/>
		<hr/>	<hr/>
		\$	\$
Basic earnings / (loss) per share	17	(0.006)	(0.103)
Diluted earnings / (loss) per share	17	<hr/>	<hr/>
		(0.006)	(0.103)

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Notes	31 Dec 2020 \$'000	30 Jun 2020 \$'000
CURRENT ASSETS			
Cash and cash equivalents		6,771	9,889
Trade and other receivables	4	120	1,529
Inventories	5	3,787	4,327
Financial assets - equity instruments	6	826	1,530
Other assets	7	706	528
TOTAL CURRENT ASSETS		12,210	17,803
NON-CURRENT ASSETS			
Restricted cash		3,701	3,701
Other assets	7	110	110
Property, plant and equipment	8	4,396	4,431
Mine property	9	171,156	171,156
Right of use assets	8	8,112	11,999
TOTAL NON-CURRENT ASSETS		187,475	191,397
TOTAL ASSETS		199,685	209,200
CURRENT LIABILITIES			
Trade and other payables	10	15,048	8,042
Borrowings	11	100,118	104,112
Provisions	13	333	9,401
Convertible note	12	54,010	56,218
Financial liability - derivative	12	1,501	1,200
TOTAL CURRENT LIABILITIES		171,010	178,973
NON-CURRENT LIABILITIES			
Trade and other payables		8,824	8,352
Borrowings	11	5,437	5,626
Provisions	13	15,873	16,001
TOTAL NON-CURRENT LIABILITIES		30,134	29,979
TOTAL LIABILITIES		201,144	208,952
NET ASSETS		(1,459)	248
EQUITY			
Contributed equity	14	295,601	295,601
Option reserve	15	2,085	2,301
Accumulated losses	15	(299,145)	(297,654)
TOTAL EQUITY		(1,459)	248

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDING 31 DECEMBER 2020

	Note	Issued Capital \$'000	Accumulated Losses \$'000	Option Reserve \$'000	Total \$'000
As at 30 June 2020		295,601	(297,654)	2,301	248
Total comprehensive income for the period after tax		-	(1,491)	-	(1,491)
Issue of share capital		-	-	-	-
Share issue costs		-	-	-	-
Cost of share based payments	15	-	-	8	8
Option reserve write back	15	-	-	(224)	(224)
As at 31 December 2020		295,601	(299,145)	2,085	(1,459)
As at 30 June 2019		259,742	133,699)	2,857	128,900
Total comprehensive income for the period after tax		-	(36,593)	-	(36,593)
Issue of share capital		37,403	-	-	37,403
Share issue costs		(1,502)	-	-	(1,502)
Cost of share based payments		-	-	257	257
Option reserve write back		-	-	(1,073)	(1,073)
As at 31 December 2019		295,643	(170,292)	2,041	127,392

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDING 31 DECEMBER 2020

Notes	31 Dec 2020 \$'000	31 Dec 2019 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(8,918)	(5,895)
Interest received	1	316
Interest paid and other finance costs	(409)	-
Exploration and development expenditure – expensed	-	(509)
Receipt of government grants	337	-
NET CASH USED IN OPERATING ACTIVITIES	(8,989)	(6,088)
CASH FLOWS FROM INVESTING ACTIVITIES		
Woodlawn Mine – asset under construction	-	(51,432)
Proceeds from sale of commissioning concentrates	464	5,180
Refund / (payment) of bond and bank guarantees	(25)	-
Proceeds from sale of financial assets - equity instruments	-	1,386
Proceeds from sale of excess inventory and silver bullion	760	-
Receipt / (payment) for plant and equipment	615	(438)
Payments for foreign currency hedge transaction	-	(101)
Net proceeds from research and development refund	1,084	-
NET CASH USED IN INVESTING ACTIVITIES	2,897	(45,405)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from equity raising	-	28,790
Payments for capital raising costs	-	(865)
Payment of principal portion of lease liabilities	(221)	(2,564)
Proceeds from borrowings	3,500	47,089
Payment of borrowing costs	(212)	(1,045)
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,067	71,405
NET INCREASE / (DECREASE) IN CASH HELD	(3,025)	19,912
Cash at the beginning of the reporting period	9,889	31,465
Foreign exchange (gain) / loss on translation - unrealised	(93)	(38)
CASH AT THE END OF THE REPORTING PERIOD	6,771	51,339

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance and Basis of Preparation

General

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements have been prepared under the historical cost convention, except for the Group's financial instruments that have all been measured at fair value.

The consolidated interim financial report does not include all of the information required for a full annual report and accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2020 and any public announcements made by Heron Resources Limited during the half year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Group's annual report for the year ended 30 June 2020.

Going concern basis of accounting

The Group generated a loss for the six month period after tax of \$1,491 (2019: loss of \$36,593) and a net cash out flow from operating activities of \$9,088 (2019: out flow \$6,088). The interim financial statements for the six month period ended 31 December 2020 have been prepared on the going concern basis, notwithstanding the fact that the Group incurred a net cash outflow from operating and investing activities for the six month period of \$6,063 (2019: outflow \$51,493).

The Group continues to undertake the Strategic Process announced in August 2020 and expects it to complete according to the timetable previously described.

Accounting Standards and Interpretations issued but not yet effective

Initial application of the following Standards is not expected to materially affect any of the amounts recognized in the financial statements, but may change the disclosures made in relation to the Group's financial statements:

Standard and Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
<i>Amendments to IFRS 3 - Definition of a Business</i>	1 January 2021	30 June 2022
<i>Amendments to IFRS 9, IAS 39 - Interest Rate Benchmark</i>	1 January 2021	30 June 2022
<i>Amendments to IAS 1 (Presentation of Financial Statements) and IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) – Definition of Material</i>	1 January 2021	30 June 2022

The Directors of the Group do not anticipate that the adoption of above amendments will have a material impact in future periods on the financial statements of the Group.

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
NOTE 2 OTHER INCOME		
Interest received	2	121
Realised foreign exchange gain / (loss)	(1)	1,002
Loss from sale of listed investments	-	(443)
Sundry income	10	3
Government grants	362	-
Research and Development Tax Incentive	1,129	-
	<u>1,502</u>	<u>683</u>

NOTE 3. OPERATING EXPENSES

The profit / (loss) before income tax expense has been determined after charging a number of items including the following:

3a Depreciation of:

Plant and equipment	16	12
Motor vehicles	75	102
Right of Use Assets	94	951
	<u>185</u>	<u>1,065</u>

3b Other expenses include the following:

Rental expense	11	33
Listing expense	36	87
Investor relations	12	49
Information technology	3	28
Other expense	401	153
	<u>463</u>	<u>350</u>

3c Finance costs include the following:

Sedgman provision discount write back	-	202
Senior debt interest	4,112	-
Convertible note interest	4,053	-
Finance lease liability interest	49	22
Expensed capital raising costs and other	644	563
	<u>8,858</u>	<u>787</u>

3d Unrealised fair value adjustment on financial instruments includes:

Silver stream	-	4,128
Zinc stream	-	819
Financial liability - derivative	(301)	-
Convertible notes	-	-
Other	168	31
	<u>(133)</u>	<u>4,978</u>

	31 Dec 2020 \$'000	31 Dec 2019 \$'000
3e Unrealised foreign exchange gain / (loss) includes:		
Senior debt	(9,057)	(387)
Convertible notes	(6,261)	-
Other	111	413
	(15,207)	26

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
NOTE 4. TRADE AND OTHER RECEIVABLES		
Goods & services tax receivable	26	103
Sundry debtors	59	50
Trade debtors	-	1,341
Other debtors	35	35
	120	1,529

NOTE 5. INVENTORIES

Refined metal - silver bullion	-	270
Store stock and consumables	3,787	4,057
	3,787	4,327

Store stock and consumables represents commissioning spares, chemical reagents, and other spare parts required at the Woodlawn mine. Store stock and consumables are valued at cost.

NOTE 6. FINANCIAL ASSETS – EQUITY INSTRUMENTS

Sky Metals Limited	610	1,290
Alchemy Resources Limited	216	240
	826	1,530

The Group holds the following investment in Australian Stock Exchange listed companies:

Alchemy Resources Limited (ALY) is an Australian listed public exploration company with a focus on gold, base metal, and nickel-cobalt projects. The Group held 12,000,000 shares and 12,500,000 options with an exercise price of \$0.10 at reporting date. The underlying Alchemy share price as at 31 December 2020 was \$0.02 cents. The options have been valued at nil as at reporting date.

Sky Metals Limited (SKY) is an Australian listed public exploration company with a focus on gold and tin resource projects. The Group held 10,000,000 unlisted options with an exercise price of \$0.15 at reporting date. The underlying Sky share price as at 31 December 2020 was \$0.19 cents

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
NOTE 7. OTHER ASSETS		
CURRENT		
Prepayments and other	647	468
Energy certificates	59	60
	706	528
NON CURRENT		
Tenement bonds and other	110	110

NOTE 8 PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment \$'000	Motor vehicles \$'000	Total \$'000
31 December 2020			
Cost	5,789	599	6,388
Accumulated depreciation	(1,417)	(575)	(1,992)
	4,372	24	4,396
Reconciliation			
Opening carrying value	4,388	43	4,431
Additions	-	-	-
Disposals	-	-	-
Depreciation expense	(16)	(19)	(35)
	4,372	24	4,396
30 June 2020			
Cost	16,312	1,340	17,652
Transfers from adoption of AASB 16	(10,523)	(741)	(11,264)
Accumulated depreciation	(1,401)	(556)	(1,957)
	4,388	43	4,431
Reconciliation			
Opening carrying value	11,688	948	12,636
Adoption of AASB 16	(10,523)	(741)	(11,264)
Additions	3,360	40	3,400
Disposals	(1)	(30)	(31)
Depreciation expense	(136)	(174)	(310)
	4,388	43	4,431

Rights of Use Assets	Plant and equipment \$'000	Motor vehicles \$'000	Other \$'000	Total \$'000
31 December 2020				
Cost	8,432	459	924	9,815
Accumulated depreciation	(1,218)	(203)	(282)	(1,703)
	7,214	256	642	8,112
Reconciliation				
Opening carrying value	10,669	594	736	11,999
Additions	-	-	-	-
Disposals	(700)	(282)	-	(982)
Lease modifications / terminations	(2,755)	-	-	(2,755)
Depreciation expense	-	(56)	(94)	(150)
Closing carrying value	7,214	256	642	8,112
30 June 2020				
Cost	700	-	-	700
Adoption of AASB 16	16,702	741	924	18,367
Accumulated depreciation	(1,218)	(147)	(188)	(1,553)
Lease modification / Termination	(5,515)	-	-	(5,515)
	10,669	594	736	11,999
Reconciliation				
Opening carrying value	-	-	-	-
Transfers from adoption of AASB 16	10,523	741	-	11,264
ROUA from adoption of AASB 16	6,179	-	924	7,103
Additions	700	-	-	700
Lease modifications / terminations	-	-	-	-
Depreciation expense	(1,218)	(147)	(188)	(1,553)
Lease modification / Termination	(5,515)	-	-	(5,515)
Closing carrying value	10,669	594	736	11,999

NOTE 9 WOODLAWN MINE – ASSET UNDER CONSTRUCTION

	Mine Under construction \$'000	Rehabilitation asset \$'000	Total \$'000
31 December 2020			
Cost	306,272	15,751	322,023
Accumulated amortisation	-	-	-
Impairment charge	(150,867)	-	(150,867)
	<u>155,405</u>	<u>15,751</u>	<u>171,156</u>
Reconciliation			
Opening carrying value	155,405	15,751	171,156
Additions	-	-	-
Net proceeds from commissioning concentrate sales	-	-	-
Impairment	-	-	-
Amortisation	-	-	-
Closing carrying value	<u>155,405</u>	<u>15,751</u>	<u>171,156</u>
	Mine Under construction \$'000	Rehabilitation asset \$'000	Total \$'000
30 June 2020			
Cost	306,272	15,751	322,023
Accumulated amortisation	-	-	-
Impairment charge	(150,867)	-	(150,867)
	<u>155,405</u>	<u>15,751</u>	<u>171,156</u>
Reconciliation			
Opening carrying value	227,098	15,751	242,849
Additions	93,011	-	93,011
Net proceeds from commissioning concentrate sales	(13,837)	-	(13,837)
Impairment	(150,867)	-	(150,867)
Amortisation	-	-	-
Closing carrying value	<u>155,405</u>	<u>15,751</u>	<u>171,156</u>

Determination of recoverable amount

For the half year to 31 December 2020 there has been no adjustment to the carrying value of the Woodlawn mine asset due to it being in care and maintenance.

As at 30 June 2020 a review was performed for indicators of impairment in order to determine whether a formal impairment assessment was required. The market capitalisation of the Group being below the book value of its equity and the Woodlawn project having transitioned into care and maintenance in March 2020 were identified as indicators of impairment. Where indicators of impairment exist, a formal estimate of the recoverable amount of the cash generating unit (CGU) is made. The recoverable amount is the higher of the CGU's value in use (being the net present value of expected future cash flows of the relevant cash generating unit) and fair value less costs to sell.

A value in use methodology is considered appropriate, even though the Woodlawn project is currently in care and maintenance, given the advanced nature of the project's development and positive short term re-start prospects.

The Woodlawn project is considered the Group's sole CGU. Impairment testing on the Woodlawn project determined a full year impairment loss of \$150.8 million.

The recoverable amount of the CGU of \$187.6 million, is determined based on value in use calculations using discounted cash flow projections based on a number of factors, variables and assumptions. These include the level of proved, probable and inferred mineral resources, mine restart date, future technological changes, commodity prices, costs and foreign exchange rates covering a period of the life of the Woodlawn project asset and the discount rate applied to the cash flows.

The cash flow projections which are used in determining any impairment require management to make significant estimates and judgements.

Key assumptions in preparing the cash flow projections are set out below.

Key assumptions

The key assumptions on which management has based its cash flow projections when determining value in use calculations for the Woodlawn project as at 30 June 2020 are as follows:

- Commodity Prices:** commodity pricing assumptions are based on management's estimates and were derived from forecast pricing estimates published by brokers and other reputable sources, denominated in US Dollars (USD) and presented in real terms, as of 30 June 2020:

USD, in real terms	2021	2022	2023	2023	Long term
Zinc (\$/t)	2,375	2,448	2,491	2,544	2,646
Lead (\$/t)	1,887	1,910	1,955	1,939	1,984
Copper (\$/t)	6,086	6,322	6,439	6,602	6,614
Silver (\$/oz)	18.1	17.7	18.1	18.4	20.0
Gold (\$/oz)	1,757	1,596	1,555	1,519	1,525

- Discount Rate:** a real post-tax discount rate of 8.5% was applied to the post-tax cash flows expressed in real terms. This discount rate is derived from the Group's post-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings the Group is obliged to service.
- Production Volumes:** production volumes of 9.0 million tons of tailings dam ore and 3.4 million tons of underground polymetallic ore, at varying ultimate recoveries of commodities depending on the concentrate produced, were incorporated into the cash flow model. These assumptions are based on a detailed life of mine plan and take into account ramp up and development plans approved by the directors. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; processing plant throughput levels; and the selling price of the commodities extracted. The production profile used was consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proved and probable reserves and resource estimates. These are then assessed to ensure they are consistent with what a market participant would estimate.

Sensitivity

After recognition of the impairment loss, the estimated recoverable amount of the CGU is in line with the sum of the carrying amounts of the assets of the CGU.

Reasonably possible changes in certain of the key assumptions adopted in estimating the recoverable amount of the CGU could result in additional impairment being necessary. The table below demonstrates the sensitivity of the Woodlawn project to such movements as at 30 June 2020:

Sensitivity	Additional Impairment \$A M
10% decrease in zinc price assumptions	37.7
10% decrease in zinc and 5% decrease in all other commodity price assumptions	57.9
6-month delay in restart of the mine	5.3
2% appreciation in AUD/USD exchange rate	13.1
1% added to discount rate	10.8

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
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NOTE 10 TRADE AND OTHER PAYABLES

Trade and other creditors under normal trading conditions	1,701	6,014
Trade and other creditors subject to forbearance	11,319	-
Sedgman settlement	2,028	2,028
	<u>15,048</u>	<u>8,042</u>

Trade creditors are non-interest bearing and are normally settled on 30 day terms. Due to the short term nature of these payables, the carrying value is assumed to be the same as their fair value.

During the period, a number of significant trade creditors provided forbearance until August 2021 under a deed of settlement arrangement.

	31 Dec 2020 \$'000	30 Jun 2020 \$'000
NOTE 11 BORROWINGS		
CURRENT		
Senior debt	76,727	81,951
Borrowings - equipment finance	-	191
C&M Loan	3,779	-
Silver stream	17,254	17,438
Zinc stream	2,357	2,357
Lease liability	-	2,175
	100,118	104,112
NON CURRENT		
Borrowings - equipment finance	-	273
Lease liability	5,437	5,353
	5,437	5,626

(a) Silver stream

The Group through its wholly owned subsidiary, Tarago Operations Pty Ltd, entered into a financing agreement with OMF Fund II (H) Ltd. This agreement included a Silver Streaming arrangement of US\$16 million, which the Group received on the 8 March 2018. The sum received has been accounted for as a financial liability at fair value through Statement of Profit or Loss.

In May 2020, the Nomad Royalty Company Limited acquired the Silver stream from OMF Fund II (H) Ltd.

Under this agreement, the Group will deliver 80% of the silver extracted from the Woodlawn project (SML20) until it has delivered 2,150,000 ounces of Refined Silver, followed by 40% of the silver extracted from the mine until it has delivered 3,400,000 of Refined Silver, and thereafter 25% of the Refined Silver extracted from the mine.

The Group has elected to fair value the entire instrument. The obligation represents a derivative liability for the silver price option feature included in the agreement and will therefore be re-measured at each balance sheet date at fair value through profit or loss.

(b) Zinc stream

The Group through its wholly owned subsidiary, Tarago Operations Pty Ltd, entered into a financing agreement with OMF Fund II (H) Ltd. The agreement included a Zinc Streaming arrangement of US\$3 million. The Zinc Streaming arrangement was approved by Heron shareholders on the 5 December 2019. The sum received has been accounted for as a financial liability at fair value through Statement of Profit or Loss.

In May 2020, the Nomad Royalty Company Limited acquired the Zinc stream from OMF Fund II (H) Ltd.

Under this agreement, the streaming rights under the existing stream arrangements will be extended to include additional ounces of refined silver via a payable zinc to silver conversion calculation. The zinc to silver conversion ratio is 170.2 silver ounces per metric tonne of zinc.

The Group will deliver 0.30% of zinc extracted from the Woodlawn project (SML20) until it has delivered 140 tonnes, followed by 1.15% of the zinc extracted from the mine until it has delivered 910 tonnes, followed by 2.25% of the zinc extracted from the mine until it has delivered 4,200 tonnes, and thereafter 0.75% of zinc extracted from the mine.

The Group has elected to fair value the entire instrument.

The discount rates used in the modelling of the Silver and Zinc stream were determined by probability weighting the likelihood that the Woodlawn project will restart and the likelihood that the holders of the stream would demand early repayment of the stream should the waiver expire prior to the successful completion of the Strategic Process, which is their right under the stream arrangements.

(c) Senior debt

A loan facility for USD \$60 million (funds were drawn down in three equal tranches) was provided as part of the financing agreement with OMF Fund II (H) Ltd. The respective draw down dates were the 29 May 2018, 26 September 2018, and 21 December 2018.

The funding rate is the aggregate of a margin of 7.25% and the applicable Libor rate, being a minimum of 2.5%, for each interest period. The loan was initially recorded at fair value less associated transaction costs. The proceeds from draw down was considered to represent the fair value of the facility at that time. The loan is subsequently measured at amortised cost, subject to the amendments in Note 1. Under the amended agreement discussed below, the Group has to maintain a cash balance of not less than AUD \$10 million in its Tarago Operations Pty Ltd subsidiary operating accounts.

As announced on the 4 October 2019, the Group entered into a Debt Restructure agreement with OMF Fund II (H) Ltd whereby US\$10M of the existing US\$60M was repaid and the maturity date of the existing loan facility was extended by 12 months from 31 December 2022 to 31 December 2023 (and the repayment profile adjusted to match the revised cashflow profile and extended tenor).

On the 14 August 2020, the Group announced the commencement of the Strategic Process in relation to the Woodlawn project. This included long-term standstills from secured lenders and major unsecured creditors. During the long term standstill the Senior debt funding rate will increase from September 2020 to 15%.

During August 2020, the Company obtained a loan from Castlake for \$3.5M (C&M Loan) to be used as working capital whilst Woodlawn is in care and maintenance.

	Opening carrying value	Drawdown	Loan Repayment	Foreign exchange loss/(gain)	Accrued Interest	Debt finance costs	Fair value loss/(gain)	Closing carrying value
31 December 2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Senior debt	81,951	-	-	(9,057)	3,833	-	-	76,727
C&M Loan	-	3,500	-	-	209	70	-	3,779
Silver stream	17,438	-	(184)	-	-	-	-	17,254
Zinc stream	2,357	-	-	-	-	-	-	2,357
	101,746	3,500	(184)	(9,057)	4,042	70	-	100,118

	Opening carrying value	Drawdown ⁽ⁱ⁾	Loan repayment ⁽ⁱⁱ⁾	Foreign exchange loss/(gain)	Accrued Interest	Debt finance costs	Fair value loss/(gain)	Closing carrying value
30 June 2020	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Senior debt	92,556	1,968	(23,523)	2,023	8,927	-	-	81,951
Silver stream	30,943	-	(1,096)	-	-	-	(12,409)	17,438
Zinc stream	-	4,420	(214)	-	-	-	(1,849)	2,357
	123,499	6,388	(24,833)	2,023	8,927	-	(114,258)	101,746

(i) Represents a debt restructuring fee capitalised into the loan balance.

(ii) Loan repayments comprise of interest payments and principal repayments. Principal repayments have been made in accordance with 4 October 2019 Debt Restructure agreement.

31 Dec 2020
\$'000

30 Jun 2020
\$'000

NOTE 12 CONVERTIBLE NOTE AND OPTION

Convertible Note

Opening balance	56,218	-
Issue of convertible notes	-	50,949
Transaction costs	-	(1,989)
Write off of transaction costs	-	1,989
Capitalised interest	4,053	4,419
Unrealised foreign exchange loss / (gain)	(6,261)	712
Fair value of derivatives within convertible notes at recognition	-	(6,596)
Fair value adjustment to recognise at face value	-	6,734
Closing balance	54,010	56,218

	31 Dec 2020	30 Jun 2020
	\$'000	\$'000
Convertible Option		
Opening balance	1,200	-
Fair value of derivatives within convertible option at recognition	-	6,596
Fair value adjustment of derivatives within convertible option	301	(5,396)
Closing balance	<u>1,501</u>	<u>1,200</u>

The Group has entered into Convertible Note Agreements of \$50.9 million with each of the Castllake Parties, the Greenstone Parties and Orion ('Noteholders') with the following terms:

Face value	Each Convertible Note will be issued at face value, being US\$1.00
Maturity	31 December 2024
Interest	3-month USD LIBOR (subject to a minimum 2.5%) plus 12.5%
Conversion	Noteholders may elect to convert some or all of the Convertible Notes at any time after the date of issue of the relevant Convertible Note and prior to the Maturity Date
Conversion Shares	The Conversion Shares will be calculated based on (a) the total amount outstanding in respect of each Convertible Note (included all accrued interest and fees); (b) divided by the USD:AUD exchange rate as at the date of the conversion notice; and (c) divided by the conversion price of \$0.25
Security	The Convertible Notes are unsecured

Derivative

A conversion option derivative liability exists in respect to the option of the Noteholders to convert the convertible notes into ordinary shares of the company. The fair value of the conversion option was calculated using the Black-Scholes option pricing model with the following options:

	31 Dec 2020	30 Jun 2020
Opening value	1,199,642	-
Exercise Price (\$)	0.25	0.25
Spot Price (\$)	0.05	0.04
Valuation date	31-Dec-20	30-Jun-20
Expiration date	31-Dec-24	31-Dec-24
Term (years)	4.0	4.5
Risk free rate	0.3%	0.4%
Price Volatility	67%	65%
Value of call option (\$)	0.007	0.006
No. of options	214,370,925	199,940,333
Closing value (\$)	1,500,596	1,199,642
Fair value adjustment (\$)	(300,954)	-

The equity conversion feature is accounted for as a derivative liability in the consolidated statement of financial position.

31 Dec 2020
\$'000

30 Jun 2020
\$'000

NOTE 13 PROVISIONS**CURRENT**

Employee entitlements	333	401
Sedgman settlement ⁽ⁱ⁾	-	-
Pybar settlement	-	9,000
	333	9,401

(i) As at 31 December 2020 the Sedgman and Pybar settlements have been reclassified as Trade and other payables. Refer to Note 10.

NON CURRENT

Employee entitlements	92	357
Rehabilitation provision ⁽ⁱⁱ⁾	15,781	15,781
	15,873	16,138

(ii) The rehabilitation provision for the Woodlawn mine is based on the assessment of an independent environmental consultant using the NSW Department of Resources and Energy ('DRE') rehabilitation cost estimation tool. Veolia Environmental Services (Australia) Pty Limited ('Veolia') has been instructed by the Environmental Protection Agency ('EPA') to halt production of the mulch material it produces at their Woodlawn bio-reactor site whilst further studies are undertaken. The mulch material is to be used by the Group free of charge to rehabilitate the mine site. If the Group is unable to use Veolia's mulch then the rehabilitation provision may be increased.

NOTE 14 CONTRIBUTED EQUITY

	31 Dec 2020 Shares	30 Jun 2020 Shares	31 Dec 2020 \$'000	30 Jun 2020 \$'000
Issue of ordinary shares				
Opening balance	428,664,605	241,666,912	295,601	259,742
Issue of share capital	-	186,997,693	-	37,403
Share issue costs	-	-	-	(1,544)
Closing balance	428,664,605	428,664,605	295,601	295,601

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held. On a show of hands every holder of shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

The Group does not have authorised capital or par value in respect of its issued shares.

	31 Dec 2020	30 Jun 2020
	\$'000	\$'000
NOTE 15 ACCUMULATED LOSSES AND RESERVES		
Option Reserve		
Opening balance	2,301	2,857
Cost of share based payments	8	227
Write back lapsed options expense	(224)	(783)
	<hr/>	<hr/>
Closing balance	2,085	2,301
	<hr/> <hr/>	<hr/> <hr/>
Accumulated Losses		
Opening balance	(297,654)	(133,699)
Net profit/(loss) for the period	(1,491)	(163,955)
Closing balance	(299,145)	(297,654)
	<hr/> <hr/>	<hr/> <hr/>

The option reserve is used to recognise the fair value of options issued and expensed over the vesting period and credited to this reserve. The shares will reverse against ordinary share capital when the underlying options are exercised or lapse.

NOTE 16 SEGMENT REPORTING

The nature of operations and principal activities of Group are exploration, mine development, mine operations and the sale of Zinc, Copper and Lead concentrate in Australia. Given the nature of the Group, its size and current operations, management does not treat any part of the Group as a separate operating segment. Internal financial information used by the Group's chief operating decision maker is presented as a Group without dissemination to any separately identifiable segments.

Accordingly the financial information reported elsewhere in this financial report is representative of the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

NOTE 17 EARNINGS PER SHARE

	31 Dec 2020	31 Dec 2019
Basic earnings per Share	(0.006)	(0.103)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	242,049,426	355,229,896
Diluted earnings per Share	(0.006)	(0.103)
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted earnings per share.	242,049,426	355,229,896
Earnings profit/(loss) used in calculating basic and diluted earnings profit/(loss) per share	(1,491,348)	(36,593,303)

The outstanding options and performance rights as at reporting date are not considered dilutive.

NOTE 18 SUBSEQUENT EVENTS

Other than those noted below there is no matter or circumstance which has arisen since 31 December 2020 that has significantly affected or may significantly affect:

The operations, in the financial years subsequent to 31 December 2020, of the Group; or the results of those operations.

NOTE 19 CONTINGENCIES**Performance bonds and rental bond commitment**

The Group has provided cash backed performance bonds with the NSW Department of Resources and Energy with respect to its environmental obligations.

The Group has rental bond commitments over its leased office and residential premises.

Agreement with Veolia Environmental Services (Australia) Pty Ltd

The Group has agreed with Veolia:

- (i) To assume the environmental liabilities associated with the Woodlawn site, excluding Veolia's area of operation.
- (ii) Subject to certain approvals being received by Veolia and the Group, the Group will receive "free-on-board" compost from Veolia to be utilised in the rehabilitation of the Woodlawn project site.
- (iii) To fully indemnify Veolia for all direct and or consequential loss and damage suffered by Veolia as a result of or caused by or contributed to by any act or omission or default by the Group, connected with its operations at the Woodlawn project site.

Other contingent liabilities

Native title claims have been made with respect to areas which include tenements in which the Group has interests. The Group is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the consolidated entity or its projects.

None of these contingent liabilities has been provided for in the financial report.



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