



**NORTHERN
MINERALS**

Powering Technology.

NORTHERN MINERALS LIMITED

ABN 61 119 966 353

ANNUAL FINANCIAL STATEMENTS

2018

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

The directors present their report together with the consolidated financial report of the Group, being Northern Minerals Limited (the "parent entity" or "Company") and its controlled entities, for the financial year ended 30 June 2018 and the independent auditors report thereon.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors and officers were in office for the entire period unless otherwise stated.

Colin James McCavana – *Non-executive Chairman*

Mr McCavana has more than 30 years of management experience worldwide in the earthworks, construction and mining industries. Much of this has been related to acquisition, development and operation of mining and mineral recovery projects. Mr McCavana is a member of the remuneration and nomination committee. Mr McCavana is a Fellow of the Australian Institute of Company Directors. During the past three years Mr McCavana has served as a director of the following listed company:

- Reward Minerals Limited (Director February 2010 – Present)

George Bauk – *Managing Director / Chief Executive Officer*

Mr Bauk is an experienced executive, with over 25 years' experience in the resources industry. Mr Bauk holds a Bachelor of Business from Edith Cowan University and an MBA from the University of New England. Prior to Northern Minerals, Mr Bauk held global operational and corporate roles with WMC Resources, Arafura Resources and Western Metals and has a strong background in strategic management, business planning, building teams, finance and capital/debt raising, and experience with a variety of commodities in particular rare earths and nickel.

As Managing Director of Northern Minerals since 2010, he has led its rapid development from a greenfields heavy rare earth explorer to the first commercial-scale heavy rare earths project outside of China, mainly producing dysprosium and terbium. Mr Bauk is a passionate member of the WA resources industry holding a number of senior governing positions with the Chamber of Minerals and Energy including Vice-President. He has recently been appointed to the "Lithium Valley" battery taskforce Industry Reference Group, led by Mines Minister the Hon. Bill Johnston MLA. During the past three years Mr Bauk has served as a director of the following listed companies:

- Lithium Australia NL (Non-executive chairman July 2015 – Present)
- Blackearth Minerals NL (Non-executive director – listed 19th January 2018)

Adrian Christopher Griffin – *Non-executive Director*

Mr Griffin is an Australian trained mining professional with exposure to metal mining and processing throughout the world. Mr Griffin has been involved in the development of extraction technology for a range of metals and was a pioneer of the WA lateritic nickel processing industry. He specialises in mine management and production. Mr Griffin is a member of the remuneration and nomination committee. During the past three years Mr Griffin has also served as a director of the following listed companies:

- Lithium Australia NL (Director February 2011 – Present)
- Parkway Minerals NL (October 2010 – Present)
- Reedy Lagoon Corporation Ltd (June 2014 – Present)

Yanchun Wang – *Non-executive Director*

Ms Wang acts as a strategic investor for a number of Chinese based companies. Ms Wang is Vice Chairman of Conglin Baoyuan International Investment Group and also a Director of Huachen. During the past three years Ms Wang has also served as a director of the following listed company:

- Orion Metals Limited (Director August 2012 – 21 July 2016)

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DIRECTORS (Continued)

Nan Yang – *Non-executive Director*

Mr Yang is an Australian mining engineer with more than 10 years' experience in mine planning, design, and mergers and acquisitions. Mr Yang completed a Bachelor of Mechanical Engineering at the Yan Tai University in China before completing a Postgraduate Diploma in Mining and Master of Science in Mining at the Western Australian School of Mines. Mr Yang was appointed as a nominee of Huatai Mining.

Bin Cai – *Alternate Director*

Mr Cai is the Managing Director of Mr Conglin Yue's Brisbane-based, Australia Conglin International Investment Group Pty Ltd. Mr Cai has an outstanding record of successful strategic investments in emerging Australian resource companies based on his long experience in global resource industry investment. Prior to joining the Conglin Group, Mr Cai had eight years' experience with The China Investment Bank. Mr Cai is currently a director of the following listed companies:

- Orion Metals Limited (Director July 2012 - present)
- Carpentaria Exploration Limited (Director May 2011 – May 2018)

COMPANY SECRETARY

Mark Tory

Mr Tory is a Chartered Accountant with an MBA majoring in finance. He is a highly-experienced executive in the mining and resources sector having held senior finance and strategic positions with both large and small resource companies. He was most recently Managing Director of Crescent Gold Limited after two years as CFO and Company Secretary. Before this Mr Tory held executive positions with Anglo American Exploration and Homestake Gold of Australia (now Barrick Gold).

DIRECTORS' MEETINGS & AUDIT AND REMUNERATION COMMITTEE MEETINGS

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2018, and the number of meetings attended by each director while they were a director was as follows:

Director	Board Meetings		Audit Committee		Remuneration Committee	
	A	B	A	B	A	B
Colin McCavana	7	7	2	2	1	1
George Bauk	7	7	2	2	N/A	N/A
Adrian Griffin	6	7	2	2	1	1
Yanchun Wang	0	7	N/A	N/A	N/A	N/A
Nan Yang	7	7	2	2	N/A	N/A
Bin Cai	7	7	2	2	N/A	N/A

A – meetings attended

B – meetings held during the time the director held office

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DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares and options of the Company were:

Director (direct and indirect holdings)	Ordinary Shares	Performance Rights	Options
Colin McCavana	4,700,000	2,000,000	-
George Bauk	9,281,650	4,000,000	-
Adrian Griffin	4,079,150	2,000,000	-
Yanchun Wang ¹	198,610,998	2,000,000	-
Nan Yang	500,000	2,000,000	-
Bin Cai	4,100,000	2,000,000	-

¹ Includes Ordinary shares held by Australian Conglin International Investment Group Pty Ltd

DIVIDENDS

No dividends have been paid or declared by the Company during the financial year or subsequent to the year end.

PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the financial year was the construction of its Browns Range pilot plant project and the completion of its 6 month mining campaign. The project will utilise the pilot plant to undertake research and development and assess the broader economic and technical feasibility of the Browns Range project.

Details of these activities are summarised in the review of operations below.

REVIEW OF OPERATIONS

A review of the Group's exploration projects and activities during the year is discussed in the Review of Operations included in the Annual Report.

The focus during the financial year has been the continuation of works for the \$56 million Browns Range pilot plant project, which was approved by the Board on 18 April 2017.

Northern Minerals continued fabrication, mining and siteworks in relation to its pilot plant project that is part of the 100% owned, dysprosium-rich Browns Range heavy rare earth element project, located 160km south east of Halls Creek in Western Australia.

The pilot plant project is a three-year research and development project, to assess the technical feasibility of a full-scale plant and forms part of a broader ongoing technical feasibility study underpinning the Browns Range project.

Mining at the Gambit West and Wolverine starter pits was completed with 205,000t ore mined and stockpiled on the ROM pad. This is 25,000t more than originally planned and was made possible due to modifications to the mining method and favourable geotechnical conditions. Ore will be drawn down from the ROM pad over three years. There was also an additional amount of 32,000t stockpiled as mineralised waste.

The bulk earthworks scope of the Mining and Bulk Earthworks contract involved construction of the process plant area pad and event ponds, construction of the ROM pad, tailings storage facility, airstrip, evaporation pond and road infrastructure around the site. This work was completed in early October and the contractor demobilised from site by the end of November.

Northern Minerals finalised installation works and commenced commissioning at the Pilot Plant Project in June. All major plant and equipment components were effectively installed, with the project moving into the commissioning phase ahead of its first rare earth carbonate production in September 2018.

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Commissioning of the beneficiation plant and the partial commissioning of the hydrometallurgical plant was completed prior to year-end with the remainder of the hydrometallurgical plant completed post year end.

On 24th January 2018 the Company announced its high grade rare earth oxide (REO) geochemical results from the Browns Range Project. A 5,000 metre program of RC drilling commenced in the June quarter, aimed at providing a first pass assessment of several of the new prospects and targets, as well as follow-up drilling at existing deposits and prospects to increase the projects mineral inventory.

On 27th July 2018, the Browns Range Pilot Plant Project was officially opened by the Hon. Alannah McTiernan MLC, Minister for Regional Development, Agriculture and Food, Minister assisting the Minister for State Development, Jobs and Trade.

Corporate

On 7 August 2017, as part of a consortium led by the Wunan Foundation, Northern Minerals announced that funding has been awarded under the Federal Government's Building Better Regions Fund (BBRF) to develop an Aboriginal training-to-work (T2W) program at the Browns Range pilot plant project. The \$4.8 million funding will contribute towards the total cost of \$8.1 million for the T2W project, which includes the establishment of economic infrastructure at Browns Range.

On 29 August 2017, Northern Minerals announced that it had executed a two and a half year US\$30 million secured R&D Loan Facility with New York based financier Innovation Structured Finance Co., LLC, (ISF), a company associated with Brevet Capital Management. The Facility provides the Company with accelerated access to tax offsets that are applicable to Research and Development (R&D) activities being undertaken at the Browns Range Pilot Plant Project.

Under the Facility, ISF will provide up to 80% of the estimated tax offset, with the principal and accrued interest repayable out of actual tax offsets received at the end of the financial year. The Facility has a term of two and a half years, aligning with the timeline for the Browns Range Pilot Plant Project.

During the year the Company received its research and development rebate of \$2.67 million for work completed to advance the Browns Range pilot plant project during the 2016/2017 financial year.

In February 2018 the Company completed a Share Purchase Plan raising \$11.7 million at \$0.078 per share. The share purchase plan is part of the enhancement initiatives of the Company including:

- An increase in the exploration budget aimed at increasing the life of the potential large-scale project from 11 to 20+ years,
- Studies of downstream processing options focussed on increasing the suite, and value of revenue products,
- Optimisation of mining and processing options learnt from the pilot plant project to date, and
- The potential for new acquisitions in the rare earth sector.

The Company announced a bonus issue of new listed options to eligible shareholders on a 1-for-5 basis and with an exercise price of \$0.12 and an expiry date of 31 December 2019, subject to a prospectus being prepared and lodged with the Australian Securities and Investments Commission.

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SUMMARY OF FINANCIAL PERFORMANCE

A summary of key financial indicators for the Company, with prior year comparison, is set out in the following table:

	Consolidated 2018	Consolidated 2017 (Restated)
Total revenue	\$4,564,718	\$3,707,472
Net loss for the year after tax	(\$18,497,161)	(\$13,195,658)
Basic loss per share (cents) from continuing operations	(2.0) cents	(2.1) cents
Net cash from /(used in) operating activities	(\$15,058,308)	(\$4,975,687)
Net cash from /(used in) investing activities	(\$29,781,958)	(\$11,337,332)
Net cash from /(used in) financing activities	\$46,658,629	\$24,304,692

The net loss of the Group for the year ended 30 June 2018 of \$18.5 million (2017: \$13.2 million) was due to the significant increase in activities for the period in relation to the development of the pilot plant at Browns Range and the completion of the mining campaign.

Mining expenditure totalled \$6.9 million. Mining expenditure was incurred to stockpile ore for future processing over the three-year pilot plant project which is supporting broader economic and technical feasibility studies at Browns Range.

There was a further \$0.6 million in exploration costs in the period. \$6.3 million of direct costs in relation to the pilot plant were expensed in the year where they did not meet the criteria of being capitalised as part of construction in progress. This also included costs incurred in the commissioning phase of the project towards the end of the financial year.

Revenue was impacted by a higher Research and Development rebate in the year due to the increased expenditure on eligible research and development activity - \$4.1 million compared to \$2.1 million in 2017. Only the portion of the rebate relating to expensed items is reflected in other income with the balance relating to capitalised expenditure included within deferred revenue on the balance sheet. This will be credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Cash used in investing activities increased due to the pilot plant development costs incurred in the year – primarily payments in relation to the construction of the beneficiation and hydrometallurgical plant. Cashflows from financing activities were \$26.9 million from share issues and placements net of transaction costs incurred. There was another \$1.4 million advanced as part of the Lind Financing facility during the year net of repayments made. \$17.9 million was drawdown from the R & D Loan facility with Innovated Structured Finance LLC (ISF).

SUMMARY OF FINANCIAL POSITION

The Company's cash reserves at the end of 2018 totalled \$10.4 million compared to \$8.4 million as at 30 June 2017.

The movement in cash reserves was due to the share issues within the year as detailed elsewhere in this report and the funding drawdown from both the R & D Loan facility and the Lind Financing facility.

Plant and equipment costs increased by \$47.2 million due to development of the pilot plant. \$31.6 million of these costs related to the design work, fabrication, installation and the EPC management of the beneficiation and hydrometallurgical plant. A further \$1.7 million related to bulk earthworks including the ROM pad and site drainage. \$4.0 million was spent on plant infrastructure. The main components of the infrastructure costs were the purchases of power stations and their subsequent installation, offices at the plant site including crib rooms, ablutions, laboratory equipment and the tailings storage facility and evaporation ponds. The remaining costs were incurred on upgrading non-process

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infrastructure. Additional transportable accommodation units were purchased and installed to increase camp capacity. Earthworks was also undertaken on landfill, completion of Northern Minerals airstrip and road and access upgrades. Borrowing costs in relation to financing these activities have also been capitalised totalling \$5.3 million.

The Company's receivables balance increased from \$6.8 million to \$30.7 million due to a higher R and D rebate receivable for the year and the Building Better Regions receivable for the last quarter of the financial year. In addition, prepayments were significantly higher due to facility fees and borrowing costs incurred during the year that will be amortised over the terms of the funding.

The Company's total liabilities increased from \$13.2 million to \$69.5 million. Trade and other payables increased to \$17.8 million, primarily due to progress claims from Sinosteel and Primero as at the end of the financial year for the construction of the pilot plant. This balance also includes \$4.9 million of deferred payments under the Sinosteel agreement. In addition, there also is a \$22.0 million deferred revenue balance representing the R and D Rebate and government grants receivable in the period.

Interest bearing liabilities increased from \$4.2 million to \$24.4 million. As at end of June 2018 this represented the Lind convertible security of \$3.6 million and the ISF agreement for advances and accrued interest on the R & D tax offset of \$19.9 million. Hire purchase agreements were also entered into, to purchase mobile equipment and laboratory equipment at Browns Range.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the year other than as disclosed elsewhere in this report.

FINANCIAL POSITION AND GOING CONCERN

The Group reported an excess of current liabilities over current assets of \$4,109,975 at 30 June 2018 and reported a loss after tax for the year then ended of \$18,497,161. Included in current liabilities are loans, trade payables and accruals amounting to \$37,282,110.

Management has prepared a cash flow forecast which indicates that the Group will need to raise additional funds. Part of the funding required was received subsequent to year end, from the following sources:

- On 31 July 2018, \$3 million for 38,461,538 shares at 7.8 cents per share was received via a private placement to sophisticated investors in lieu of the Group issuing the convertible security to Sinosteel that was approved by shareholders at the general meeting held on 8 June 2018. The funds raised from this placement were used to repay monies owed to Sinosteel meaning that the convertible security that was approved for issue to Sinosteel will not be issued;
- On 30 August 2018 a further \$3 million from Innovation Structured Finance Co., LLC was received under its R & D Financing Facility as announced on 29 August 2017; and
- The Group also made a further drawdown of \$2 million under the Funding Agreement entered into with an entity controlled by The Lind Partners (Lind), as announced on 14 June 2017. This drawdown will be represented by the issue of 2 convertible securities each with a face value of \$1.25 million and the face value of the convertible securities are repayable by the Group in accordance with the Funding Agreement.

In addition, the claim for the research and development rebate for the year ending 2018 has been lodged subsequent to year end. The total value of claim is \$21,562,688. This will be used to repay the outstanding amounts under the Innovation Structured Finance Co; LLC R & D Loan facility upon receipt with surplus funds available for use elsewhere. A further \$1.9 million is due to be received under the Federal Governments Building Better Regions Fund (BBRF) subsequent to year end contributing towards the cost of the T2W project, as part of a consortium led by the Wunan Foundation.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and confidence in raising additional funds. In the event that the Group is not successful in raising sufficient funds, there exists material uncertainty that may cast significant doubt on the Group's ability

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to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company proposes to continue with its development of the Browns Range pilot plant project as detailed in the Review of Operations in the Annual Report.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The exploration and mining activities of the Company are subject to environmental regulations imposed by various regulatory authorities, particularly those relating to ground disturbance and the protection of rare and endangered flora and fauna. The Company has complied with all material environmental requirements up to the date of this report. The directors believe that the Company has adequate systems in place for the management of its environmental responsibilities and are not aware of any breaches of the regulations during the period covered by this report.

RISK MANAGEMENT

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

Northern Minerals has developed a framework for a risk management policy and internal compliance and control system that covers the organisational, financial and operational aspects of the Company's affairs. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management, and management are required to regularly report back to the Board. This involves the tabling of a risk register which is monitored and updated by management periodically. The CEO is responsible for ensuring the maintenance of, and compliance with, appropriate systems. The Board adopts practices to identify significant areas of risk and to effectively manage those risks in accordance with the consolidated entity's risk profile. Where appropriate the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

OPTIONS AND PERFORMANCE RIGHTS

As at the date of this report, there were the following unissued ordinary shares for which options and performance rights were outstanding:

	Number of options/rights	Exercise price – cents	Expiry date
Unlisted options	2,500,000	\$0.25	6 November 2018
Unlisted options	12,812,470	\$0.25	12 June 2020
Unlisted options	22,500,000	\$0.25	20 June 2020
Unlisted options	3,000,000	\$0.15	24 May 2021
Unlisted options	35,023,076	\$0.12	31 December 2019
Unlisted performance rights ^{1,2}	20,400,000	Nil	Based on performance conditions
Total	96,235,546		

¹ - Included in these performance rights were rights issued as remuneration to the directors and the five most highly remunerated officers during the 2017 financial year. Details of performance rights granted to key management personnel are referred to in the remuneration report.

² - Vesting of the rights are subject to the Company meeting numerous performance conditions beginning on grant of the performance right and subject to meeting various hurdles. The performance conditions are set out in note 11(c).

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company or any other entity.

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No ordinary shares were issued during the financial year, or since the end of the financial year, as a result of the exercise of options.

The following ordinary shares were issued during the year ended 30 June 2018 on the exercise of performance rights issued as remuneration to the directors, key management personnel and employees of the Company. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date performance rights were granted	Exercise price of shares - cents	Number of shares issued
30 November 2016	Nil	4,500,000
27 June 2017	Nil	500,000
10 July & 20 February 2017	Nil	700,000

INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company has entered into an Access, Indemnity and Insurance Deed with the directors to indemnify them to the maximum extent permitted by law against liabilities and legal expenses incurred in, or arising out of, the conduct of the business of the Company or the discharge of their duties as directors.

Also, pursuant to the Deed, the Company has paid premiums to insure the directors against liabilities incurred in the conduct of the business of the Company and has provided the right of access to Company records. In accordance with common commercial practice, the insurance policy prohibits disclosure of the amount of the premium and the nature of the liability insured against. The amount of the premium is included as part of the directors' remuneration in the Remuneration Report.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

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REMUNERATION REPORT (Audited)

This Remuneration Report for the year ended 30 June 2018 outlines the remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2011 and its Regulations. This information has been audited as required by section 308(3C) of the Act.

This Remuneration Report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly.

Northern Minerals Ltd received more than 75% of the votes in favour of the Remuneration Report for the 2017 financial year.

Details of directors and key management personnel

Non-executive and Executive directors of Northern Minerals Limited during the year were:

- Colin McCavana (Non-executive Chairman)
- George Bauk (Managing Director/ Chief Executive Officer)
- Adrian Griffin (Non-executive Director)
- Yanchun Wang (Non-executive Director)
- Nan Yang (Non-executive Director)
- Bin Cai (Alternate Director)

Other key management personnel were:

- Robin Wilson (Exploration Manager)
- Robin Jones (Chief Operating Officer)
- Mark Tory (Company Secretary and Chief Financial Officer)

There were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

1. Remuneration Policy

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and executives. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality board and executive team.

Remuneration levels for directors and executives are competitively set to attract the most qualified and experienced candidates, taking into account prevailing market conditions and individual's experience and qualifications.

Remuneration packages contain the following key elements:

1. Short-term benefits – salary/fees and non-monetary benefits including the provision of motor vehicles;
2. Post-employment benefits – including superannuation; and
3. Share-based payments – including participation in option and share plans (refer to note 17 for more information).

Remuneration is not linked to profit performance. The Company's remuneration policy seeks to encourage alignment between the performance of the Company and total shareholder returns, and the remuneration of Executives. Short term and, in particular, long term 'at risk' incentives only vest when predetermined Company performance objectives are achieved. These performance objectives are operational in nature (production outcomes) but are linked to financial performance and Company value indirectly.

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

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The Company does not currently have a policy pertaining to Directors hedging their exposure to risks associated with the Company's securities they receive as compensation.

The Company has not used any remuneration consultants in the year.

2. Non-executive Director Remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to the shareholders.

Each of the Non-executive directors receive a fixed fee for their services as a director. There is no direct link between cash remuneration paid to any of the directors and corporate performance such as bonus payments for achievement of certain key performance indicators.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-executive directors must be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was on 29 November 2013 when shareholders approved an aggregate remuneration of \$500,000 per year. Annual Non-executive Chairman and Non-executive directors' base fees are presently \$85,000 and \$65,000 respectively, inclusive of superannuation, with \$5,000 per annum paid for representation on each board committee.

Non-executive directors' fees were reduced by 50% effective from 1 November 2015 following a decision by the Board to assist in addressing cost pressures. In November 2016, upon completion of the \$10 million or more of new capital being raised, the directors received their entitlement to back pay of the amount of 80% of their previous fees, less fees paid during the period.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

3. Executive Remuneration

Executives receive a fixed remuneration set to provide a base level commensurate with their position and responsibilities within the Company and so as to align the interests of executives with those of shareholders and ensure total remuneration is competitive by market standards. There is no direct link between remuneration paid and corporate performance such as bonus payments for achievement of certain key performance indicators.

In addition, executives are entitled to participate in equity-based remuneration plans to recognise ability and effort, provide incentive to improve company performance, attract appropriate persons and promote loyalty.

Remuneration levels are reviewed annually by the Remuneration Committee by reviewing company performance, personal performance, market trends, industry comparisons, employment market conditions and, where appropriate, external advice.

Executives remuneration were reduced by 50% effective from 1 November 2015 following a decision by the Board to assist in addressing cost pressures. In November 2016, upon completion of the \$10 million or more of new capital being raised, the executives received their entitlement to backpay of the amount of 80% of their previous remuneration, less remuneration paid during the period.

4. Service agreements

Employment Contract – Mr George Bauk (Managing Director/Chief Executive Officer)

The employment contract commenced on 2 March 2010 and is not for a fixed period.

The main terms of the employment contract with Mr Bauk for the year under review are as follows:

- Remuneration package (inclusive of superannuation) of \$459,900 pa.
- Salary reviewed in June each year

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- The Company is entitled to terminate the agreement by giving no less than 12 months' notice
- Mr Bauk is entitled to terminate the agreement by giving no less than 3 months' notice
- On redundancy, the Company will be obliged to make a payment of one year's salary

Other executives are employed under contracts with no fixed term and can be terminated by either party by three months' notice in writing.

Employment Contract – Mr Robin Wilson (Exploration Manager)

The employment contract commenced on 26 June 2006 and is not for a fixed period.

The main terms of the employment contract with Mr Wilson for the year under review are as follows:

- Remuneration package (inclusive of superannuation) of \$240,000 pa.
- Salary reviewed in June each year
- The Company is entitled to terminate the agreement by giving no less than 3 months' notice
- Mr Wilson is entitled to terminate the agreement by giving no less than 3 months' notice

Employment Contract – Mr Robin Jones (Chief Operating Officer)

The employment contract commenced on 1 June 2012 and is not for a fixed period.

The main terms of the employment contract with Mr Jones for the year under review are as follows:

- Remuneration package (inclusive of superannuation) of \$366,825 pa.
- Salary reviewed in June each year
- The Company is entitled to terminate the agreement by giving no less than 3 months' notice
- Mr Jones is entitled to terminate the agreement by giving no less than 3 months' notice

Employment Contract – Mr Mark Tory (CFO/Company Secretary)

The employment contract commenced on 3 December 2012 and is not for a fixed period.

The main terms of the employment contract with Mr Tory for the year under review are as follows:

- Remuneration package (inclusive of superannuation) of \$328,500 pa.
- Salary reviewed in June each year
- The Company is entitled to terminate the agreement by giving no less than 3 months' notice
- Mr Tory is entitled to terminate the agreement by giving no less than 3 months' notice.

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5. Details of Remuneration for the Year Ended 30 June 2018

	<i>Short-term</i>			<i>Post Employment</i>		<i>Share-based Payments</i>		<i>Total</i>	<i>% Fixed remuneration</i>	<i>% Remuneration linked to performance</i>
	<i>Salary & Fees</i>	<i>Other Benefits</i>	<i>Cash Bonus</i>	<i>Superannuation Benefits</i>	<i>Long Service Leave</i>	<i>Share Plan</i>	<i>Options/ Performance Rights</i>			
	\$	\$	\$	\$	\$	\$	\$	\$		
Directors										
George Bauk ¹	402,401	13,476	100,000	20,050	25,236	98	227,821	789,082	58.44%	41.56%
Adrian Griffin	63,927	13,476	-	6,192	-	-	113,910	197,505	42.33%	57.67%
Colin McCavana	81,884	13,476	-	7,977	-	-	113,910	217,247	47.57%	52.43%
Yanchun Wang	60,000	13,476	-	-	-	-	111,638	185,114	39.69%	60.31%
Bin Cai ¹	220,498	13,476	50,000	-	-	-	111,359	395,333	59.18%	40.82%
Nan Yang	59,998	13,476	-	-	-	-	180,860	254,334	28.89%	71.11%
Specified Executives										
Robin Wilson ¹	219,951	4,547	20,000	20,050	6,000	-	113,513	384,061	65.24%	34.76%
Robin Jones ¹	313,364	-	50,000	20,050	17,662	-	113,513	514,589	68.22%	31.78%
Mark Tory ¹	274,330	13,476	50,000	20,050	16,048	-	115,076	488,980	66.24%	33.76%
TOTAL	1,696,353	98,879	270,000	94,369	64,946	98	1,201,600	3,426,245	57.05%	42.95%

Notes:

1. Cash bonuses were paid based on the successful funding of the construction of the pilot plant as agreed by the Remuneration Committee.

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

Details of Remuneration for the Year Ended 30 June 2017

	<i>Short-term</i>			<i>Post Employment</i>		<i>Share-based Payments</i>		<i>Total</i>	<i>% Fixed remuneration</i>	<i>% Remuneration linked to performance</i>
	<i>Salary & Fees</i>	<i>Other Benefits</i>	<i>Cash Bonus</i>	<i>Superannuation Benefits</i>	<i>Long Service Leave</i>	<i>Share Plan</i>	<i>Options/ Performance Rights</i>			
	\$	\$	\$	\$	\$	\$	\$	\$		
Directors										
Conglin Yue ^{1,3,5}	60,285	2,672	-	-	-	-	-	62,957	100%	0%
Kevin Schultz ^{1,3,5}	47,540	2,672	-	4,516	-	-	-	54,728	100%	0%
George Bauk ^{3,4}	459,390	3,890	200,000	19,616	13,204	35,800	65,374	797,274	62.22%	37.78%
Adrian Griffin ^{3,4}	66,975	3,890	-	6,363	-	-	32,687	109,915	70.26%	29.74%
Colin McCavana ^{3,4}	69,790	3,890	-	6,630	-	-	32,687	112,997	71.07%	28.93%
Yanchun Wang ^{3,4}	64,117	3,890	-	-	-	-	102,554	170,561	39.87%	60.13%
Bin Cai ^{3,4}	248,497	3,890	-	-	-	345,000	114,652	712,039	35.45%	64.55%
Nan Yang ²	36,667	2,394	-	-	-	-	2,391	41,452	94.23%	5.77%
Specified Executives										
Robin Wilson ^{3,4}	297,382	7,541	51,000	19,616	(39,275)	3,215	147,494	486,973	58.58%	41.42%
Robin Jones ^{3,4}	365,142	-	63,000	19,616	21,673	3,553	147,494	620,478	65.50%	34.05%
Mark Tory ^{3,4}	283,223	3,890	55,000	19,616	17,393	3,575	161,679	544,376	59.54%	40.46%
TOTAL	1,999,008	38,619	369,000	95,973	12,995	391,143	807,012	3,713,750	57.80%	42.20%

Notes:

¹ Conglin Yue and Kevin Schultz resigned 8 March 2017

² Nan Yang was appointed Non- Executive Director 18 November 2016

³ Executives remuneration were reduced by 50% effective from 1 November 2015 following a decision by the Board to assist in addressing cost pressures. In November 2016, upon completion of the \$10 million or more of new capital being raised, the executives received their entitlement to back pay of the amount of 80% of their previous remuneration, less remuneration paid during the period. This is included within the salary and fees amounts.

⁴ Cash bonuses were paid based on successful completion and receipt of Huatai Mining funding received.

⁵ Share- based payments for Conglin Yue and Kevin Schultz are nil for the period due to forfeiture of performance rights creating a reversal of share-based payments in the reporting period resulting in credit balances.

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

6. Employee share/performance rights plan

6.1 Options/Performance Rights and Shares granted as compensation to key management personnel

Terms and conditions of share-based payment arrangements affecting remuneration of key management personnel in the current financial year or future financial years:

Options/ Performance Rights

Grant date	Vesting and exercise date	Expiry date	Value per performance right at grant date	Performance achieved	% vested
Between 6/7/2012 and 16/5/2014	Various	31/12/2017	Between \$0.14 and \$0.28	50% lapsed at 30 June 2017 as conditions not met. 50% lapsed at 31 December 2017	N/A
30/11/2016	Various	Various	\$0.12	To be determined	20%
27/06/2017	Various	Various	\$0.10	To be determined	20%

There has been no alteration of the terms and conditions of the above share based-payment arrangements since the grant date.

No share-based payments were granted as compensation to key management personnel during the 2018 financial year.

Details of share-based payments granted as compensation to key management personnel during the 2017 financial year:

	Grant date	No. granted	Value at grant date \$	No. vested	% of grant vested	% of grant forfeited
Conglin Yue	30/11/2016	2,500,000	207,000	-	-	100%
Kevin Schultz	30/11/2016	2,500,000	207,000	-	-	100%
George Bauk	30/11/2016	5,000,000	522,000	1,000,000	20%	0%
Adrian Griffin	30/11/2016	2,500,000	207,000	500,000	20%	0%
Colin McCavana	30/11/2016	2,500,000	207,000	500,000	20%	0%
Yanchun Wang	30/11/2016	2,500,000	207,000	500,000	20%	0%
Bin Cai	30/11/2016	2,500,000	207,000	500,000	20%	0%
Nan Yang	27/06/2017	2,500,000	225,000	-	0%	0%
Robin Wilson	30/11/2016	2,500,000	207,000	500,000	20%	0%
Robin Jones	30/11/2016	2,500,000	207,000	500,000	20%	0%
Mark Tory	30/11/2016	2,500,000	207,000	500,000	20%	0%

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

During the year, key management personnel exercised their rights that were granted to them as part of their compensation in previous years. A number of performance rights were also forfeited due to performance conditions not being met. The number of performance rights exercised and forfeited are shown in 6.2, the value of performance rights exercised and forfeited are shown below.

30 June 2018

	Value of options/performance rights granted during the year \$	Value of options/performance rights exercised during the year \$	Value of options/performance rights forfeited during the year \$
Directors			
George Bauk	-	120,000	270,000
Adrian Griffin	-	60,000	135,000
Colin McCavana	-	60,000	135,000
Yanchun Wang	-	60,000	90,000
Bin Cai	-	60,000	70,000
Nan Yang	-	50,000	-
Specified Executives			
Robin Wilson	-	60,000	142,500
Robin Jones	-	60,000	142,500
Mark Tory	-	60,000	107,500
TOTAL	-	590,000	1,092,500

Share Plan Shares – 30 June 2018 and 30 June 2017

No share plan shares were issued as compensation to key management personnel during the financial year.

Other share Issues – 30 June 2017

On 30 November 2016 3,000,000 shares were granted to Mr Bin Cai. These shares were issued when the Company received funds of not less than \$12 million from Huatai Mining Pty Ltd under the Subscription Agreement between the Company and Huatai announced to the market on 2 August 2016. The issue was to compensate Mr Cai for time spent sourcing and procuring on behalf of the Company the funding from Huatai. These shares were valued at the share price on the issue date of \$0.115.

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

6.2 Performance Rights Holdings of Key Management Personnel for 2018

	Held at Beginning of Year	Granted as Compensation	Exercise of Options/Performance Rights	Other Changes	Held at 30 June 2018	Vested	Unvested
Directors:							
George Bauk	6,000,000	-	(1,000,000)	(1,000,000)	4,000,000	-	4,000,000
Adrian Griffin	3,000,000	-	(500,000)	(500,000)	2,000,000	-	2,000,000
Colin McCavana	3,000,000	-	(500,000)	(500,000)	2,000,000	-	2,000,000
Yanchun Wang	3,000,000	-	(500,000)	(500,000)	2,000,000	-	2,000,000
Bin Cai	3,000,000	-	(500,000)	(500,000)	2,000,000	-	2,000,000
Nan Yang	2,500,000	-	(500,000)	-	2,000,000	-	2,000,000
Specified Executives							
Robin Wilson	3,000,000	-	(500,000)	(500,000)	2,000,000	-	2,000,000
Robin Jones	3,000,000	-	(500,000)	(500,000)	2,000,000	-	2,000,000
Mark Tory	3,000,000	-	(500,000)	(500,000)	2,000,000	-	2,000,000
	29,500,000	-	(5,000,000)	(4,500,000)	20,000,000	-	20,000,000

Performance Rights Holdings of Key Management Personnel for 2017

	Held at Beginning of Year	Granted as Compensation	Exercise of Options	Other Changes	Held at 30 June 2017	Vested	Unvested
Directors:							
Conglin Yue	1,000,000	2,500,000	-	(3,500,000)	-	-	-
Kevin Schultz	1,000,000	2,500,000	-	(3,500,000)	-	-	-
George Bauk	2,000,000	5,000,000	-	(1,000,000)	6,000,000	1,000,000	5,000,000
Adrian Griffin	1,000,000	2,500,000	-	(500,000)	3,000,000	500,000	2,500,000
Colin McCavana	1,000,000	2,500,000	-	(500,000)	3,000,000	500,000	2,500,000
Yanchun Wang	1,000,000	2,500,000	-	(500,000)	3,000,000	500,000	2,500,000
Bin Cai	1,000,000	2,500,000	-	(500,000)	3,000,000	500,000	2,500,000
Nan Yang	-	2,500,000	-	-	2,500,000	-	2,500,000
Specified Executives							
Robin Wilson	1,000,000	2,500,000	-	(500,000)	3,000,000	500,000	2,500,000
Robin Jones	1,000,000	2,500,000	-	(500,000)	3,000,000	500,000	2,500,000
Mark Tory	1,000,000	2,500,000	-	(500,000)	3,000,000	500,000	2,500,000
	11,000,000	30,000,000	-	(11,500,000)	29,500,000	4,500,000	25,000,000

In 2017 – Conglin Yue and Kevin Schultz resigned forfeiting their rights – these are shown within other changes.

Other changes also include those performance rights that have expired when performance conditions have not been met.

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

6.3 Shareholdings of Key Management Personnel for 2018

	Held at Beginning of Year	Granted as Compensation	Exercise of Options/Performance Rights	Other Changes	Held at 30 June 2018	Vested	Not Vested
Directors:							
George Bauk	8,025,238	-	1,000,000	256,412	9,281,650	9,281,650	-
Adrian Griffin	3,579,150	-	500,000	-	4,079,150	4,079,150	-
Colin McCavana	4,200,000	-	500,000	-	4,700,000	4,700,000	-
Yanchun Wang	145,630,731	-	500,000	52,480,267	198,610,998	198,610,998	-
Bin Cai	3,000,000	-	500,000	600,000	4,100,000	4,100,000	-
Nan Yang	-	-	500,000	-	500,000	500,000	-
Specified Executives							
Robin Wilson	844,703	-	500,000	285,906	1,630,609	1,630,609	-
Robin Jones	182,293	-	500,000	128,015	810,308	810,308	-
Mark Tory	499,000	-	500,000	(131,992)	867,008	867,008	-
	165,961,115	-	5,000,000	53,618,608	224,579,723	224,579,723	-

Shareholdings of Key Management Personnel for 2017

	Held at Beginning of Year	Granted as Compensation	Exercise of Options	Other Changes	Held at 30 June 2017	Vested	Not Vested
Directors:							
Conglin Yue	198,610,998	-	-	(198,610,998)	-	-	-
Kevin Schultz	652,500	-	-	(652,500)	-	-	-
George Bauk	8,025,238	-	-	-	8,025,238	7,025,238	1,000,000
Adrian Griffin	3,579,150	-	-	-	3,579,150	3,579,150	-
Colin McCavana	4,200,000	-	-	-	4,200,000	4,200,000	-
Yanchun Wang	145,630,731	-	-	-	145,630,731	145,630,731	-
Bin Cai	100,000	3,000,000	-	(100,000)	3,000,000	3,000,000	-
Nan Yang	-	-	-	-	-	-	-
Specified Executives							
Robin Wilson	1,861,403	-	-	(1,016,700)	844,703	844,703	-
Robin Jones	882,293	-	-	(700,000)	182,293	182,293	-
Mark Tory	1,199,000	-	-	(700,000))	499,000	499,000	-
	364,741,313	3,000,000	-	(201,780,198)	165,961,115	165,961,115	1,000,000

Conglin Yue and Kevin Schultz resigned during 2017 – their balances as at resignation date are shown as a movement in other changes.

Other changes for other Key Management Personnel includes share plan shares that have expired in the year due to loan expiry and revert back to the Company in accordance with the Share Plan rules and shares purchased as part of the share purchase plan available to all shareholders of the company.

All equity transactions with Key Management Personnel other than those arising from the exercise of options granted as compensation have been entered into under terms and conditions no more favourable than those the Company would have adopted if dealing at arm's length

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

6.4 Other transactions with key management personnel

Northern Minerals have entered into agreements with companies associated with Non-executive Director Adrian Griffin and Managing Director George Bauk, to rent office accommodation at 675 Murray Street, West Perth. The rent has been set at a rate which is at arms-length commercial rate for comparable premises.

	2018	2017
	\$	\$
Rental Income	95,274	109,555
	<hr/>	<hr/>
The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:		
Current receivables	12,246	15,173
	<hr/>	<hr/>

*** End of Remuneration Report ***

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018

CORPORATE GOVERNANCE STATEMENT

The Board of Northern Minerals Limited is committed to achieving and demonstrating the highest standards of corporate governance. The Board is responsible to its shareholders for the performance of the Company and seeks to communicate extensively with shareholders. The Board believes that sound corporate governance practices will assist in the creation of shareholder wealth and provide accountability.

In accordance with ASX Listing Rule 4.10.3, the Company has elected to disclose its corporate governance policies and its compliance with them on its website, rather than in the Annual Report. Accordingly, information about the Company's corporate governance practices is set out on the Company's website at www.northernminerals.com.au.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 70.

MODIFICATION OF AUDITOR ROTATION REQUIREMENTS

On 21 June 2017, the Board of directors granted an approval for the extension of the Group's audit partner for up to a further 2 years when the initial period of 5 years as permitted under Corporations Act 2001 expired in June 2017. The Board's decision was based on the following reasons:

- the Board was satisfied with the skills and personal qualities of the audit partner and the audit team and is of the view that they display a good understanding of the Group and strong technical accounting competence;
- the Board was satisfied that Nexia Perth Audit Services conducts an effective audit with focus on the appropriate areas of risk; and
- the Board was satisfied that the approval of an extension of up to 2 years does not give rise to a conflict of interest situation.

NON-AUDIT SERVICES

There were no Non-Audit services carried out in the year ended 30 June 2018.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 31 July 2018 7,440,477 ordinary shares were issued for partial repayment of convertible security as per financing agreement with Lind Partners LLC announced on 14 June 2017.

On 31 July 2018 38,461,538 ordinary fully paid shares were issued, at 7.8 cents per share via a private placement to sophisticated investors in lieu of the Company issuing the convertible security to Sinosteel that was approved by shareholders at the general meeting held on 8 June 2018. The funds raised from this placement were used to repay monies owed to Sinosteel meaning that the convertible security that was approved for issue to Sinosteel at the general meeting held on 8 June 2018 will not be issued.

On 30 August 2018 a further \$3 million from Innovation Structured Finance Co., LLC was received under its R & D Financing Facility as announced on 29 August 2017.

The company also made a further drawdown of \$2 million under the Funding Agreement entered into with an entity controlled by The Lind Partners (Lind), as announced on 14 June 2017. This drawdown will be represented by the issue of 2 convertible securities each with a face value of \$1.25 million and the face value of the convertible securities are repayable by the Company in accordance with the Funding Agreement. The term of each convertible security is 30 months. The Company and Lind have also agreed that the maximum number of shares that may be issued to Lind in relation to conversions of those convertible securities is 25 million shares, or such higher number as approved by shareholders in relation to those convertible securities. As part of the drawdown, the Company will, subject to

**NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2018**

shareholder approval, issue to Lind (or its nominee) 10 million unlisted options each exercisable at 12.5 cents per option with an expiry date of 36 months from the date the options are issued.

Signed in accordance with a resolution of the directors.



George Bauk
Director
Perth
28 September 2018

NORTHERN MINERALS LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 30 JUNE 2018

		2018 \$	2017 (Restated) \$
	Note		
Revenue from continuing operations			
Interest	6	18,115	91,653
Research and development rebate	5	4,090,479	2,108,456
Other income	5	456,124	1,507,363
Total revenue		4,564,718	3,707,472
Corporate expenses			
Administration expenses		1,496,532	620,082
Depreciation expense	10(a)	1,589,802	127,957
Share based payments expense	17	1,641,067	1,463,002
Legal and professional expenses		2,214,878	2,187,018
Occupancy expenses		252,477	374,868
Employee benefits expense		2,230,598	2,759,248
Other corporate expenditure		133,744	153,055
Total corporate expenses		9,559,098	7,685,230
Exploration and evaluation expenditure			
Exploration Costs	4	619,087	1,297,243
Project Evaluation and Pre-Feasibility	4	6,300,720	5,980,882
Mining expenditure	4	6,874,856	1,306,477
Total exploration and evaluation expenditure expenses		13,794,663	8,584,602
Total expenses		23,353,761	16,269,832
Operating loss		(18,789,043)	(12,562,360)
Finance Costs / (Income)	6	(291,882)	633,298
Loss before income tax		(18,497,161)	(13,195,658)
Income tax expense	7	-	-
Loss for the year		(18,497,161)	(13,195,658)
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to members of the entity		(18,497,161)	(13,195,658)
Loss per share attributable to ordinary equity holders of the company:			
Basic and diluted loss per share (cents per share)	19	(2.04)	(2.14)

The above consolidated statement of profit and loss and other comprehensive income should be read in conjunction with the accompanying notes

NORTHERN MINERALS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 June 2018

		2018	2017 (Restated)
	Note	\$	\$
Current assets			
Cash and cash equivalents	8 (a)	10,394,113	8,364,980
Trade and other receivables	8 (b)	30,233,674	6,853,083
Derivative financial assets	8 (c)	34,823	-
Other financial assets	8 (d)	150,343	142,081
Inventory	10 (b)	290,316	86,724
Total Current Assets		41,103,269	15,446,868
Non-current assets			
Trade and other receivables	8 (b)	465,634	-
Other financial assets	8 (d)	88,942	88,678
Property, plant and equipment	10 (a)	59,573,246	12,411,221
Total Non-Current Assets		60,127,822	12,499,899
Total assets		101,231,091	27,946,767
Current liabilities			
Trade and other payables	8 (e)	13,171,416	4,135,253
Interest bearing liabilities	8 (f)	24,110,694	4,163,797
Deferred revenue	8 (g)	7,345,925	564,515
Provisions	10 (c)	585,209	301,681
Total Current Liabilities		45,213,244	9,165,246
Non-current liabilities			
Trade and other payables	8 (e)	4,643,050	270,141
Interest bearing liabilities	8 (f)	283,182	-
Derivative financial liabilities	8 (h)	284,463	82,217
Deferred revenue	8 (g)	14,691,849	-
Provisions	10 (c)	4,387,956	3,654,594
Total Non-Current Liabilities		24,290,500	4,006,952
Total liabilities		69,503,744	13,172,198
Net assets / (liabilities)		31,727,347	14,774,569
Equity			
Issued Capital	11 (a)	143,944,809	110,995,064
Reserves	11 (g)	14,023,856	11,523,662
Accumulated losses		(126,241,318)	(107,744,157)
Total equity		31,727,347	14,774,569

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

NORTHERN MINERALS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 30 June 2018

	Note	ISSUED CAPITAL	ACCUMULATED LOSSES	SHARE BASED PAYMENTS RESERVE	PERFORMANCE RIGHTS AND OPTIONS RESERVE	OTHER RESERVES	TOTAL
		\$	\$	\$	\$	\$	\$
Consolidated Entity Balance at 1 July 2016		86,234,622	(94,548,499)	2,570,453	4,961,309	-	(782,115)
Loss for the period		-	(13,195,658)	-	-	-	(13,195,658)
Total comprehensive income for the financial year		-	(13,195,658)	-	-	-	(13,195,658)
Transactions with owners in their capacity as owners:							
Shares issued net of transaction costs	11(a)	24,760,442	-	-	-	-	24,760,442
Shares/options issued		-	-	1,776,829	1,364,172	-	3,141,001
Convertible notes converted to equity	11(g)	-	-	-	-	850,899	850,899
Balance at 30 June 2017		110,995,064	(107,744,157)	4,347,282	6,325,481	850,899	14,774,569
Balance at 1 July 2017		110,995,064	(107,744,157)	4,347,282	6,325,481	850,899	14,774,569
Loss for the financial year		-	(18,497,161)	-	-	-	(18,497,161)
Total comprehensive income for the financial year		-	(18,497,161)	-	-	-	(18,497,161)
Transactions with owners in their capacity as owners:							
Shares issued net of transaction costs	11(a)	32,949,745	-	-	-	-	32,734,745
Shares/options issued		-	-	98	2,072,970	-	2,073,068
Decrease in value in collateral shares reissued	11(g)	-	-	-	-	(215,000)	-
Convertible notes issued	11(g)	-	-	-	-	642,126	642,126
Balance at 30 June 2018		143,944,809	(126,241,318)	4,347,380	8,398,451	1,278,025	31,727,347

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

NORTHERN MINERALS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
AS AT 30 June 2018

	NOTE	2018 \$	2017 \$
Cash flows from operating activities			
Payments to suppliers and employees		(20,677,120)	(6,979,140)
Interest Received / (paid)		(86,195)	(2,507)
Other income received		5,705,007	2,005,960
Net cash (outflow) from operating activities	12(a)	<u>(15,058,308)</u>	<u>(4,975,687)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(29,781,958)	(12,905,913)
Proceeds from the sale of tenements		-	1,250,000
(Increase) / decrease in security deposits		-	318,581
Net cash inflow / (outflow) from investing activities		<u>(29,781,958)</u>	<u>(11,337,332)</u>
Cash flows from financing activities			
Proceeds from issues of shares		28,519,236	21,626,000
Proceeds from issue of convertible notes		1,430,000	4,890,729
Share issue costs		(1,611,743)	(1,095,684)
Proceeds from borrowings		18,724,517	246,623
Repayment of borrowings		(403,381)	(1,362,976)
Net cash inflow / (outflow) from financing activities		<u>46,658,629</u>	<u>24,304,692</u>
Net increase / (decrease) in cash and cash equivalents		1,818,363	7,991,673
Cash and cash equivalents at beginning of the financial year		8,364,980	373,307
Effects of exchange rate changes on cash and cash equivalents		210,770	-
Cash and cash equivalents at the end of the financial year	8(a)	<u>10,394,113</u>	<u>8,364,980</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

This section sets out the accounting policies that relate to the financial statements of Northern Minerals Limited ("the Company") and its subsidiaries ("the Group"). Where an accounting policy, critical accounting estimate, assumption and judgement is specific to a note, these are described within the note to which they relate. These policies have been consistently applied to all periods presented, except as described in note 23 New standards and Interpretations.

The consolidated financial statements of Northern Minerals Limited ("the Company") and its subsidiaries ("the Group") for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 28 September 2018.

1. Reporting Entity

Northern Minerals Limited is a company limited by shares incorporated and domiciled in Australia where shares are publicly traded on the Australian Securities Exchange (ASX), and the entity is a for profit entity.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

2. Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and certain other financial assets and liabilities, which are required to be measured at fair value.

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The financial report is presented in Australian dollars which is the Group's functional currency and all values are rounded to the nearest dollar.

The Group has, where applicable, adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the year ended 30 June 2018. Refer to note 23 New Standards and Interpretations for further details. The Group did not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

a) Financial position and going concern

The Group reported an excess of current liabilities over current assets of \$4,109,975 at 30 June 2018 and reported a loss after tax for the year then ended of \$18,497,161. Included in current liabilities are loans, trade payables and accruals amounting to \$37,282,110.

Management has prepared a cash flow forecast which indicates that the Group will need to raise additional funds. Part of the funding required was received subsequent to year end, from the following sources:

- On 31 July 2018, \$3 million for 38,461,538 shares at 7.8 cents per share was received via a private placement to sophisticated investors in lieu of the Group issuing the convertible security to Sinosteel that was approved by shareholders at the general meeting held on 8 June 2018. The funds raised from this placement were used to repay monies owed to Sinosteel meaning that the convertible security that was approved for issue to Sinosteel will not be issued;
- On 30 August 2018 a further \$3 million from Innovation Structured Finance Co.,LLC was received under its R & D Financing Facility as announced on 29 August 2017; and
- The Group also made a further drawdown of \$2 million under the Funding Agreement entered into with an entity controlled by The Lind Partners (Lind), as announced on 14 June 2017. This drawdown will be represented by the issue of 2 convertible securities each with a face value of \$1.25 million and the face value of the convertible securities are repayable by the Group in accordance with the Funding Agreement.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

In addition, the claim for the research and development rebate for the year ending 2018 has been lodged subsequent to year end. The total value of claim is \$21,562,688. This will be used to repay the outstanding amounts under the Innovation Structured Finance Co; LLC R & D Loan facility upon receipt with surplus funds available for use elsewhere. A further \$1.9 million is due to be received under the Federal Governments Building Better Regions Fund (BBRF) subsequent to year end contributing towards the cost of the T2W project, as part of a consortium led by the Wunan Foundation.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and confidence in raising additional funds. In the event that the Group is not successful in raising sufficient funds, there exists material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Northern Minerals Limited and its subsidiaries as at and for the year ended 30 June. A list of significant controlled entities at year end is contained within note 13.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Critical Accounting Judgements, Estimates, Assumptions and Errors

(a) Significant estimates and judgements

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Share based payment transactions

The Company measures the cost of equity-settled transactions with employees, vendors and suppliers by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an internal valuation using a Black Scholes option pricing model, using the assumptions detailed in note 17.

Taxation

Balances disclosed in the financial statements and the notes thereto related to taxation are based on the best estimates of the directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents that directors' best estimate, pending an assessment by the Australian Taxation Office. **With regards to the research and development incentive, AusIndustry reserves the right to review claims made under the R&D legislation.**

Rehabilitation provision

The recognition of closure and rehabilitation provisions require significant estimates and assumptions such as requirements of the relevant legal and regulatory framework and the timing, extent and costs of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

Convertible notes

The fair value of convertible notes is determined at the end of each reporting date. The fair value is determined using a market interest rate. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders equity.

Embedded derivatives

Derivatives, including those embedded in contractual arrangements but separated for accounting purposes because they are not clearly and closely related to the host contract, are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. Fair value changes are recognised immediately in the profit and loss. The Company values the embedded derivative by reference to the fair value of the equity instruments at the date of the transaction. The fair value is determined by an internal valuation using a Black Scholes option pricing method, using the following assumptions:

Issue date: Various between 30 June 2017 and 6 June 2018

Expiry Date: 31 May 2019

Stock Price at issue date: Various between \$0.082 and \$0.13

Risk free rate: Various between 2.05% and 1.69%

Volatility rate: Between 60% and 86%

Value per share: Between \$0.007 and \$0.044

The fair value of the convertible note portion is determined at the end of each reporting date. The fair value is determined using a market interest rate.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

3. Critical Accounting Judgements, Estimates, Assumptions and Errors (continued)

(b) Correction of error in accounting for Research and Development rebate

The 30 June 2017 estimated Research and Development rebate was received during the year ended 30 June 2018. Upon further investigation, it was noted that a portion of the eligible expenditure, which used to be 100% expensed in terms of the Exploration Expenditure policy, related to capital expenditure. Per AASB 120 *Government Grants* this should have been capitalised. \$564,515 of the 30 June 2017 estimate should have been classified to the Statement of Financial Position. This has been adjusted for in the prior year.

The aggregate effect of the adjustment on the financial statements for the period ended 30 June 2018 is as follows (no taxation effect results from these changes):

Consolidated Group	Previously stated \$	Adjustment \$	Restated \$
Statement of Financial Position (30 June 2017)			
Deferred revenue	-	564,515	564,515
Accumulated losses	(107,179,642)	(564,515)	(107,744,157)
Statement of Financial Position (1 July 2017)			
Deferred revenue	-	564,515	564,515
Opening accumulated losses	(107,179,642)	(564,515)	(107,744,157)

Basic and diluted earnings per share for the prior year have also been restated. The amount of the correction for both basic and diluted earnings per share was a decrease of \$0.009 cents per share.

4. Exploration and evaluation expenditure

The Company's accounting policy for exploration expenditure is to expense costs as incurred in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*. The Company has determined that expenditure in relation to the pilot plant can still be accounted for under AASB 6 given the main activity of the Company relates to evaluating the technical feasibility and commercial viability of extracting the mineral resource. Items of plant and equipment purchased as part of the pilot plant are capitalised.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Revenue

The group derives the following types of revenue:

	Consolidated	
	2018	2017
	\$	(Restated) \$
Research and development rebate on eligible expenditure	4,090,479	2,108,456
Other government grants	318,952	-
Other	137,172	257,363
Sale of tenements	-	1,250,000
Total revenue from continuing operations	4,546,603	3,615,819

Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Research and Development rebates and government grants

The Group accrues for research and development rebates and government grants as the qualifying expenditure is incurred.

Rebates and grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in liabilities as deferred revenue and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

For details of unfulfilled conditions or other contingencies attaching to these grants see note 14.

6. Finance Income and Costs

	2018	2017
	\$	\$
Finance income		
Interest from financial assets held for cash management purposes	18,115	91,653
Finance income	18,115	91,653
Finance costs		
Interest for financial liabilities	13,957	512,898
Amortisation of borrowing costs	209,229	120,400
Net (gain) / loss on financial instruments at fair value through profit and loss	(515,068)	-
Finance costs expensed	(291,882)	633,298
Foreign exchange losses/ (gains) on foreign currency borrowings included in profit and loss	838,013	(95,088)

Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Income Tax Expense

	2018 \$	2017 (Restated) \$
(a) Income tax expense		
<i>Reconciliation of income tax expense to prima facie tax payable:</i>		
Loss from continuing operations before income tax expense	(18,497,161)	(13,195,658)
Tax calculated at 27.5% (2017: 27.5%) on loss before income	(5,086,718)	(3,628,806)
Add tax effect of:		
Share based payments	458,117	454,301
Non-deductible expenses	13,554	1,390,682
Non-assessable income	-	(579,826)
Other adjustments in respect of prior year differences	-	(225,225)
Unused tax losses and temporary differences not recognised	(3,086,650)	885,641
FY18 R & D adjustments	7,701,697	-
Adjustments in respect of reduced corporate tax rate (27.5%)	-	1,703,233
Income tax expense / (benefit)	-	-
(b) Unrecognised deferred tax balances		
The balance comprises temporary differences attributable to:		
<i>Deferred tax assets</i>		
Unused tax losses	21,154,549	17,874,275
Unused capital losses	175,661	175,661
Deductible temporary differences	2,343,990	1,684,399
Total unrecognised deferred tax assets	23,674,200	19,734,335
<i>Deferred tax liabilities</i>		
Taxable temporary differences	(6,476,696)	(32,241)
Total unrecognised deferred tax liabilities	(6,476,696)	(32,241)
Net unrecognised deferred tax balances	17,197,504	19,702,094

The corporate tax rate in Australia changed from 30% to 27.5% for small business entities with effect from 1 July 2016. The impact of the change in tax rate has been taken into account in the measurement of deferred taxes at the end of the reporting period.

The net deferred tax balances are not recognised since it is not probable at the reporting date that future taxable profits will be available to utilise deductible temporary differences and losses.

(c) Income tax expense / (benefit)

The income tax expense / (benefit) for the period is the tax payable on the current period's taxable income / (loss) based on the applicable income tax rate adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current tax is calculated using the tax rates enacted or substantively enacted at period end, and includes any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes. The tax effect of certain temporary differences is not recognised, principally with respect to:

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Income Tax Expense (continued)

- Temporary differences arising on the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.
- Temporary differences relating to investments and undistributed earnings in subsidiaries, to the extent that the company is able to control its reversal and it is probable that it will not reverse in the foreseeable future.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reviewed at each balance date and amended to the extent it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Current and deferred tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

8. Financial Assets and Financial Liabilities and other receivables and liabilities

(a) Cash and cash equivalents

	2018 \$	2017 \$
Current		
Cash at bank and on hand	10,394,113	8,364,980
	<u>10,394,113</u>	<u>8,364,980</u>

Cash in the statement of financial position comprises cash at bank and in hand and short-term deposits, with an original maturity of three months or less, that are readily convertible to known amounts of cash, and that are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(b) Trade and other receivables

Current

GST receivable	206,732	153,190
Prepayments	7,016,956	4,011,748
Other receivables	1,447,298	15,174
Research and development rebate receivable	21,562,688	2,672,971
	<u>30,233,674</u>	<u>6,853,083</u>

Non-Current

GST receivable	465,634	-
	<u>465,634</u>	<u>-</u>

Other receivables are amounts that generally arise from transactions outside the usual operating activities of the group. Receivables are classified as loans and receivables and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for doubtful debts is recognised in the income statement when there is objective evidence of non-collectability.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Financial Assets and Financial Liabilities and other receivables and liabilities (continued)

Other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Gains or losses are recognised in profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process.

Prepayments include the following share-based payments:

	2018 \$	2017 \$
Lind options issued in 2017 (refer note 8(f))	-	922,500
Lind collateral shares issued in 2017 (refer note 8 (f))	-	1,375,000
Shares to be issued (refer below)	-	1,540,000
Options to be issued for consultancy work	-	189,000
Lind collateral shares issued in the year (refer note 8 (f))	1,235,000	-
Lind options issued in the year (refer note 8 (f))	780,000	-
	<u>2,015,000</u>	<u>4,026,500</u>

During 2017, a sales agreement with Lianyugang Zeyu New Materials Sales Co Ltd (JFMAG) was entered into. Following execution of the sales agreement, Northern Minerals were to issue 14 million ordinary shares to JFMAG or its nominated beneficiary. As at 30 June 2018 these shares had yet to be issued after obtaining shareholder approval on 27 June 2017.

(i) Fair values of trade and other receivables

Due to their short-term nature, their carrying amount is approximate to their fair value. Information about the methods and assumptions used in determining fair value is provided in note 8(i). Information about the impairment of trade and other receivables, their credit quality and the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 9.

(c) Derivative financial assets

Current

Forward foreign exchange contracts	(6,292)	-
Foreign currency option contracts	41,115	-
	<u>34,823</u>	<u>-</u>

Derivatives are initially recognised at fair value, on the date a derivative contract is entered into, and are subsequently remeasured to their fair value at the end of each reporting period. These derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss and included in other income or other expenses.

(d) Other financial assets

Current

Deposits held on trust	<u>150,343</u>	<u>142,081</u>
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Non-Current

Security deposits – rent and performance bonds	<u>88,942</u>	<u>88,678</u>
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Other financial assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Financial Assets and Financial Liabilities and other receivables and liabilities (continued)

(i) Fair values of other financial assets

Due to their short-term nature, the financial assets carrying amount is approximate to their fair value. Information about the methods and assumptions used in determining fair value is provided in note 8(i). Information about the impairment of other financial assets, their credit quality and the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 9.

(e) Trade and other payables

	2018 \$	2017 \$
Current		
Trade and other payables	13,171,416	4,135,253
Non-Current		
Trade and other payables (Refer to note 8 (h))	4,643,050	270,141

Trade and other payables are classified as loans and are carried at amortised cost. They are non-interest bearing and represent liabilities for goods and services provided to the Group prior to the end of the financial period. They are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. These are included in current liabilities. Liabilities where payment is not due within 12 months from the reporting date, which are classified as non-current liabilities.

(i) Fair values of trade and other payables

Due to their short-term nature, current trade and other payables carrying amounts are approximate to their fair value. Information about the methods and assumptions used in determining fair value is provided in note 8(i). Information about the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 9. Details of the fair values of non-current trade and other payables can be found in note 8(i).

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Financial Assets and Financial Liabilities and other receivables and liabilities (continued)

(f) Interest Bearing Liabilities

	Interest Rate	2018 \$	2017 \$
Current			
Convertible note (Secured)	10%	3,612,316	4,149,082
R & D loan facility (Secured)	14%	19,915,295	-
Equipment finance (Secured)	2.99%/ 6.50%	112,471	14,715
Insurance premium funding	3.15%	470,612	-
		<u>24,110,694</u>	<u>4,163,797</u>
Non-Current			
Equipment finance (Secured)	2.99%/ 6.50%	283,182	-
		<u>283,182</u>	<u>-</u>

Commitments in relation to finance leases are payable as follows:

Within one year	144,191	-
Later than one year but not later than five years	275,703	-
Minimum lease payments	419,894	-
Future finance charges	(24,241)	-
Total lease liabilities	<u>395,653</u>	<u>-</u>

The present value of finance lease liabilities is as follows:

Within one year	130,107	-
Later than one year but not later than five years	265,546	-
Minimum lease payments	<u>395,653</u>	<u>-</u>

Borrowings are classified as loans and are initially recognised at fair value net of directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised. Interest bearing liabilities are classified as current liabilities, except when the group has an unconditional right to defer settlement for at least 12 months after the reporting date in which case the liabilities are classified as non-current.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. The fee is capitalised as a prepayment and amortised over the remaining period of the facility to which it relates once it is drawn down.

Convertible notes issued by the Group can be converted to ordinary shares at the option of the holder on or before the expiry date. The liability component of the convertible note is recognised initially at the fair value of a similar liability that does not have a conversion option. Subsequent to initial recognition, the liability component of the convertible note is measured at amortised cost using the effective interest method. Interest relating to the financial liability is recognised in the income statement as a non-cash item. The conversion option is recognised initially as the difference between the consideration and the value of the liability component and the conversion option is classified as equity.

Finance leases, which transfer to the Group, substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Financial Assets and Financial Liabilities and other receivables and liabilities (continued)

rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Convertible Note – Lind Partners LLC

On 14 June 2017, the Company executed an agreement with an entity managed by The Lind Partners, (the Investor) for funding of up to \$16 million with an initial amount of \$6 million to be funded immediately.

The funding was structured as second ranking convertible securities with a 30 month term. The funding agreement allows for two \$6 million tranches and two \$1 million tranches and a further two \$1 million tranches based on specific events. Further information is included in note 9(c).

The funding agreement includes provisions for the conversion into ordinary shares, repayment in cash (at the investors sole option) or early repayment at the Company's sole option.

On each date specified by the Investor in its sole discretion, the Investor may provide the Company with no less than one business day's prior notice requiring the Company to effect a conversion of each convertible security at any time during the term. The number of conversion shares that the Company must issue shall be determined by dividing the relevant conversion amount by the conversion price.

Conversion price in respect of convertible securities is 92.5% of the average of three consecutive daily VWAPs per share as chosen by the Investor during the last twenty trading days on which trading in the Company's shares occurred on the ASX, immediately prior to the execution date.

The Investor has the option to convert the cumulative face value of each convertible security advanced under this agreement in separate monthly conversions equal to 1/24th of the original face value of the applicable security. On any day during the term, but at a frequency of no more than once a month for each convertible security, the Investor may provide the Company a written notice, no less than two business days, requiring the Company to effect a repayment of the repayment conversion amount.

In its sole discretion and provided there has been no Event of Default, the Company may buy-back the outstanding balance of a Convertible Security at any time during the term, subject to paying the amount outstanding and Lind would have the right to convert up to 30% of the buy-back amount.

As a facilitation fee, the Company issued the Lind Partners 22.5 million options with a term of 36 months and an exercise price of \$0.25. The Company also issued 12,500,000 collateral shares to the investor as part of the agreement. Refer to note 8(b).

On 29th August 2017, the Company and Lind Asset Management X, LLC (Lind) entered into amendments in relation to the original agreement. A further 10,000,000 collateral shares were issued to the investor as part of the agreement.

Further, the parties entered into a term sheet on 12 November 2017 to vary the arrangement relating to the fourth convertible security under the original agreement.

The fourth convertible security under the agreement was amended so that, upon the Company successfully raising AU\$3,500,000, Lind advanced AU\$5,000,000.

Upon the above advance of the fourth convertible security, 10,000,000 additional collateral shares were issued, as well as 30,000,000 options exercisable at \$0.125 expiring 31 December 2019.

The Company agreed to forego AU\$1,000,000 that it could have called upon in terms of the agreement.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Financial Assets and Financial Liabilities and other receivables and liabilities (continued)

Equipment Finance

These loans are secured by a first charge over the equipment under finance and is for a period of 36 months.

Secured Loan – Innovation Structured Finance Co; LLC – R & D Loan Facility

The Company has entered into a two and a half year US\$30 million secured R & D Loan facility with Innovated Structured Finance LLC (ISF), a company associated with Brevet Capital Management (Brevet).

This facility provides the Company with accelerated access to tax offsets that are applicable to R & D activities being undertaken at the Browns Range Pilot Plant project.

To manage the exposure to USD/AUD foreign exchange rates as a result of this loan the Company has hedged its exposure – refer note 9(a).

Under the facility, the Company and its tax advisor, estimate the level of tax offsets at the end of each quarter. ISF then provides funding of up to 80% of the estimated tax offset, with the principal and accrued interest repayable out of actual tax offsets received at the end of the financial year. Repayment is due upon the earlier of receipt of the R & D Tax Incentive Offset or 31 December 2018 of the relevant year of the term loan.

The funding will be made available in USD. The aggregate amount of the term loans will not exceed USD\$30 million.

Interest is accrued daily at 14% per annum.

The maximum loan security ratio is 90% which is the ratio of outstanding moneys divided by the R & D Tax Incentive Offsets which the Company is expected to receive following the end of the relevant financial year.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Financial Assets and Financial Liabilities and other receivables and liabilities (continued)

Assets pledged as security

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	2018 \$	2017 \$
Current		
<i>Fixed charge</i>		
Receivables	21,562,688	-
<i>Floating charge</i>		
Cash and cash equivalents	10,394,113	8,364,980
Receivables	1,654,109	-
Derivative financial assets	34,823	-
Inventory	290,316	86,724
Total current assets pledged as security	33,936,049	8,451,704
Non-Current		
<i>Fixed charge</i>		
Property, plant and equipment	40,628,640	8,972,100
<i>Finance lease</i>		
Property, plant and equipment	407,649	24,421
<i>Floating charge</i>		
Receivables	465,634	-
Property, plant and equipment	18,536,957	3,414,700
Total non-current assets pledged as security	60,038,880	12,411,221
Total assets pledged as security	93,974,929	20,862,925

A Priority Deed has been entered into between Sinosteel Equipment & Engineering Co Ltd (Sinosteel), Innovation Structured Finance Co LLC (ISF), Lind Asset Management X LLC (Lind) and the Company.

Sinosteel has a Specific Security Deed giving it security over the Company's mechanical equipment, electrical and instrumentation equipment, structural steel, platework and piping for the beneficiation and hydrometallurgical process plants supplied and installed by the contractor as defined by the Process Engineering package in the EPC Contract.

ISF has security over the Company's present and future right, title and interest in the property below:

- the deposit account;
- any amount credited to the deposit account on or before the date of the deed or after the date of the deed;
- any R & D Tax Incentive Offsets which are credited or which should have been credited to any other account held by the Company;
- the R & D Tax Incentive Offsets;
- any proceeds of any of the above;
- all other rights, title and interest in the deposit account.

ISF may enforce the ISF security without notice to or approval of any other security holder. Sinosteel may also enforce the Sinosteel Specific Security deed without notice to or approval of any other security holder. Sinosteel may appoint a receiver to the Collateral under the Sinosteel General Security Deed.

The securities, other than the Sinosteel Specific Security Deed rank in the following order of priority:

- first priority to the ISF Security;
- second priority to the Sinosteel General Security Deed;
- third priority to the Lind Security

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Financial Assets and Financial Liabilities and other receivables and liabilities (continued)

(g) Deferred revenue

	2018 \$	2017 (Restated) \$
Current		
Deferred revenue	7,345,925	564,515
Non-Current		
Deferred revenue	14,691,849	-

Refer to Note 5 for the accounting policy in relation to Research and Development rebates and government grants.

Refer to Note 3(b) for the correction of error in accounting for the Research and Development rebate in the prior year.

(h) Other financial liabilities

Derivatives not designated as hedging instruments

Non-Current

Embedded derivatives	284,463	82,217
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Derivatives are classified as fair value through profit and loss and are carried at fair value.

In 2017, the group entered into an EPC contract with Sinosteel MECC in Beijing. Under the contract, Sinosteel MECC has agreed to defer payments representing 20% of the contract value for a period of 12 months. Sinosteel MECC also has the right, at its election, within nine months of practical completion, to convert the deferred payment amount into ordinary Northern Minerals shares at a conversion price of the lower of 15 cents per share or the 20 day VWAP prior to election. The conversion option is treated as an embedded derivative.

The embedded derivative portion is classified as other liabilities with the initial fair value of the host liability component classified as a non-current trade payable in note 8 (e).

(i) Accounting classification and fair value

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available-for-sale assets.

All financial assets are initially recognised at the fair value of consideration paid. Subsequently, financial assets are carried at fair value or amortised cost less impairment. Where non-derivative financial assets are carried at fair value, gains and losses on re-measurement are recognised directly in equity unless the financial assets have been designated as being held at fair value through profit or loss, in which case the gains and losses are recognised directly in the consolidated income statement.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is de-recognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a pass through arrangement: and either (a) the Group has transferred substantially all the risks and rewards of the asset or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

8. Financial Assets and Financial Liabilities and other receivables and liabilities (continued)

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the debtors are experiencing significant financial difficulty, default or delinquency in interest or principal repayments or other observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial liabilities

Financial liabilities other than derivatives are initially recognised at fair value of consideration received net of transaction costs as appropriate, and are subsequently carried at amortised cost. The group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The amortisation is included in finance costs in the statement of profit or loss.

Derivatives, including those embedded in contractual arrangements but separated for accounting purposes because they are not clearly and closely related to the host contract, are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at their fair value. Fair value changes are recognised immediately in the profit and loss.

For the interest bearing liabilities, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

The fair values of non-current borrowings are based on discounted cash flows using a current borrowing rate.

Measurement

The following method and assumptions are used to estimate the fair values:

Fair values of the Group's interest-bearing borrowings and loans are determined by using discounted cash flow models that use discount rates to reflect the issuer's borrowing rate as at the end of the reporting period.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

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

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

All financial instruments measured at fair value use Level 2 valuation techniques in both years.

There have been no transfers between fair value levels during the reporting period.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management

The Group's principal financial liabilities, comprise of loans and borrowings and trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include trade and other receivables and cash that derive directly from its operations.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board. The Board provides policies for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.

Foreign Exchange Risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures with respect to changes in USD / AUD exchange rates.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated or linked to a currency that is not the entity's functional currency. The group hedges the currency risk of the Brevet facility by hedging the entire value of the notional value of the loan, which is mainly an exposure to US Dollar borrowings. The risk is measured through forecasting the US dollar amounts required for repayments. The US dollar denominated borrowings are to be repaid with receipt of the R & D Tax Incentive Offset which is receipted in Australian dollars.

Under the terms of the loan agreement the Company must within two business days of each advance enter into a FX hedging arrangement in respect of USD / AUD ("hedge") for that advance in a form reasonably acceptable to the lender. The lender must be named as payee in each hedge and the Company must provide a copy of the trade confirmation to the lender as soon as possible. If the company does not enter into a hedge for an advance the Company must deposit and maintain a Margin of Deposit Account in accordance with the agreement. In respect of an advance the margin is the positive difference multiplied by 105% calculated on the relevant margin calculation date (end of each calendar month). The Company must pay the margin in AUD into the deposit account, within 2 business days of the lender giving written notice to the Company of any obligation to pay margin. If there is a negative difference and the sum of margin amounts in the deposit account exceeds the total of margin amounts required, 90% of the surplus must be paid to the lender within 2 business days. This will be applied in repayment of the outstanding monies upon the repayment date for the term loan in respect of the relevant advance. The amount will be converted to USD at the current exchange rate quoted by the Reserve Bank of Australia on the relevant day.

The group has used this combination of foreign currency option contracts and foreign exchange forward contracts to hedge exposure to foreign currency risk. Derivatives are only used for economic hedging purposes and not as speculative investments.

Certain operating and capital expenditure is linked to currencies other than the Company's functional currency.

During the year, the Company has entered into a contract for the construction of plant and equipment, which is linked to the USD. As such, the Company is exposed to changes in the USD/AUD exchange rates. See note 15(iii). This exposure has not been hedged.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

The financial assets and liabilities that are exposed to foreign exchange risk at the end of the reporting period, expressed in Australian dollars, are:

	2018	2017
	\$	\$
Cash and cash equivalents - USD	7,963,471	3,820
Interest bearing liabilities - USD	19,915,294	-
Notional value of forward exchange contracts buy foreign currency	10,197,607	-
Notional value of foreign currency option contracts	8,126,774	-
	<u>46,203,146</u>	<u>3,820</u>

As shown in the table above, the group is primarily exposed to changes in US / \$ exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US-dollar denominated financial instruments and foreign forward exchange contracts.

	Impact on post tax profit/(loss) 2018	Impact on post tax profit/(loss) 2017
	\$	\$
US / \$ exchange rate – increase 10%	(629,020)	-
US / \$ exchange rate – decrease 10%	577,123	-

Amounts recognised in the income statement

During the year the following foreign-exchange related amounts were recognised in the income statement:

	2018	2017
	\$	\$
Net foreign exchange gain / (loss) included in other income	951	93,909
Foreign exchange gain /(loss) in administration expenses	(452,733)	(22,110)
Net foreign exchange gain / (loss)	<u>(451,782)</u>	<u>71,799</u>
Net gain on foreign currency derivatives not qualifying as hedges included in administration expenses	<u>34,823</u>	<u>-</u>

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

Cash flow and fair value interest rate risk

Interest rate risk in relation to the fair value or future cash flow may arise from interest rate fluctuations. The Group's exposure to interest rate risk and the effective weighted average interest rate for classes is set out below:

	Weighted average interest rate	Floating Interest Rate	Fixed Interest	Non-Interest Bearing	Total
	%	\$	\$	\$	\$
30 June 2018					
Financial Assets					
Cash and cash equivalents	0.03%	203,551	-	10,190,561	10,394,112
Trade and other receivables	-	-	-	1,440,308	1,440,308
Other financial assets	1.91%	-	239,285	-	239,285
Total financial assets		203,551	239,285	11,630,870	12,073,706
Financial Liabilities					
Trade and other payables	-	-	-	17,482,946	17,482,946
Interest bearing liabilities	13.04%	-	24,393,875	-	24,393,875
Total financial liabilities		-	24,393,875	17,482,946	42,236,821

	Weighted average interest rate	Floating Interest Rate	Fixed Interest	Non-Interest Bearing	Total
	%	\$	\$	\$	\$
30 June 2017					
Financial Assets					
Cash and cash equivalents	0.19%	3,471,406	-	4,893,574	8,364,980
Trade and other receivables		-	-	15,172	15,172
Other financial assets	1.20%	-	230,759	-	230,759
Total financial assets		3,471,406	230,759	4,908,746	8,610,911
Financial Liabilities					
Trade and other payables	-	-	-	3,951,283	3,951,283
Interest bearing liabilities	9.99%	-	4,163,797	-	4,163,797
Total financial liabilities		-	4,163,797	3,951,283	8,115,080

Financial assets are subject to underlying interbank cash rate movements as determined by the Reserve Bank of Australia.

The impact of a material movement of +/- 1% in the underlying cash rate will not have a material impact on revenue and therefore shareholder equity. The assumed movement in basis point volatility for the interest rate sensitivity analysis is based on the observable market movements in interest rates in the recent past which have been relatively stable.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

b) Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure relating to outstanding receivables and committed transactions. The Group has minimal credit risk with regards to its bank held deposits which are all held with reputable institutions. The Group has minimal credit risk in relation to its receivables.

The maximum exposure to credit risk at the reporting date is the carrying amount of the receivables. Collateral is not held as security. There are no significant concentrations of credit risk within the Group.

c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Group management aims at maintaining flexibility in funding by keeping committed credit lines available.

Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents. In addition, the Group's liquidity policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these and monitoring debt financing plans.

The Company:

- currently has short term funding in place (refer note 8). The Company continuously monitors forecasts and actual cash flows and the maturity profiles of financial assets and liabilities to manage its liquidity risk;
- manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are invested in short-term bank deposits.

Financing arrangements

The group has access to the following undrawn borrowing facilities at the end of the reporting period, subject to the conditions outlined below:

Fixed rate	2018 \$	2017 \$
- Expiring within one year	-	-
- Expiring beyond one year	23,674,612	11,000,000
	<u>23,674,612</u>	<u>11,000,000</u>

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

Details of facilities are included in Note 8 (f). The maximum amounts available are set out below and are dependent upon the following conditions:

First convertible security - \$6 million– this has been fully drawdown and repayments have been made in accordance with the agreement.

Second convertible security - \$1 million available for drawdown during the term applicable to the first convertible security.

Third convertible security – \$1 million available prior to the end of the term of the first convertible security if the amount outstanding on the first convertible security has been reduced by an amount equal to or greater than \$1.5 million through conversions or repayment conversions, there is no event of default and the Company's market capitalisation is greater than AUD \$55 million. The Company agreed to forgo this \$1 million that it could have called upon in terms of the agreement under the variation and drawdown of the fourth convertible security. See note 8(f)

Fourth convertible security – \$5 million was drawdown in the financial year and repayments made in accordance with the agreement.

Fifth convertible security - \$1 million available for drawdown during the term applicable to the fourth convertible security.

Sixth convertible security - \$1 million available for drawdown during the term applicable to the fourth convertible security if the amount outstanding on the fourth convertible security has been reduced by an amount equal or greater than 25% of the face value of the fourth convertible security through conversions.

The Company has entered into a two and a half year US\$30 million secured R & D Loan facility with Innovated Structured Finance LLC (ISF). Details of this facility are included in Note 8 (f). This facility provides the Company with accelerated access to tax offsets that are applicable to R & D activities. The facility was drawn down as at 30 June 2018 to \$19,915,295 based on the exchange rate at reporting date and accrued interest. Future drawdowns are dependent on the level of the R & D Tax Incentive Offset that the Company is eligible for in future periods.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

Maturities of financial liabilities

The tables below analyse the group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$		\$
As at 30 June 2018						
Non-derivatives						
Trade payables	12,555,434	-	3,714,440	928,610	17,198,484	17,482,946
Interest bearing liabilities (excluding finance leases)*	23,352,797	1,575,831	-	-	24,928,628	23,527,611
Finance leases	73,844	70,356	140,712	133,998	418,910	395,653
Total non-derivatives	35,982,075	1,646,187	3,855,152	1,062,608	42,546,022	41,406,210
Derivatives						
Other financial liabilities	-	-	284,463	-	284,463	284,463
Gross settled forward exchange contracts		-	-	-	-	-
-(Inflow)	(10,143,516)	-	-	-	(10,143,516)	(34,823)
-(Outflow)	10,197,607	-	-	-	10,197,607	-
Total derivatives	54,091	-	284,463	-	338,554	249,640
As at 30 June 2017						
Non-derivatives						
Trade payables	3,598,924	-	-	352,358	3,951,282	3,951,282
Interest bearing liabilities (excluding finance leases)	1,562,500	1,562,500	3,125,000	-	6,250,000	4,149,082
Finance leases	8,178	8,178	-	-	16,356	14,715
Total non-derivatives	5,169,602	1,570,678	3,125,000	352,358	10,217,638	8,115,079
Derivatives						
Other financial liabilities	-	-	-	82,217	82,217	82,217
Total derivatives	-	-	-	82,217	82,217	82,217

*Included in this amount is \$19,915,294 secured over the Group's R&D rebate and which will be paid from the proceeds of the rebate

NORTHERN MINERALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10. Non-financial Assets and Liabilities

(a) Property, plant and equipment

Non-Current	Pilot Plant in Construction	Office Equipment	Fixtures and Fittings	Exploration Equipment	Vehicles	Leasehold Improvements	Browns Range Buildings	Browns Range Site Equipment	Site Plant Bulk Earthworks	Total
2018	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cost										
At beginning of the financial year	12,322,011	482,754	121,059	960,204	447,492	514,198	-	-	-	14,847,718
Additions	48,291,714	118,752	-	11,600	-	2,795	-	326,966	-	48,751,827
Transfers	(10,497,192)	-	-	-	-	-	3,492,247	2,013,337	4,991,608	-
At the end of the financial year	50,116,533	601,506	121,059	971,804	447,492	516,993	3,492,247	2,340,303	4,991,608	63,599,545
Accumulated Depreciation										
At the beginning of the financial year	-	417,821	117,148	956,916	433,359	511,253	-	-	-	2,436,497
Depreciation charge for the year	-	66,064	1,707	5,313	13,865	1,789	140,688	114,425	1,245,951	1,589,802
At the end of the financial year	-	483,885	118,855	962,229	447,224	513,042	140,688	114,425	1,245,951	4,026,299
Carrying amount at end of the year	50,116,533	117,621	2,204	9,575	268	3,951	3,351,559	2,225,878	3,745,657	59,573,246
2017										
Cost										
At beginning of the financial year	-	437,939	118,275	957,668	447,492	511,296	-	-	-	2,472,670
Additions	12,322,011	44,815	2,784	2,536	-	2,902	-	-	-	12,375,048
Disposals	-	-	-	-	-	-	-	-	-	-
At the end of the financial year	12,322,011	482,754	121,059	960,204	447,492	514,198	-	-	-	14,847,718
Accumulated Depreciation										
At beginning of the financial year	-	363,609	107,486	934,495	402,864	500,086	-	-	-	2,308,540
Depreciation charge for the year	-	54,212	9,662	22,421	30,495	11,167	-	-	-	127,957
Accumulated depreciation at end of year	-	417,821	117,148	956,916	433,359	511,253	-	-	-	2,436,497
Carrying amount at end of the year	12,322,011	64,933	3,911	3,288	14,133	2,945	-	-	-	12,411,221

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Non-financial Assets and Liabilities (continued)

Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and impairment charges. Cost is the fair value of consideration given to acquire the asset at the time of its acquisition or construction and includes the direct cost of bringing the asset to the location and condition necessary for operation and its estimated future cost of closure and rehabilitation.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the income statement during the reporting period in which they are incurred.

Any item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

Depreciation and amortisation

The carrying amounts of property, plant and equipment are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated project, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. Depreciation commences on the date the asset is ready and available for use. The major categories of property, plant and equipment are depreciated on a straight-line basis using estimated lives indicated below.

Pilot plant in construction – based on life of pilot plant project – 3 years from being available for use

Office Equipment – 3 years

Fixtures and Fittings – 4 years

Exploration Equipment – 3 years

Vehicles – 4 years

Leasehold Improvements – 3-10 years

Buildings – 3-15 years for fixtures and fittings and portable building structures

Browns Range Site Equipment - 3-10 years and 20 years for mobile equipment

Site Plant Bulk Earthworks – 3-4 years based on life of pilot plant depending on commencement as available for use

Assets under construction

All assets included in assets under construction are reclassified to other categories in property, plant and equipment when the asset is available and ready for use in the location and condition necessary for it to be capable of operating in the manner intended.

Non-current assets pledged as security

Refer to note 8 (f) for information on non-current assets pledged as security by the group.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Non-financial Assets and Liabilities (continued)

(b) Inventory

	2018 \$	2017 \$
Current		
Diesel fuel and consumables	290,316	86,724

Inventories are valued at the lower of cost and net realisable value. Cost is determined using weighted average costs.

(c) Provisions

Current

Employee benefits	585,209	301,681
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Non-Current

Employee benefits	45,787	123,637
Rehabilitation	4,342,169	3,530,957
	4,387,956	3,654,594

(i) Movements in provisions

2018	Employee benefits \$	Rehabilitation \$	Total \$
Balance at the beginning of year	425,318	3,530,957	3,956,275
Amounts expensed for the year	444,756	59,029	503,785
Utilisation	(239,077)	(234,672)	(473,749)
Amounts capitalised	-	986,854	986,854
Balance at the end of year	630,997	4,342,168	4,973,165

Employee benefits

Liabilities for unpaid wages and salaries are recognised in sundry creditors. Current entitlements to annual leave accrued for services up to the reporting date are recognised in the provision for employee benefits and are measured at the amounts expected to be paid. Entitlements to non-accumulating sick leave are recognised when the leave is taken.

The current liability for long service leave (for which settlement within 12 months of the reporting date cannot be deferred) is recognised in the current provision for employee benefits and is measured in accordance with annual leave described above. The non-current liability for long service leave is recognised in the non-current provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to current wage and salary levels to match as closely as possible, the estimated future cash outflows.

Rehabilitation

The mining, exploration and construction activities of the group give rise to obligations for site closure and rehabilitation. Closure and rehabilitation works can include facility decommissioning and dismantling, removal of waste materials, site and land rehabilitation.

Provisions for the cost of each closure and rehabilitation programme are recognised at the time the environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass all closure and rehabilitation activity expected to occur progressively over the life of the operation and at, or after, the time of closure, for disturbance existing at the reporting date. Routine operating costs that may impact the ultimate closure and rehabilitation activities, are not included in the provision. Costs arising

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Non-financial Assets and Liabilities (continued)

from unforeseen circumstances, are recognised as an expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

The timing of the actual closure and rehabilitation expenditure is dependent upon a number of factors such as the life and nature of the asset, the operating licence conditions and the environment in which they operate. Expenditure may occur before and after closure and can continue for an extended period of time dependent on closure and rehabilitation requirements.

Closure and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of associated cash flows.

When provisions for closure and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation, to the extent that the activity in which the provision is related to is capitalised. The capitalised cost of rehabilitation and closure activities is recognised in property, plant and equipment accordingly. The value of the provision is progressively increased over time due to the effect of discounting unwinding creating an expense recognised in finance expenses. Where the activity in which the provision relates is expensed in accordance with the exploration and evaluation expenditure, the provision expense is also expensed.

Closure and rehabilitation provisions are also adjusted for changes in costs and estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the undepreciated capitalised cost of the related assets, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised first against other items in property, plant and equipment and subsequently to the consolidated income statement.

Changes to the capitalised cost result in an adjustment to future depreciation.

Adjustments to the estimated amount and timing of future closure and rehabilitation cash flows are a normal occurrence in light of significant judgements and estimates involved.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity

	2018		2017	
	Number	\$	Number	\$
(a) Ordinary Shares				
Share Capital				
Ordinary Shares	1,114,820,770	143,944,809	708,893,807	110,995,064
Movement in Ordinary Share Capital				
Balance at the beginning of year	708,893,807	110,995,064	498,159,294	86,234,622
Issue of shares to Huatai Mining - August 2017	20,000,000	2,000,000	-	-
Issue for consultancy work - August 2017	1,000,000	100,000	-	-
Issue of securities to Lind - Convertible Security repayment - August 2017	3,551,136	312,500	-	-
Placement issue - August 2017	20,833,333	2,500,000	-	-
Issue of Collateral shares to Lind - August 2017	10,000,000	1,350,000	-	-
Issue of securities to Lind - Convertible Security repayment - September 2017	2,693,966	312,500	-	-
Placement issue - October 2017	25,000,000	3,000,000	-	-
Issue of securities to Lind - Convertible Security repayment - October 2017	2,920,561	312,500	-	-
Issue of securities to Lind - Convertible Security repayment - November 2017	3,063,725	312,500	-	-
Placement issue - December 2017	50,230,771	3,918,000	-	-
Issue of Collateral shares to Lind - December 2017	10,000,000	870,000	-	-
Shares issued for performance bonus to Sinosteel	4,000,000	348,000	-	-
Issue of Collateral shares to Lind - December 2017	3,551,136	312,500	-	-
Issue of securities to Lind - Convertible Security repayment - January 2018	4,006,410	312,500	-	-
Issue of shares for exercise of performance rights	5,700,000	-	-	-
Placement - January 2018	27,564,102	2,150,000	-	-
Share purchase plan - February 2018	150,324,057	11,725,236	-	-
Placement - February 2018	16,666,667	1,300,000	-	-
Issue of securities to Lind - Convertible Security repayment - February 2018	7,073,046	572,917	-	-
Placement - February 2018	2,000,000	156,000	-	-
Placement - Huatai - March 2018	12,820,513	1,000,000	-	-
Issue of securities to Lind - Convertible Security repayment - March 2018	7,848,174	572,917	-	-
Issue of securities to Lind - Convertible Security repayment - June 2018	15,079,366	1,145,833	-	-
Issue of shares for consultancy fees - Jul 2016	-	-	571,043	42,000
Convertible Security repayment - Jul 2016	-	-	2,955,877	201,000
Issue of share - Huatai Mining - Aug 2016	-	-	30,000,000	3,000,000
Convertible Security repayment - Aug 2016	-	-	4,147,965	261,322
Convertible Security repayment - Sep 2016	-	-	3,062,023	232,714
Issue of securities to employees - Aug 2016	-	-	300,000	28,500
Issue of share - Huatai Mining - Nov 2016	-	-	66,666,667	9,000,000
Convertible Security repayment - Nov 2016	-	-	1,784,585	198,088
Convertible Security repayment - Dec 2016	-	-	1,819,662	202,934
Issue of securities - Bin Cai - Dec 2016	-	-	3,000,000	345,000
Lind collateral shares issued - Dec 2016	-	-	-	(204,000)
Payment of fees in lieu of cash - Dec 2016	-	-	-	167,000
Issue of share - Huatai Mining - Jan 2017	-	-	40,740,741	5,500,000
Convertible Security repayment - Jan 2017	-	-	1,997,059	203,700
Issue of share - Huatai Mining - Jan 2017	-	-	14,814,815	2,000,000
Convertible Security repayment - Jan 2017	-	-	3,949,684	402,868
Issue of securities - placement - Mar 2017	-	-	14,814,814	2,000,000
Issue of securities to Jaru Trust - May 2017	-	-	5,000,000	600,000
Collateral shares issued to Lind Partners - Jun 2017	-	-	12,500,000	1,375,000
Argonaut - payment of fees - Jun 2017	-	-	2,609,578	300,000
	1,114,820,770	145,578,967	708,893,807	112,090,748
Less: costs of issue	-	(1,634,158)	-	(1,095,684)
Balance at the end of year	1,114,820,770	143,944,809	708,893,807	110,995,064

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

(i) Ordinary shares

Issued capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Ordinary shares entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every holder of ordinary 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.

Share Purchase Plan shares not taken up on termination are dealt with in accordance with the Share Plan rules. For further details on the nature of these shares, refer to Note 17.

(b) Share Purchase Plan Shares

Included in Ordinary Shares are shares issued pursuant to the Share Purchase Plan as follows:

	2018 Number	2017 Number
Balance at beginning of year	8,428,400	13,928,400
Shares reverted to company during the year	(3,125,000)	(5,500,000)
Balance at end of year	5,303,400	8,428,400

(c) Performance Rights over ordinary shares

	2018 Number	2017 Number
<i>Exercise price of between \$0.19 and \$0.372 expiring between 26/09/14 and 30/09/16 (Unquoted)</i>		
Balance at beginning of year	-	650,000
Issued during the year	-	-
Forfeited/lapsed during the year	-	(650,000)
Exercised during the year	-	-
Balance at end of year	-	-
<i>Performance rights with conditions* with Nil exercise price expiring between 30/6/17 and 31/12/17 (Unquoted)</i>		
Balance at beginning of year	4,500,000	11,400,000
Issued during the year	-	-
Forfeited/lapsed during the year	(4,500,000)	(6,900,000)
Exercised during the year	-	-
Balance at end of year	-	4,500,000
<i>Performance rights with conditions** with Nil exercise price vesting and exercisable upon a number of conditions (Unquoted)</i>		
Balance at beginning of year	22,500,000	-
Issued during the year	-	27,500,000
Forfeited/lapsed during the year	-	(5,000,000)
Exercised during the year	(4,500,000)	-
Balance at end of year	18,000,000	22,500,000

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

	2018 Number	2017 Number
<i>Performance rights with conditions*** with Nil exercise price vesting and exercisable upon a number of conditions (Unquoted)</i>		
Balance at beginning of year	2,500,000	-
Issued during the year	-	2,500,000
Forfeited/lapsed during the year	-	-
Exercised during the year	(500,000)	-
Balance at end of year	2,000,000	2,500,000

<i>Performance rights with conditions**** with Nil exercise price vesting and exercisable upon a number of conditions (Unquoted)</i>		
Balance at beginning of period	-	-
Issued during the period	1,800,000	-
Forfeited/lapsed during the period	(700,000)	-
Exercised during the period	(700,000)	-
Balance at end of period	400,000	-

* Performance conditions

- 9,000,000 shares if the first commercial shipment of heavy rare earth mineral concentrate from any of the Company's rare earth projects to a buyer or buyers occurs on normal commercial terms prior to 30 June 2017; or
- 4,500,000 shares if the first commercial shipment of heavy rare earth mineral concentrate from any of the Company's rare earth projects to a buyer or buyers occurs on normal commercial terms subsequent to 30 June 2017 but prior to 31 December 2017
- For the purposes of the conditions, a "commercial shipment" of the concentrate is regarded as a shipment or shipments in aggregate, of heavy rare earth mineral concentrates containing at least 250 tonnes of total rare earth oxides ("TREO") to one or more customers.

** Performance conditions

-5,500,000 shares will vest and be exercisable upon the Company making a final investment decision to proceed with its Browns Range Pilot Plant;
- 5,500,000 will vest and be exercisable upon practical completion being achieved under a contract for the construction of the Browns Range Pilot Plant;
- 5,500,000 shares will vest and be exercisable upon the first accumulated 100 tonnes of mixed rare earth carbonate being produced and sold from the Browns Range Pilot Plant;
- 11,000,000 shares will vest and be exercisable upon the Browns Range Pilot Plant achieving production of mixed rare earth carbonate of at least 260 tonnes within a period of 90 consecutive days.

*** Performance conditions

-500,000 shares will vest and be exercisable upon the Company taking the first delivery of equipment and material from Sinosteel arriving at an Australian Port under the Company's EPC contract with Sinosteel for the construction of the Browns Range Pilot Plant;
-500,000 will vest and be exercisable upon practical completion being achieved under a contract for the construction of the Browns Range Pilot Plant;
- 500,000 shares will vest and be exercisable upon the first accumulated 100 tonnes of mixed rare earth carbonate being produced and sold from the Browns Range Pilot Plant;
- 1,000,000 shares will vest and be exercisable upon the Browns Range Pilot Plant achieving production of mixed rare earth carbonate of at least 260 tonnes within a period of 90 consecutive days.

**** Performance conditions

-100,000 shares will vest and be exercisable upon the completion of Civil Works (concrete) for the Browns Range Pilot Plant
-200,000 shares will vest and be exercisable upon the delivery of project EP portion and LTSC portion within budget, no lost time injury and no reportable environmental incident
-300,000 shares will vest and be exercisable upon completion of the Pilot Plant performance test and practical completion by 30 June 2018
-50,000 shares will vest and be exercisable upon commencement of mining operations of the Browns Range Pilot Project
-300,000 shares will vest and be exercisable upon delivery of the mining scope of work for the Browns Range Pilot Plant on time and within budget. No lost time injury at the site from the commencement to the completion of both the mining and earthworks contracts, and no reportable environmental incidents from the commencement to the completion of both the mining and earthworks contracts

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

-250,000 shares will vest and be exercisable upon completion of the mining and earthworks contracts at the discretion of the CEO

-100,000 shares will vest and be exercisable upon commencement of employment with Northern Minerals

-200,000 shares will vest and be exercisable upon completion of process plant performance test and practical completion achieved by 30 June 2018, and completion of necessary R & D tests and claim application for 2017/2018 R & D claim, and receipt of R & D refund by the Company

-300,000 shares will vest and be exercisable upon completion of necessary R & D tests and claim application for 2018/2019 R & D claim and receipt of refund by the Company

(d) Options over ordinary shares

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Grant Date	Expiry date	Exercise price	Share options 30 June 2018	Share options 30 June 2017
12 June 2014	12 June 2020	\$0.25	1,921,870	1,921,870
12 June 2014	12 June 2020	\$0.25	10,890,600	10,890,600
2 November 2015	6 November 2018	\$0.25	2,500,000	2,500,000
12 April 2017	24 May 2021	\$0.15	3,000,000	-
14 June 2017	20 June 2020	\$0.25	22,500,000	22,500,000
29 December 2017	31 December 2019	\$0.12	30,000,000	-
29 December 2017	31 December 2019	\$0.12	5,023,076	-
Total			75,835,546	37,812,470

Weighted average remaining contractual life of options outstanding at end of period

1.74 years

2.86 years

No options expired during the periods 2018 and 2017.

(e) Capital management

When managing capital, the Boards objective is to ensure the group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Board may in the future adjust the capital structure to take advantage of favorable costs of capital and issue further shares in the market.

Management monitors capital by reviewing the level of cash on hand, future revenue streams and assessing the impact of possible future commitments in respect of the potential capital structure that would be required to meet those potential commitments.

(f) Dividends

No dividends were paid or declared by the Company since the incorporation of the Company.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

(g) Other reserves

	2018 \$	2017 \$
Reserves	14,023,856	11,523,662
Reserves comprise the following:		
<i>Performance Rights and options reserve</i>		
Balance at the beginning of year	6,325,481	4,961,309
Vesting charge on performance rights and options	2,072,970	1,364,172
Balance at the end of year	8,398,451	6,325,481
<i>Share based payment reserve</i>		
Balance at the beginning year	4,347,282	2,570,453
Share plan allocation	98	47,829
Other share based payments	-	1,729,000
Balance at the end of year	4,347,380	4,347,282
<i>Other Reserves</i>		
Balance at the beginning year	850,899	-
Convertible notes issued during the year / (converted in year)	642,126	850,899
Change in value of collateral shares refunded and reissued	(215,000)	-
Balance at the end of year	1,278,025	850,899
Total Reserves	14,023,856	11,523,662

(h) Nature and purpose of other reserves

The share option reserve is used to recognise the value of options or performance rights issued in lieu of cash payments, issued to employees and Key Management Personnel as remuneration, and to recognise the proceeds received on issue of options and performance rights.

The share based payments reserve is used to recognise the value of shares issued in lieu of cash payments and is allocated the vested portion of the employee share purchase plan over the vesting period.

The other reserve covers the equity component of the issued convertible notes. The liability component is reflected in financial liabilities. It also includes the change of value in the collateral shares issued, refunded and reissued.

NORTHERN MINERALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

12. Cash Flow Information

	2018 \$	2017 (Restated) \$
(a) Reconciliation of loss after income tax to net cash outflow from operating activities		
Net Loss after tax	(18,497,161)	(13,195,658)
<i>Adjustments</i>		
Depreciation expense	1,589,802	127,957
Non-cash payments for Lind financing	-	(418,391)
Unrealised foreign exchange	627,244	22,110
Share-based payments – (refer note 17)	1,741,067	5,668,502
Non-cash fair value adjustments	174,407	-
Embedded derivative	-	82,217
<i>Change in assets and liabilities</i>		
(Increase) / decrease in other receivables	(3,292,053)	(4,609,538)
(Increase) / decrease in inventory	86,724	(53,698)
Increase / (decrease) in trade and other payables	2,571,613	3,766,555
Increase / (decrease) in provisions	(59,951)	3,634,257
Net cash flows used in operating activities	<u>(15,058,308)</u>	<u>(4,975,687)</u>

(b) Non-cash investing and financing activities

Acquisition of property, plant and equipment by means of finance leases	<u>404,811</u>	-
Conversion of debt to equity (refer note 17)	<u>4,166,668</u>	<u>1,702,628</u>

The above reflects the Lind facility where repayments have been made via the issue of ordinary shares.

(c) Reconciliation of liabilities arising from financing activities

	Opening balance 2017 \$	Cash flows \$	Non-cash changes			Closing balance 2018 \$
			Foreign exchange movements \$	Conversion of debt to equity \$	Other non- cash movements \$	
Convertible note	4,149,082	1,430,000	-	(4,166,668)	2,199,902	3,612,316
Equipment finance	14,715	380,938	-	-	-	395,653
Other loans	-	470,612	-	-	-	470,612
R & D loan facility	-	17,942,626	838,014	-	1,134,655	19,915,295
Total liabilities from financing activities	4,163,797	20,224,176	838,014	(4,166,668)	3,334,557	24,393,875

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

13. Subsidiaries

The following are wholly owned subsidiaries of the Company:

Northern Uranium Pty Ltd
Northern Commodities Pty Ltd
Northern P2O5 Pty Ltd
Northern Rare Earth Metals Pty Ltd; and
Northern Xenotime Pty Ltd.

Subsidiaries are entities controlled by the parent entity. Control exists where the parent entity is exposed, or has rights to, variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. A parent entity has power over the subsidiary, when it has existing rights to direct the relevant activities of the subsidiary which are those which significantly affect the subsidiary returns.

14. Contingent Liabilities

Co-Existence Agreement

Under the terms of the Browns Range Co-existence Agreement announced to ASX on 16 June 2014, the Company has an obligation to make certain payments as well as maximising local employment. The majority of payments are subject to the commencement of commercial production at the Company's Browns Range Project and cannot be reliably measured at this time.

During the Pilot Plant Phase, the payment obligations do not apply and are substituted with alternative payment obligations.

Guarantees

The Group has guarantees in the form of security deposits for rent & performance bonds of \$88,942 (2017: \$88,678).

Government Grants

On 7 August 2017, as part of a consortium led by the Wunan Foundation, Northern Minerals announced that funding has been awarded under the Federal Government's Building Better Regions Fund (BBRF) to develop an Aboriginal training-to-work (T2W) program at the Browns Range pilot plant project. The Grant is paid as agreed milestones are achieved in arrears, based on actual eligible costs. Payments are subject to satisfactory progress on the Project and compliance by the Grantee with its obligations under the agreement. A final payment of at least 10% of the Grant will be withheld until the Grantee submits a satisfactory final report demonstrating end of the Project reporting obligations have been met.

If the Grantee does not comply with an obligation under the agreement and the Commonwealth believes that the non-compliance is incapable of remedy, or if the Grantee has failed to comply with a notice to remedy, the Commonwealth may by written notice reduce the scope of the Agreement. This can include return of any part of the Grant to the Commonwealth.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

15. Commitments

(i) Operating Lease Commitments

	2018 \$	2017 \$
Commitments for minimum lease payments are:		
Within one year	274,583	239,267
Later than one year but less than five years	207,742	483,573
Later than five years	-	-
	<u>482,325</u>	<u>722,840</u>

The Company leases offices in West Perth, Western Australia, under a non-cancellable operating lease expiring 31 March 2020.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(ii) Exploration Expenditure Commitments

In order to maintain current rights of tenure to exploration tenements, the Company is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations can be reduced by selective relinquishment of exploration tenure or renegotiation. Due to the nature of the Company's operations in exploring and evaluating areas of interest, exploration expenditure commitments beyond twelve months cannot be reliably determined. It is anticipated that expenditure commitments in subsequent years will be similar to that for the forthcoming twelve months. These obligations are not provided for in the financial report and are payable:

	2018 \$	2017 \$
Exploration Tenements		
Within one year	<u>902,900</u>	<u>981,400</u>

(iii) Capital Commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2018 \$	2017 \$
Property, plant and equipment	<u>5,043,296</u>	<u>15,524,574</u>

As disclosed in note 9 (a), this capital commitment is exposed to the USD / AUD exchange rate. The actual amounts recognised under these commitments may vary depending on the movements in the exchange rate.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Related Party Transactions

(a) Key management personnel compensation

The aggregate compensation made to directors and other key management personnel of the group is set out below:

	2018 \$	2017 \$
Short-term employee benefits	2,065,232	2,406,627
Post-employment benefits	94,369	95,973
Other long-term benefits	64,946	12,995
Share-based payments	1,201,698	1,198,155
Total compensation	3,426,245	3,713,750

Detailed remuneration disclosures are provided in the remuneration report.

(b) Transactions with other related parties

Northern Minerals have entered into agreements with companies associated with Non-executive Director Adrian Griffin and Managing Director George Bauk, to rent office accommodation at 675 Murray Street, West Perth. The rent has been set at a rate which is at arms-length commercial rate for comparable premises.

Rental Income	95,274	109,555
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The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

Current receivables	12,246	15,173
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17. Share Based Payments

Total expenses arising from share-based payment transactions recognised during the period:	2018 \$	2017 \$
Performance rights and options – refer to (i) and (ii)	2,072,969	1,553,173
Share purchase plan shares – refer to (iii)	98	47,829
Total Options and Performance Rights	2,073,067	1,601,002
- Included in share based payments expense	1,293,067	489,502
- Included in prepayments (refer note 8(b))	780,000	1,111,500
- Included in finance costs	-	-
-	2,073,067	1,601,002
Share based payments by issuing shares		
- Included in prepayments (refer note 8(b))	1,235,000	2,585,000
- Repayment of debt (refer note 12(b))	4,166,668	1,702,628
- Included in consulting fees	100,000	359,000
- Included in share based payments expense	348,000	973,500
- Included in project development costs	-	150,000
Total shares issued for payment of goods and services	5,849,668	5,770,128
Total share-based payments for the year	7,922,735	7,371,130
Total share based payments recognised in profit and loss	1,741,067	1,972,002
Total share based payments recognised in statement of financial position	6,181,668	5,399,128

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share Based Payments (continued)

Equity settled transactions

The Group provides benefits to its employees (including Key Management Personnel) in the form of share-based payments.

In valuing equity-settled transactions, vesting conditions, other than conditions linked to the price of the shares of Northern Minerals Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and / or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) The grant date fair value of the award.
- (ii) The expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 19).

The Group expenses equity-settled share-based payments such as share and option issues after ascribing a fair value to the shares and/or options issued. The fair value of option and share plan issues of option and share plan shares are recognised as an expense together with a corresponding increase in the share based payments reserve or the share option reserve in equity over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when options are exercised.

The value of shares issued to employees, financed by way of a non-recourse loan under the employee Share Plan, is recognised with a corresponding increase in equity when the company receives funds from either the employees repaying the loan or upon the loan termination. All shares issued under the plan with non-recourse loans are considered, for accounting purposes, to be options.

The initial undiscounted value of the Performance Rights is the value of an underlying share in the Company as traded on ASX at the date of deemed date of grant of the Performance Right. As the performance conditions are not market based performance conditions, no discount is applied.

(i) Options and Performance Rights

1,800,000 performance rights were granted to employees and directors during the year (2017: 30,000,000). 35,023,076 options were granted to third parties. Details on the performance rights and options issued are included in Note 11(c) and 11(d). Details on the performance rights issues to key management personnel are included in the Remuneration Report section of the Directors' Report.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share Based Payments (continued)

The number and weighted average exercise price of performance rights granted are as follows:

	2018 Number	Weighted average exercise price	2017 Number	Weighted average exercise price
Outstanding at the beginning of the year	29,500,000	\$0.00	12,050,000	\$0.31
Performance rights expired during the year	-	\$0.00	(5,550,000)	\$0.00
Performance rights issued during the year	1,800,000	\$0.00	30,000,000	\$0.00
Performance rights forfeited / lapsed during the year	(5,200,000)	\$0.00	(7,000,000)	\$0.00
Performance rights exercised during the year	<u>(5,700,000)</u>	\$0.00	<u>-</u>	\$0.00
Outstanding at the end of the year	<u>20,400,000</u>	\$0.00	<u>29,500,000</u>	\$0.00
Exercisable at the end of the year	<u>100,000</u>		<u>4,500,000</u>	

The outstanding balance as at 30 June 2018 is represented by:

- 20,400,000 performance rights with an exercise price of nil, with numerous performance conditions – see Note 11(c) for details.

The weighted average remaining contractual life for the performance rights outstanding as at 30 June 2018 is 2.95 years (2017: 3.47 years).

(ii) Share Plan Shares

To ensure that the Company has appropriate mechanisms to continue to attract and retain the services of Directors and employees of a high calibre, the Company has an established Share Plan.

The Directors and employees of the Company have been, and will continue to be, essential to the growth of the Company.

The Directors considered the Plan an appropriate method to:

- a) Reward Directors and employees for their past performance;
- b) Provide long-term incentives to participate in the Company's future growth;
- c) Motivate Directors and employees and generate loyalty in employees; and
- d) Assist to retain the services of valuable employees.

The Plan is used as part of the remuneration planning for senior Employees. ASX corporate governance guidelines recommend that executive remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the Company's circumstances and goals. The Plan is also to be used as part of the remuneration package for non-executive Directors. Although this is not in accordance with the recommendations contained in the corporate governance guidelines, the Company considers that it is appropriate for non-executive Directors to participate in the Plan from time to time, given the size of the Company.

The Company obtained shareholder approval for the introduction of the Plan in November 2007 and again in November 2013, and any Shares issued under the Plan within 3 years of approval of the Plan, is an exception to Listing Rule 7.1.

Listing Rule 7.1 broadly provides, subject to certain exceptions, that a company may not issue or agree to issue securities representing more than 15% of the nominal value of the company's issued capital at the beginning of any 12 month period without shareholder approval.

Pursuant to the terms of the Plan, the Board or a duly appointed committee of the Board ("Committee") may, at such time as it determines, issue invitations to Directors and Employees of the Company to apply for Shares.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share Based Payments (continued)

It is at the discretion of the Committee who were issued invitations to apply for Shares under the Share Plan and the number of Shares the subject of an invitation. Offers of Shares by the Board or the Committee are subject to the limits imposed by the Plan. Except where necessary to comply with the provisions of an employment contract or other contract approved by the Board whereby executive or technical services are provided to the Company, neither the Board nor the Committee may offer or issue Shares under the Plan where the effect would be that the number of Shares offered or granted, when aggregated with the number of Shares issued on the same date or within the previous 5 years under any share incentive scheme, would exceed 5% of the total number of Shares on issue at the date of the proposed offer or issue.

The issue price for Shares offered under the Plan is at the discretion of the Board or the Committee, provided that the issue price is not less than 1% below the weighted average sale price of Shares sold through ASX during the one week period up to and including the offer date, or, if there were no transactions in Shares during that one week period, the last price at which an offer was made to purchase Shares on ASX.

A Director or Employee ("Participant") who is invited to subscribe for Shares under the Plan may also be invited to apply for a loan up to the amount payable in respect of the Shares accepted, on the following terms:

- a) Loans must be made solely to the Participant or their nominee and in the name of either the Participant or their nominee as the case may be.
- b) The principal amount outstanding under a Loan will be interest free.
- c) Any loan made available to a Participant will be applied by the Company directly towards payment of the issue price of the Shares to be acquired under the Plan.
- d) The term of the loan, the time in which repayment of the loan must be made by the Participant and the manner for making such payments shall be determined by the Board or the Committee and set out in the invitation.
- e) The amount repayable on the loan by the Participant will be the lesser of:
 - i) the issue price of the Shares less any cash dividends paid in respect of the Shares and applied by the Company in accordance with paragraph (g) below and any amount of the loan repaid by the Participant; and
 - ii) the last sale price of the Shares on ASX on the date of repayment of the Loan or, if there are no transactions on that day, the last sale price of the Shares prior to that date, or, if the Shares are sold by the Company, the amount realised by the Company from the sale.
- f) A Participant may elect to repay the Loan in full prior to expiry of the term of the Loan but may elect to repay the Loan amount in respect of any or all of the Shares (in multiples representing not fewer than 1,000 Shares) at any time prior to expiry of the term of the Loan.
- g) Cash dividends which are paid in respect of Shares the subject of a loan will be applied by the Company on behalf of the Participant to repayment of the amount outstanding under the loan and any surplus of the cash dividend will be paid to the Participant.
- h) Any fees, charges and stamp duty payable in respect of a loan will be payable by the Participant.
- i) The Company shall have a lien over each Share acquired pursuant to the loan until such time as the loan in respect of that Share is repaid. The Company shall be entitled to sell those Shares in accordance with the terms of the Plan.
- j) A Share issued under the Share Plan will not be tradeable by a Participant until the Loan amount in respect of that Share has been repaid and the Company:
 - (i) will retain the Share Certificate in respect of the Loan Shares;
 - (ii) may apply a Holding Lock; and

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share Based Payments (continued)

- (iii) may refuse to register a transfer of Loan Shares, until the Loan amount has been repaid.

If, prior to repayment of a loan by a Participant, the Participant dies, becomes bankrupt or is no longer a Director or Employee of the Company or its subsidiaries, then the Participant is required to either repay the loan within one month or allow the Company to sell the Shares on ASX and apply the proceeds of sale in repayment of the loan. If the proceeds of sale of the Shares are less than the amount outstanding in relation to the loan (including the expenses associated with the sale of the relevant Shares), the Company will forgive the amount of the shortfall.

The following shares were issued under the Northern Minerals Share Purchase Plan.

	2018 Number	2017 Number
Opening Balance	8,428,400	13,928,400
Issued during the year	-	-
Shares for which loan has been repaid	-	-
Shares reverted back to the Company in accordance with the Share Plan Rules	(3,125,000)	(5,500,000)
Closing Balance	<u>5,303,400</u>	<u>8,428,400</u>

Included in the closing balance are 4,000,000 share plan shares which have vested and are available to holders to be dealt with in accordance with the rules of the share plan. These shares may not be transferred or otherwise dealt with, until the later of the following to occur:

- Any loan in respect of the Plan Share is repaid; and
- Their expiry date of 30 June 2019

1,303,400 shares have reverted to the Company to be dealt with under the terms of the share plan.

(iii) Valuation of Options, Performance Rights and Share Plan Shares

The fair value of the equity-settled share options granted under both the option and the loan plans, and to third parties is estimated as at the date of grant using the Black and Scholes model taking into account the terms and conditions upon which the options and shares were granted. The initial undiscounted value of the performance rights is the value of an underlying share in the Company as traded on ASX at the date of deemed date of grant of the performance right. As the performance conditions are not market based performance conditions, no discount is applied.

The fair value of options, performance rights and share plan shares are recognised as an expense over the period from grant to vesting date.

The Black Scholes Option Pricing Model assumes that the Securities subject to the valuation can be sold on a secondary market. The terms and conditions of the Options and Share Plan shares state that no application will be made for the Shares to be listed for official quotation on ASX, until certain milestones are met.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share Based Payments (continued)

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

The following tables list the inputs to the model used for the years ended 30 June.

There were no share plan shares issued during the year ended 30 June 2018 or 2017.

The following relates to the unlisted options and performance rights issued during the year ended 30 June 2018:-

Issue Date	Vesting Date	Number Issued	Grant Date	Stock price at Grant Date	Issue Price	Risk Free Rate	Volatility	Value Per Option/Right
01/08/2017	Various	1,800,000	Various	\$0.10	Nil	Nil	Nil	\$0.10
27/12/2017	31/12/2019	30,000,000	27/12/2017	\$0.086	\$0.12	1.78%	74%	\$0.026
27/12/2017	31/12/2019	5,023,076	27/12/2017	\$0.086	\$0.12	2.03%	74%	\$0.00

The expected price volatility is based on the historic volatility over 12 months due to change in nature of business within that period, rather than based on the remaining life of the options.

In June 2018, the Company passed a resolution to cancel and reissue 35,023,076 options previously issued and shareholder approval was obtained for the cancellation and reissue of these options.

The fair value of the options at the date of the modification was determined to be \$0.023 per option. A decrement in the fair value of \$0.0028 was noted and therefore, the Company will recognise, at a minimum, the cost of the original award as if it had not been modified. As such, the expense for the original option grant will continue to be recognised as if the terms had not been modified. The fair value of the modified options was determined using the same models and principles as described above with the following inputs; grant date of 8 June 2018; stock price at grant date of \$0.10; risk free rate of 1.78%; and a volatility of 60%.

18. Auditors Remuneration

During the year the following fees were paid or payable for services provided by the auditor:

Audit Services

Audit and review of financial reports under the Corporations Act 2001

Nexia Perth Audit Services Pty Ltd

Total remuneration of auditors

2018
\$

2017
\$

59,538

32,648

59,538

32,648

NORTHERN MINERALS LIMITED
NOTES TO THE FINANCIAL STATEMENTS

19. Earnings per share

	2018 \$	2017 (Restated) \$
a) Basic loss per share		
From continuing operations attributable to the ordinary equity holders of the Company	(2.04)	(2.14)
b) Loss used in calculating loss per share		
Loss attributable to ordinary equity holders of the Company for basic and diluted earnings per share	(18,497,161)	(13,195,658)
	Number	Number
c) Weighted average number of shares used as the denominator		
The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic loss per share	905,033,867	615,339,659

As the Company has incurred a loss, any exercise of options would be antidilutive, therefore the diluted and basic earnings per share are equal

Basic earnings / (loss) per share is calculated as net profit/(loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/(loss) per share is calculated as net profit/(loss) attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and;
- dilutive potential ordinary shares, adjusted for any bonus element.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

20. Parent Entity Information

Summary financial information

The individual financial statements for the parent entity, Northern Minerals Limited, show the following aggregate amounts:

	2018 \$	2017 (Restated) \$
Statement of financial position		
Current assets	41,103,269	15,446,867
Total assets	101,231,090	28,439,057
Current liabilities	45,213,243	8,600,727
Total liabilities	69,503,743	13,172,198
Shareholders equity		
Share capital	143,944,809	110,995,064
Reserves	14,023,856	11,523,662
Accumulated losses	(126,241,318)	(106,687,352)
	31,727,347	15,831,374
Net Loss for the period	(18,989,450)	(13,195,658)
Contingent liabilities	Refer to note 14	

The Parent entity had no guarantees and commitments other than detailed in notes 14 and 15.

21. Segment Information

The Company operates in only one business and geographical segment, being the mineral exploration industry in Australia.

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker (the Board of Directors) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Events Occurring After the Reporting Period

On 31 July 2018 7,440,477 ordinary shares were issued for partial repayment of convertible security as per financing agreement with Lind Partners LLC announced on 14 June 2017.

On 31 July 2018 38,461,538 ordinary fully paid shares were issued, at 7.8 cents per share via a private placement to sophisticated investors in lieu of the Company issuing the convertible security to Sinosteel that was approved by shareholders at the general meeting held on 8 June 2018. The funds raised from this placement were used to repay monies owed to Sinosteel meaning that the convertible security that was approved for issue to Sinosteel at the general meeting held on 8 June 2018 will not be issued.

On 30 August 2018 a further \$3 million from Innovation Structured Finance Co.,LLC was received under its R & D Financing Facility as announced on 29 August 2017.

The company also made a further drawdown of \$2 million under the Funding Agreement entered into with an entity controlled by The Lind Partners (Lind), as announced on 14 June 2017. This drawdown will be represented by the issue of 2 convertible securities each with a face value of \$1.25 million and the face value of the convertible securities are repayable by the Company in accordance with the Funding Agreement. The term of each convertible security is 30 months. The Company and Lind have also agreed that the maximum number of shares that may be issued to Lind in relation to conversions of those convertible securities is 25 million shares, or such higher number as approved by shareholders in relation to those convertible securities. As part of the drawdown, the Company will, subject to shareholder approval, issue to Lind (or its nominee) 10 million unlisted options each exercisable at 12.5 cents per option with an expiry date of 36 months from the date the options are issued.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. New Accounting Standards and Interpretations

The Group has where applicable, adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the year ended 30 June 2018 including:

-AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107

This standard makes amendments to AASB 107 Statement of Cash Flows arising from the IASB's Disclosure Initiative Project.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

As at the date of the authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective and have not been adopted by the Group for the annual reporting year ending 30 June 2018:

Standard	Effective date for annual reporting periods beginning on or after	Application date for the Company
AASB 15 'Revenue from Contracts with Customers', AASB 2016-3 'Amendments to Australian Accounting Standards – Clarifications to AASB 15'	1 January 2018	1 July 2018
AASB 2016-5 'Amendments to Australian Accounting Standards - Classification and measurement of Share-based Payment Transactions	1 January 2018	1 July 2018
AASB 9 'Financial Instruments' and the relevant amending standards	1 January 2018	1 July 2018
AASB 16 'Leases'	1 January 2019	1 July 2019
Interpretation 22 'Foreign Currency Transactions and Advance Consideration'	1 January 2018	1 July 2018
AASB 2018-1 Annual Improvements to IFRS Standards 2015-2017 Cycle	1 January 2019	1 July 2019

The Company has decided not to early adopt any of the new and amended pronouncements. Of the above new and amended Standards and Interpretations the Company's assessment of those new and amended pronouncements that are relevant to the Company but applicable in future reporting periods is set out below. The Group has not yet determined the impact of these pronouncements on its financial statements.

-AASB 9: Financial Instruments

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- Financial assets that are debt instruments will be classified based on the objective of the Company's business model for managing the financial assets and the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income .
- Introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specially, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.
- Financial assets can be designated and measured at fair value through profit and loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets and liabilities, or recognising the gains and losses on them, on different bases.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23. New Accounting Standards and Interpretations (continued)

- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
 - The change attributable to changes in credit risk are presented in other comprehensive income.
 - The remaining change is presented in profit or loss.
- New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

-AASB 15: Revenue from Contracts with Customers

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

-AASB 16: Leases

The key features are as follows:

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis.

AASB 16 contains disclosure requirements for lessees. Management is currently assessing the effects of applying the new standards on the Group's financial statements. The group will make more detailed assessments over the next 12 months however the only new standard that is likely to have an impact is AASB 16.

NORTHERN MINERALS LIMITED

DIRECTORS DECLARATION

In accordance with a resolution of the directors of Northern Minerals Limited I state that:

1. In the opinion of the directors

(a) The financial statements and notes of Northern Minerals Limited for the financial year ended 30 June 2018 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2018 and of their performance for the year then ended; and

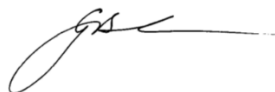
(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable having regard to the matters disclosed in Note 2(a); and

(c) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2018.

On behalf of the Board



George Bauk

Director

Perth

28 September 2018

Auditor's independence declaration under section 307C of the *Corporations Act 2001*

To the directors of Northern Minerals Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2018 there have been:

- (i) no contraventions of the auditor's independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

**Nexia Perth Audit Services Pty Ltd**

**PTC Kloppe
Director**

**Perth
28 September 2018**

Independent Audit Report to the Members of Northern Minerals Limited

Report on the financial report

Opinion

We have audited the financial report of Northern Minerals Limited ("the Company"), including its subsidiaries ("the Group") which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 2(a) in the financial report, which indicates that the Group incurred a net loss of \$18,497,161 during the year ended 30 June 2018 and, as of that date, the Group's current liabilities exceeded its current assets by \$4,109,974. As stated in Note 2(a), these events or conditions, along with other matters as set forth in Note 2(a), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Research and development tax incentive <i>(Refer to note 3(a) in the financial report)</i></p> <p>Under the research and development (R&D) Tax Incentive scheme, a company is entitled to receive a 43.5% refundable tax offset of eligible expenditure if its turnover is less than \$20 million per annum and it is not controlled by income tax exempt entities.</p> <p>The Group has determined it incurred eligible expenditure in the year and has prepared and lodged an estimate of its total eligible R&D expenditure.</p> <p>The R&D claim has been calculated to be \$21,562,688 for the period from 1 July 2017 to 30 June 2018.</p> <p>We considered the R&D tax incentive a key audit matter due to the amount of the claim and because significant judgement and interpretation of the R&D tax legislation is required to assess the eligibility of the R&D expenditure under the scheme.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> Assessing the professional competence, objectivity and experience of management's external expert; Engaging an auditor's expert to critically review the expenditure methodology employed by management's expert in calculating the R&D tax incentive and to assess whether the Group's R&D tax incentive calculations are in accordance with the R&D tax incentive legislation; Checking the amount of eligible expenditure used to calculate the estimate to the expenditure recorded in the general ledger; Testing the accuracy of prior years' claims by checking the amounts claimed in previous years to the actual amounts received upon lodgement of the claims; and Auditing the relevant disclosures in the financial statements.
<p>Rehabilitation Provision <i>(Refer to note 10(c) in the financial report)</i></p> <p>As a consequence of its operations the Group has an obligation to rehabilitate and restore the disturbances to the environment arising from the activities being undertaken at the Browns Range Pilot Plant project.</p> <p>The nature of the Rehabilitation activities that will be required are governed by local legislative requirements.</p> <p>This matter is a key audit matter because estimating the costs associated with these future rehabilitation activities requires judgement and estimation for factors such as the timing of when the rehabilitation works will take place, the extent of the rehabilitation and restoration activities that will be required and inflation rates and discount rates pertinent to the rehabilitation work.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> Assessing the competency, objectivity and experience of management's internal expert who valued the rehabilitation provision; Reconciling the expert's calculations to the basis of the rehabilitation provision in the financial report; Checking that the provision covered the applicable tenements; Checking a sample of costs used in the group's rehabilitation estimates against legislated rates and also benchmarked it against another mine in the region; Agreeing the expected timing of the rehabilitation works in the cash flow model to the expected life of the project plant; Testing the mathematical accuracy of management's cash flow model; and Auditing the relevant disclosures in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in Northern Minerals Limited annual report for the year ended 30 June 2018, but does not include the consolidated financial report and the auditor's report thereon.

Our opinion on the consolidated financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors of the Group are responsible for the preparation of the consolidated 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 18 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Northern Minerals Limited for the year ended 30 June 2018, complies with Section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Nexia Perth Audit Services Pty Ltd



PTC Kloppe
Director

Perth
28 September 2018