An emerging copper and cobalt company

NZURI COPPER LIMITED

ACN 106 294 106

HALF YEAR REPORT FOR THE SIX MONTHS ENDED
31 DECEMBER 2018

Nzuri Copper Limited

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ABN 23 106 294 106

CORPORATE DIRECTORY

Directors
Tom Borman – Non-executive chairman
Mark Arnesen – Chief Executive Officer & Executive director
Adam Smits – Chief Operating Officer & Executive director
Peter Ruxton – Non-executive director
Hongliang Chen – Non-executive director
Ean Alexander – Non-executive director

Company Secretary
Hannah Hudson

Registered & Principal Office
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Perth WA 6000

Auditor
BDO Audit (WA) Pty Ltd
38 Station Street
Subiaco WA 6008

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The Directors of Nzuri Copper Limited ("Nzuri Copper" or the "Company") present their report on the Company and its controlled entities (the "Consolidated Entity") for the six months ended 31 December 2018.

DIRECTORS

The following persons were Directors of Nzuri Copper Limited at any time during or since the end of the half-year and up to the date of this report, unless otherwise stated:

Tom Borman (Non-Executive Chairman)

Mark Arnesen (Chief Executive Officer & Executive Director)

Adam Smits (Chief Operating Officer & Executive Director)

Peter Ruxton (Non-Executive Director)

Hongliang Chen (Non-Executive Director)

Ean Alexander (Non-Executive Director)

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity were the identification, acquisition, development and operation of high grade copper and cobalt projects in the Katangan Copperbelt of the Democratic Republic of the Congo (DRC).

OPERATING RESULTS

The loss after tax of the Consolidated Entity for the half-year ended 31 December 2018 amounted to $1,908,522 (31 December 2017: $1,575,029).

REVIEW OF OPERATIONS

During the period the Company focussed on advancing its pre-development activities at the Kalongwe Project including:

- A leaching testwork program which was completed in Feb 2019;
- Completion of detailed design work including the tailings dam and river diversion channel design and finalisation of Front-End-Engineering-Design (FEED) study in July 2018; and
- Receipt of a detailed Engineering and Procurement ("EP") fixed-price offer for the all the remaining design and equipment supply required to construct the processing plant at Kalongwe.

The company also made a formal application to the Democratic Republic of Congo ('DRC') Government for duty exoneration associated with all project items required to be imported into the DRC for the initial construction and operation of the project.

The Company also finalised its 2018 exploration program during the period, with the planned drilling and site works completed by the onset of the wet season in late 2018. The exploration activities during the period have resulted in the mineralised trend at the Kasangasi Prospect being significantly extended from 400m to 1,200m, plus additional zones of copper & cobalt mineralisation intersected at the Monwezi prospects, 3-5km south-west of Kalongwe. Data review, interpretation and planning is now underway for 2019 exploration field season.

In October 2018, the Company settled two of three outstanding historical legal cases which have been ongoing since the previous year. Please refer to the Legal Claims section of the Directors Report for further information. Debt and off-taking discussions for the Kalongwe Project have been progressed significantly during the period, with in-country visits to potential off-take partners during December 2018 confirming the demand for traceable, ethically-sourced product.

COMPETENT PERSON STATEMENT

Exploration results

Scientific or technical information in this release that relates to Exploration Results is based on and fairly represents information and supporting documentation prepared by Dr Peter Ruxton, the Company's Technical Director. Dr Peter Ruxton is a member of the Metals, Minerals and Mining (MIMMM) and a Fellow of the Geological Society of London (FGS) and has sufficient experience which is relevant to the style of mineralisation under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Dr Peter Ruxton consents to the inclusion in this report of the information, in the form and context in which it appears.

Exploration target

Scientific or technical information in this release that relates to the Exploration Target for Monwezi 2 is based on and fairly represents information and supporting documentation prepared by Dr Peter Ruxton, the Company's Technical Director. Dr Peter Ruxton is a member of the Metals, Minerals and Mining (MIMMM) and a Fellow of the Geological Society of London (FGS) and has sufficient experience which is relevant to the style of mineralisation under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (the JORC Code). Dr Peter Ruxton consents to the inclusion in this report of the information, in the form and context in which it appears.

Mineral resources

Scientific or technical information in this release that relates to the Mineral Resource estimate for the Kalongwe Project was first released by the Company in its ASX announcement entitled 'Upgraded JORC Resource at Kalongwe 302,000t Copper and 42,700t Cobalt' dated 5 February 2015. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed.

Ore reserve

Scientific or technical information in this release relating to the Kalongwe Cu-Co Deposit reserve estimate is extracted from the Company's ASX announcement entitled 'Updated stage 1 feasibility study delivers significantly enhanced financial returns' dated 16th April 2018. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and that all the material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed

FORWARD LOOKING STATEMENT

This release contains statements that are "forward-looking". Generally, the words "expect," "intend," "estimate," "will" and similar expressions identify forward-looking statements.

By their very nature, forward-looking statements are subject to known and unknown risks and uncertainties that may cause our actual results, performance or achievements, or that of our industry, to differ materially from those expressed or implied in any of our forward-looking statements.

Statements in this release regarding the Company's business or proposed business, which are not historical facts, are "forward looking" statements that involve risks and uncertainties, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur.

Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements. Investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made.

Options

The Company issued the following during the half-year ended 31 December 2018:

- 1,250,000 unlisted options to an employee exercisable at $0.2492 each on or before 25 July 2028 pursuant the Company Employee Share Options Plan.

During the period, the following options were cancelled:

- 1,000,000 unlisted options exercisable at $0.2965 each on or before 10 March 2028.

Annual General Meeting

The Company’s Annual General Meeting (“AGM”) was held on 30 November 2018. All resolutions put to the meeting were passed on a show of hands.

Legal claims

On 22 October, the Company announced that it had settled its ongoing dispute with Eucalyptus Gold Mines Pty Ltd (EGM) (Supreme Court of WA proceeding CIV 1885 of 2016) and with EGM and Murray James Longman (Supreme Court of WA proceeding CIV 2675 of 2017), prior to the trial.

The material terms of the settlement are as follows:

- Both of the claims have been settled in full.
- Nzuri has agreed to pay a cash settlement amount, plus costs in respect to proceeding CIV 2675 of 2017. The settlement amount and costs are not considered to be material to Nzuri and are confidential.
- The terms of both settlements are not expected to have any material impact on Nzuri’s financial position.

This marks the resolution of the second of three legal matters brought against Nzuri in respect of its historical prior project interests. Nzuri intends to defend the last remaining claim with the same vigour as matters settled to date.

SUBSEQUENT EVENTS

On 27 February 2019, the Company announced it had entered into a Scheme Implementation Deed with Xuchen International Limited (“Chengtun Bidder”), a subsidiary of leading Chinese metals mining, trading and industrial group Chengtun Mining Group Co., Ltd (“Chengtun Mining”) (together, “Chengtun”), under which it is proposed that Chengtun Bidder will acquire 100% of the share capital of the Company by way of a Scheme of Arrangement.

The Company received the current acquisition proposal from Chengtun Bidder while advancing discussions to fund the construction of the Kalongwe Project. These included extensive discussions with Chengtun dating back to 2017 regarding potential off-take, funding and other opportunities for strategic cooperation.

If the Scheme is implemented, Nzuri shareholders will be entitled to $0.37 cash per share, which represents an attractive premium, including:

- A 42% premium to the closing price of Nzuri shares on the ASX on 26 February 2019;
- A 93% premium to the 30-day VWAP of Nzuri shares on the ASX; and
- A 64% premium to the 3-month VWAP of Nzuri shares on the ASX.

Chengtun Bidder has also agreed to provide the Company with interim funding by way of a secured loan, in the amount of up to A$5M, to support ongoing pre-development activities at the Kalongwe Copper-Cobalt Project. The Directors of the Company have unanimously recommended that shareholders vote in favour of the Scheme, subject to the Independent Expert determining that the Scheme is in the best interests of shareholders and no superior proposal emerging. The Scheme meeting for shareholders is proposed to be held in July 2019, with Scheme implementation proposed to occur in July, subject to the satisfaction of all conditions.

On 26 February 2019, the Company also entered into a binding agreement with Tembo Capital for the provision of a A$3M loan facility, which is now unlikely to be drawn given the Chengtun Bidder proposal.

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 7.

Signed in accordance with a resolution of the Directors made pursuant to Section 298 (2) of the *Corporations Act 2001.*

On Behalf of the Directors

Tom Borman
Non-executive Chairman

Perth, 15 March 2019

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Australia

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF NZURI COPPER LIMITED

As lead auditor for the review of Nzuri Copper Limited for the half-year ended 31 December 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Nzuri Copper Limited and the entities it controlled during the period.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 15 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	31 December 2018 $	31 December 2017 $
Interest income	48,809	20,982
Other income	-	125
Employee benefits expense	(908,644)	(893,174)
Depreciation and amortisation	(3,110)	(3,177)
Finance expenses	(78,754)	(723)
Other expenses	(966,823)	(699,062)
Loss before income tax	**(1,908,522)**	**(1,575,029)**
Income tax expense		-
Loss for the half year	**(1,908,522)**	**(1,575,029)**
Loss is attributable to:		
Owners of Nzuri Copper Limited	(1,908,522)	(1,575,029)
Non-controlling interests		-
	(1,908,522)	**(1,575,029)**
Other comprehensive income		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(1,267)	73,579
Other comprehensive income for the half year, net of tax	**(1,267)**	**73,579**
Total comprehensive Income/(loss)	**(1,909,789)**	**(1,501,450)**
Total comprehensive loss is attributable to:		
Owners of Nzuri Copper Limited	(1,909,789)	(1,457,277)
Non-controlling interests	-	(44,173)
	(1,909,789)	**(1,501,450)**
Loss per share:		
Basic and diluted loss per share	(0.64)	(0.68)

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note	31 December 2018 $	30 June 2018 $
Current assets			
Cash and cash equivalents		2,451,502	9,445,730
Trade and other receivables		136,271	126,634
Inventory		6,589	63,959
Total current assets		**2,594,362**	**9,636,323**
Non-current assets			
Trade and other receivables		1,441,800	1,290,014
Plant and equipment		775,694	690,162
Exploration and evaluation	5	41,938,836	36,792,537
Total non-current assets		**44,156,330**	**38,772,713**
Total assets		**46,750,692**	**48,409,036**
Current liabilities			
Trade and other payables		730,491	1,639,262
Borrowings	6	-	2,933,273
Provisions		65,738	33,914
Total current liabilities		**796,229**	**4,606,449**
Non-current liabilities			
Borrowings	6	2,635,849	2,431,211
Total non-current liabilities		**2,635,849**	**2,431,211**
Total liabilities		**3,432,078**	**7,037,660**
Net assets		**43,318,614**	**41,371,376**
Equity			
Issued capital	7	98,011,169	94,535,048
Reserves		(2,603,857)	(2,983,496)
Accumulated losses		(54,744,492)	(52,835,970)
Equity attributable to owners		40,662,820	38,715,582
Non-controlling interest		2,655,794	2,655,794
Total equity		**43,318,614**	**41,371,376**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

For the six months ended 31 December 2018	Issued Capital $	Reserves $	Accumulated Losses $	Non-controlling interest $	Total Equity $
1 July 2018	94,535,048	(2,983,496)	(52,835,970)	2,655,794	41,371,376
Loss for the half year	-	-	(1,908,522)	-	(1,908,522)
Other comprehensive income	-	(1,267)	-	-	(1,267)
Total comprehensive loss for the half year	**-**	**(1,267)**	**(1,908,522)**	**-**	**(1,909,789)**
Shares issued, net of costs	3,476,121	-	-	-	3,476,121
Share based payments	-	380,906	-	-	380,906
31 December 2018	**98,011,169**	**(2,603,857)**	**(54,744,492)**	**2,655,794**	**43,318,614**
For the six months ended 31 December 2017					
1 July 2017	82,150,599	(3,920,943)	(49,652,766)	2,577,550	31,154,440
Loss for the half year	-	-	(1,575,029)	-	(1,575,029)
Other comprehensive income	-	117,752	-	(44,173)	73,579
Total comprehensive loss for the half year	**-**	**117,752**	**(1,575,029)**	**(44,173)**	**(1,501,450)**
Shares issued, net of costs	6,637,462	-	-	-	6,637,462
Share based payments	-	509,105	-	-	509,105
Transactions with non-controlling interests	-	-	-	-	-
31 December 2017	**88,788,061**	**(3,294,086)**	**(51,227,795)**	**2,533,377**	**36,799,557**

The accompanying notes form part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	31 December 2018 $	31 December 2017 $
Cash flows from operating activities		
Interest received	48,809	20,982
Interest and other finance charges paid	-	(723)
Payments to suppliers and employees	(2,554,315)	(1,084,815)
Net cash outflow from operating activities	**(2,505,506)**	**(1,064,556)**
Cash flows from investing activities		
Payment for plant and equipment	(88,641)	(47,204)
Payment for exploration and evaluation	(4,941,661)	(5,888,654)
Other (Security deposit refund)	-	6,691
Net cash outflow from investing activities	**(5,030,302)**	**(5,929,167)**
Cash flows from financing activities		
Proceeds from issue of shares	557,989	6,637,462
Share issue transaction costs	(15,141)	-
Net cash inflow from financing activities	**542,848**	**6,637,462**
Net increase/(decrease) in cash and cash equivalents	(6,992,960)	(356,261)
Cash and cash equivalents at the beginning of the financial period	9,445,730	823,465
Effects of foreign exchange movements on cash	(1,267)	144
Cash and cash equivalents at the end of the financial period	**2,451,502**	**5,940,661**

The accompanying notes form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, other than the adoption of AASB 9: Financial Instruments and AASB 15: Revenue from Contracts with Customers as detailed in Note 2.

Comparative figures have been adjusted to conform with changes in presentation for the current period.

These interim financial statements were approved for issue on 15 March 2019.

(b) New accounting standards and interpretations

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

AASB 15 Revenue from Contracts with Customers - Impact of Adoption
The Group has adopted AASB 15 from 1 July 2018 which has no material impact to the amounts recognised in the financial statements.

2. Significant accounting policies

(a) Changes in Accounting policies

AASB 9: Financial Instruments

AASB 9 Financial Instruments replaces the provisions of AASB 139 Financial Instruments: Recognition and Measurement that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has adopted AASB 9 with a date of initial application of 1 July 2018 and has elected not to restate its comparatives. The adoption of AASB 9 Financial Instruments from 1 July 2018 did not give rise to any material transitional adjustments. The new accounting policies (applicable from 1 July 2018) are set out below.

Classification and measurement

Except for certain trade receivables the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under

AASB 9 financial assets are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the 'SPPI criterion').

The new classification and measurement of the Group's financial assets are, as follows:

- Debt instruments at amortised cost, for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the 'SPPI criterion'. This category includes the Group's trade and other receivables.

Impairment

From 1 July 2018 the group assesses on a forward looking basis the expected credit losses (ECLs) associated with its debt instruments carried at amortised cost and FVOCI. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

AASB 15: Revenue from Contracts with Customers

The Group has adopted AASB 15 from 1 July 2018 which has no material impact to the amounts recognised in the financial statements.

3. SEGMENT INFORMATION

The consolidated entity operated in one industry being mining and exploration operations in the Democratic Republic of Congo. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers (**CODM**) in assessing performance and determining the allocation of resources. There is no aggregation of operating segments. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

4. GOING CONCERN

For the period ended 31 December 2018 the entity recorded a loss of $1,908,522 had net cash outflows from operating activities of $2,505,506 and a cash balance of $2,451,502.

Subsequent to 31 December 2018, the Company announced it had entered into a Scheme Implementation Deed with Xuchen International Limited ("Chengtun Bidder"), a subsidiary of leading Chinese metals mining, trading and industrial group Chengtun Mining Group Co., Ltd ("Chengtun Mining") (together, "Chengtun"), under which it is proposed that Chengtun Bidder will acquire 100% of the share capital of the Company by way of a Scheme of Arrangement. Chengtun Bidder has also agreed to provide the Company with interim funding by way of a secured loan, in the amount of up to A$5M, to support ongoing pre-development activities at the Kalongwe Copper-Cobalt Project. The Scheme implementation is proposed to occur in July, subject to the satisfaction of all conditions. Additionally, subsequent to 31 December 2018, the Company also entered into a binding agreement with Tembo Capital for the provision of a A$3M loan facility.

Should the Schemme of Arrangement not complete within the expected timeframe, the ability of the entity to continue as a going concern will be dependent on securing additional funding through debt and/or equity raisings to continue to fund its operational and exploration activities

These conditions indicate a material uncertainty that may cast a significant doubt about the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management believe there are sufficient funds to meet the entity's working capital requirements as at the date of this report.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Group is confident that the Scheme transaction will complete within the forecast timetable;
- The Group is confident it will be successful in securing additional funds through debt or equity issues if the need arises;
- The Group has the ability to adjust its exploration expenditure subject to results of its exploration activities; and
- The Group has the ability to manage overhead costs in line with available funds.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

5. EXPLORATION AND EVALUATION

	31 December 2018 $	30 June 2018 $
Exploration and evaluation expenditure	**41,938,836**	**36,792,537**
Movements:		
Balance at the beginning of the financial period	36,792,537	26,264,499
Additions	6,335,417	11,751,976
Foreign currency translation movement	(1,189,118)	(1,223,938)
Balance at the end of the financial period	**41,938,836**	**36,792,537**

6. BORROWINGS

	31 December 2018 $	30 June 2018 $
Current	**-**	**2,933,273**
Non-Current		
Loan	**2,635,849**	**2,431,211**

The current balance at 30 June 2018 reflects the convertible loan from Tembo which was converted to equity following shareholder approval in July 2018.

The non-current loan balance reflects US$1.6 million owed by KMSA to GICC partially offset by amounts owed to KMSA by GICC. The loan is non-interest bearing and is required to be repaid from surplus production proceeds from the Kalongwe project. As required under AASB 9 Financial Instruments, the loan has been recognized at fair value on initial recognition and subsequently amortised at cost. This value is subject to management's estimate on the timing of the repayment and interest rate. For the purposes of this calculation the repayment is forecast to occur in 2020 and the implicit interest rate is 10%.

7. ISSUED CAPITAL

	31 December 2018 $	30 June 2018 $
Ordinary shares issued and fully paid	**98,011,169**	**94,535,048**

Movements:	**No. of shares**	**$**
Balance at 1 July 2017	**230,299,520**	**82,150,599**
Shares issued –Huayou Cobalt	39,888,313	10,000,000
Shares issued – Capital raising	12,026,380	3,066,708
Capital raising costs	-	(682,259)
Balance at 30 June 2018	**282,214,213**	**94,535,048**
Shares issued – Share Purchase Plan	2,188,248	557,989
Shares issued-loan conversion	11,503,031	2,933,273
Capital raising costs	-	(15,141)
Balance at 31 December 2018	**295,905,492**	**98,011,169**

8. SHARE BASED PAYMENTS	31 December 2018 $	31 December 2017 $
Options issued to employees	435,133	493,998
Options issued to consultants	-	15,107
Reversal of cancelled option expense	(54,227)	-
	380,906	**509,105**

During the period, the Company issued 1,250,000 unlisted options.

The fair value of these options was $0.2005 each. The fair value at grant date is independently determined using an adjusted form of the Black Scholes Model which includes a Monte Carlo simulation model that takes into account the exercise price, the term of the option, the impact of dilution (where material), the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option and the correlations and volatilities of the peer group companies.

The following tables list the inputs to the model for the options granted during the year:

	Options
Dividend yield (%)	Nil
Expected volatility (%)	93%
Risk free interest rate (%)	2.68%
Exercise price ($)	$0.2492
Marketability discount (%)	Nil
Expected life of options (years)	10 years
Share price at grant date ($)	$0.2300

9. RELATED PARTY TRANSACTIONS

Remuneration arrangements of key management personnel are disclosed in the annual financial report.

10. CONTINGENT LIABILITIES AND COMMITMENTS

During the period the Company settled the ongoing dispute with Eucalyptus Gold Mines Pty Ltd (EGM) (Supreme Court of WA proceeding CIV 1885 of 2016) and with EGM and Murray James Longman (Supreme Court of WA proceeding CIV 2675 of 2017), prior to the trial. This matter was disclosed as a contingent liability in the financial statements for the year ended 30 June 2018.

The material terms of the settlement are as follows:

- Both of the claims have been settled in full.
- Nzuri has agreed to pay a cash settlement amount, plus costs in respect to proceeding CIV 2675 of 2017. The settlement amount and costs are not considered to be material to Nzuri and are confidential.
- The terms of both settlements are not expected to have any material impact on Nzuri's financial position.

No other material changes to commitments or contingent liabilities occurred during the period.

11. SUBSEQUENT EVENTS

On 27 February 2019, the Company announced it had entered into a Scheme Implementation Deed with Xuchen International Limited ("Chengtun Bidder"), a subsidiary of leading Chinese metals mining, trading and industrial group Chengtun Mining Group Co., Ltd ("Chengtun Mining") (together, "Chengtun"), under which it is proposed that Chengtun Bidder will acquire 100% of the share capital of the Company by way of a Scheme of Arrangement.

The Company received the current acquisition proposal from Chengtun Bidder while advancing discussions to fund the construction of the Kalongwe Project. These included extensive discussions with Chengtun dating back to 2017 regarding potential off-take, funding and other opportunities for strategic cooperation.

If the Scheme is implemented, Nzuri shareholders will be entitled to $0.37 cash per share, which represents an attractive premium, including:

- A 42% premium to the closing price of Nzuri shares on the ASX on 26 February 2019;
- A 93% premium to the 30-day VWAP of Nzuri shares on the ASX; and
- A 64% premium to the 3-month VWAP of Nzuri shares on the ASX.

Chengtun Bidder has also agreed to provide the Company with interim funding by way of a secured loan, in the amount of up to A$5M, to support ongoing pre-development activities at the Kalongwe Copper-Cobalt Project. The Directors of the Company have unanimously recommended that shareholders vote in favour of the Scheme, subject to the Independent Expert determining that the Scheme is in the best interests of shareholders and no superior proposal emerging. The Scheme meeting for shareholders is proposed to be held in July 2019, with Scheme implementation proposed to occur in July, subject to the satisfaction of all conditions.

On 26 February 2019, the Company also entered into a binding agreement with Tembo Capital for the provision of a A$3M loan facility, which is now unlikely to be drawn given the Chengtun Bidder proposal.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Nzuri Copper Limited made pursuant to section 303(5) of the Corporations Act 2001, I state that in the opinion of the directors:

(a) the financial statements and notes of the Consolidated Entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of its financial position as at 31 December 2018 and its performance for the half-year ended on that date of the Consolidated Entity; and

(ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*;

(b) there are reasonable grounds to believe that the Consolidated Entity will be able to pay its debts as and when they become due and payable.

On behalf of the Directors

Tom Borman
Non-executive Chairman

Perth, 15 March 2019

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Nzuri Copper Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Nzuri Copper Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 4 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2018 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 15 March 2019