Pensana metals

ABN: 86 121 985 395

Half Year Financial Report

31 December 2018

CORPORATE DIRECTORY

DIRECTORS

Paul Atherley	Chairman
David Hammond	Executive Director / Chief Operating Officer
Mark Hohnen	Non-Executive Director
Neil Maclachlan	Non-Executive Director

COMPANY SECRETARY

Scott Mison

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ASX CODE

PM8

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DIRECTORS' REPORT

Your directors present their report on the consolidated entity for the half-year ended 31 December 2018.

DIRECTORS

The names of directors who held office during or since the end of the half-year and up to the date of this report are:

Paul Atherley	Chairman
David Hammond	Executive Director / Chief Operating Officer
Mark Hohnen	Non-Executive Director
Neil Maclachlan	Non-Executive Director

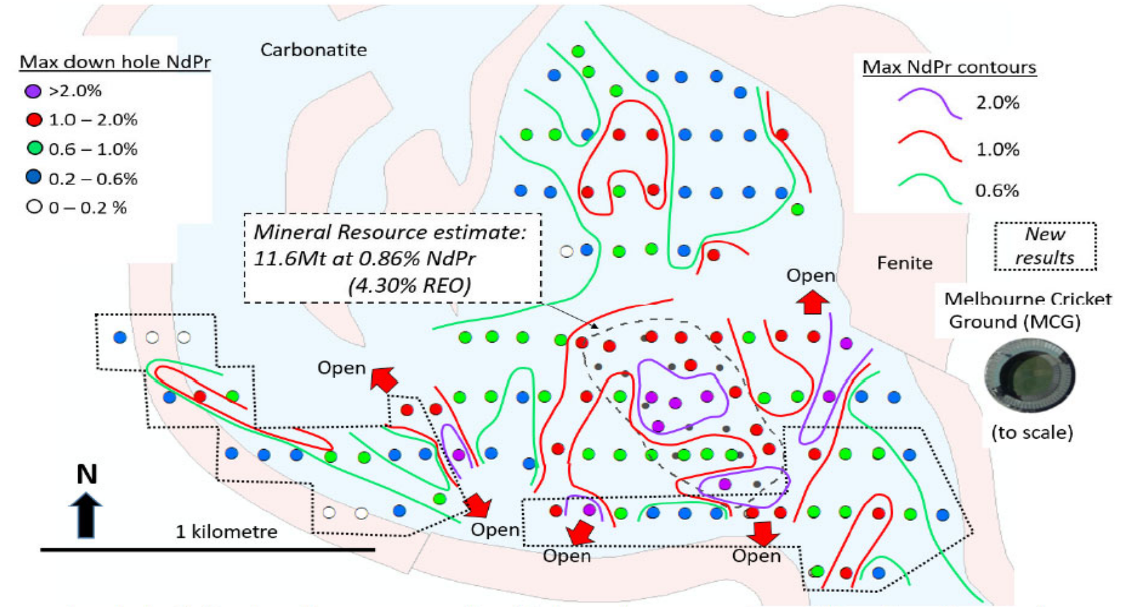
Review of Operations

The consolidated entity incurred an operating loss after income tax of $2,778,279 (31 December 2017 $572,565) for the half-year ended 31 December 2018.

A summary of the Company's operations over the last six months and to the date of this Director's Report follows. The period was a particularly active one with major field programmes completed at the Longonjo NdPr Project, which lead to the successful completion of a substantially upgraded Mineral Resource estimate for the project just after period end.

Longonjo NdPr Exploration Programmes

During the period, the Company completed a 108 hole RC drilling programme designed to test the entire prospective area of the carbonatite and for extensions to the Maiden Mineral Resource estimate (2017), where mineralisation remained open in all directions.

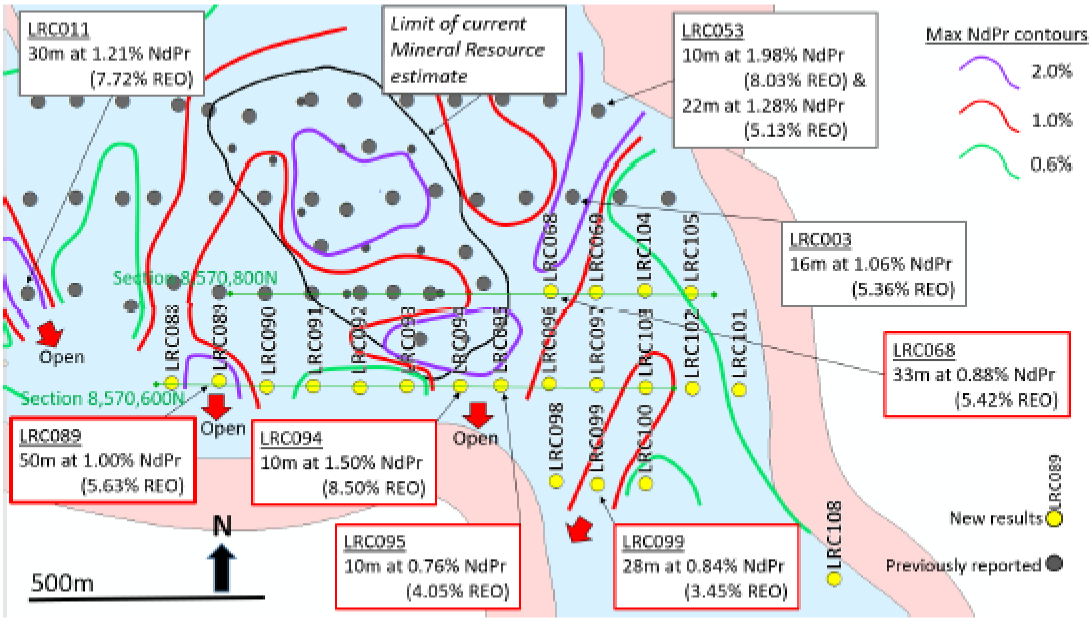


Maximum downhole NdPr plan demonstrates that high grade, near surface NdPr mineralisation (green, red, magenta) extends well beyond the area of the maiden Mineral Resource estimate at Longonjo.

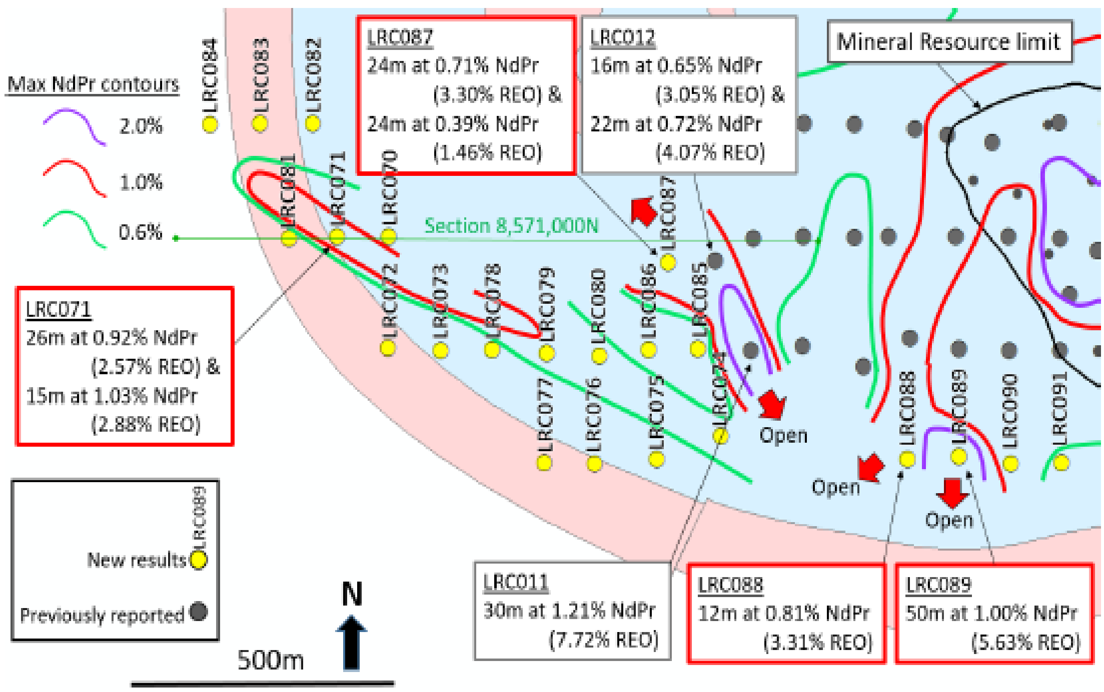
Assay results received during the period and in January 2019, identified major extensions to the shallow high grade NdPr mineralisation with the majority of holes reporting mineralisation from the surface.

Several new zones of deep weathering up to sixty-five metres in thickness were intersected across the highly weathered carbonatite compared to the average twenty metres of thickness in the area of the Maiden Mineral Resource estimate (2017).

New zones of mineralisation intersected in the previously untested northern area of the Longonjo carbonatite are particularly enriched in NdPr, which can comprise around 27% of the total rare earths compared with around 20% in the Maiden Mineral Resource estimate area.



Plan of intersection highlights from the new drilling results (red labels, yellow drill hole collars) in the southeastern (above) and south western (below) area of the project. Together with previously reported intersections (grey labels, grey collars) identify broad zones of NdPr mineralisation outside of the current Mineral Resource estimate.



Drill holes in the south also returned particularly high-grade mineralisation from surface up to **10 metres at 8.03% REO including 1.98% NdPr from surface and 14 metres at 7.33% REO including 1.86% NdPr** from 20 metres in the same drill hole, LRC053, located 400m to the east of previous drilling.

Subsequent to period end, assay results from the remaining 41 drill holes returned some of the thickest and highest-grade results received to date including:

50 metres at 5.63% REO including 1.00% NdPr from surface to end of hole in drill hole LRC089.

Located outside of the Maiden Mineral Resource estimate area, they extend the zone of high-grade mineralisation to the east and south.

The results also identified a new zone of particularly NdPr rich mineralisation in the west, 1,200 metres from the Maiden Mineral Resource estimate boundary.

Preliminary and support programmes

To efficiently support the field operations and before drilling commenced, a new exploration base was established at Longonjo in August 2018. Gridding and surveying of the 100 plus planned drill holes and 20 survey lines were also completed. Accurate topographic control was established for the drilling and for control points for a satellite survey commissioned to provide an accurate land surface model for future Mineral Resource estimation.

Laying out markers on accurately surveyed Ground Control Points for the satellite topographic land surface survey, August 2018.

New geological mapping over the entire carbonatite completed in August 2018 demonstrated that the prospective carbonatite extends over a larger area than previously recognised.

A ground penetrating radar survey (GPR) completed in August 2018 confirmed that the deep weathering profile that is host to the high grade NdPr mineralisation in the Maiden Mineral Resource estimate area continues over large areas to the east, west and north.

Specialist geological consultant Dr Wally Witt mapping the outcrop geology of the Longonjo Carbonatite, July 2018

GPR survey in progress over the largely soil covered Longonjo Carbonatite. The GPR tool is the yellow 'snake' trailing behind the surveyor. A DGPS is carried in the backpack

Upgrade in Mineral Resource estimate

Subsequent to period end, on 19 February 2019, the Company announced a very substantial upgrade to the Mineral Resource estimate for the Longonjo NdPr Project. The revised estimate establishes Longonjo as one of the world's largest and highest grade NdPr deposits, all at a time when demand for NdPr in EV drivetrains is taking off.

The new Mineral Resource estimate was completed to incorporate data and significant mineralised intersections from the 108 drill holes completed in 2018.

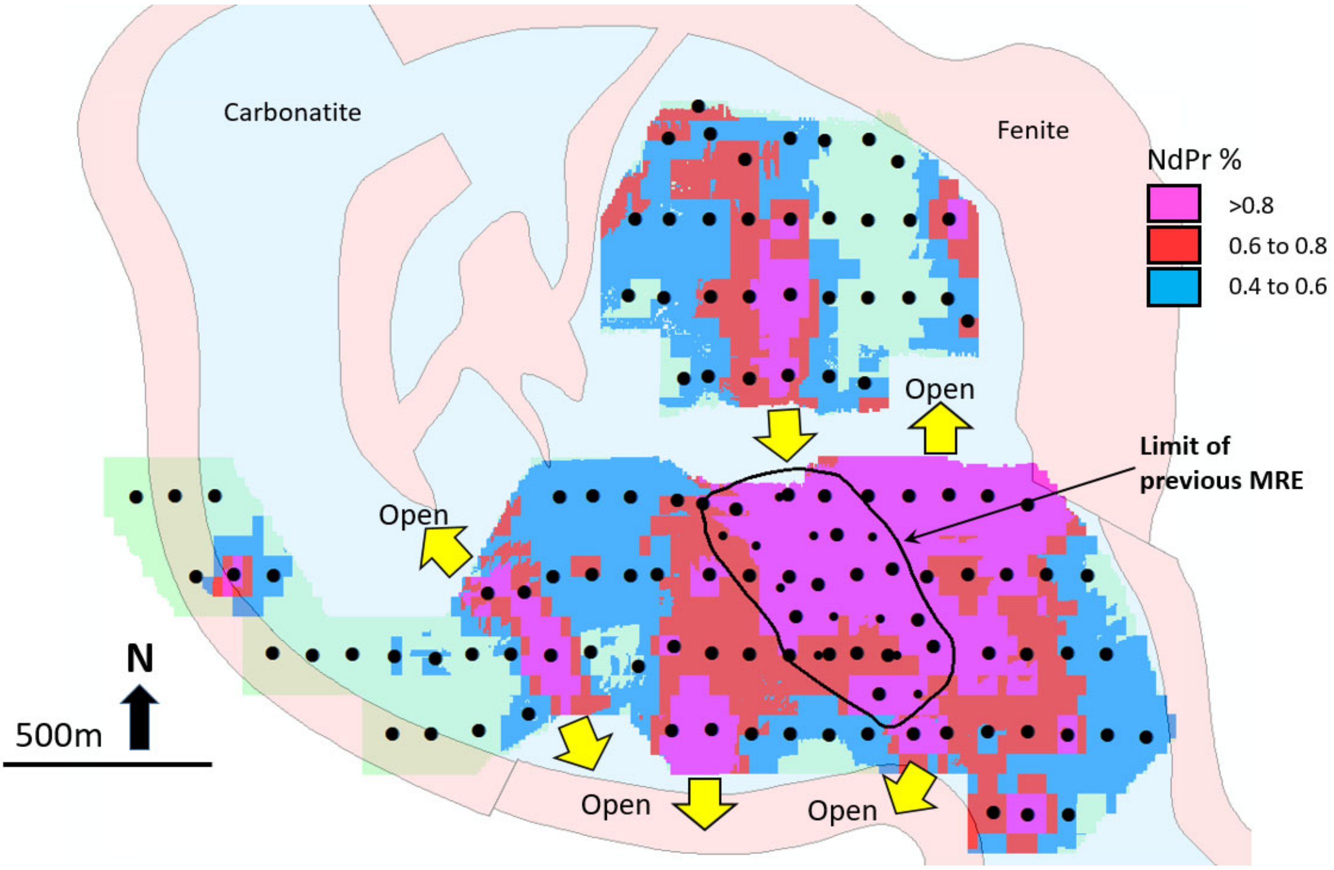
Highly respected international mining industry consultants SRK Consulting reported the Inferred Mineral Resource estimate of:

240 million tonnes at 1.60% REO including 0.35% NdPr for 3,850,000 tonnes of REO including 840,000 tonnes of NdPr

**NdPr = neodymium+praseodymium oxide. REO = total rare earth oxides. A 0.1% NdPr cut is applied. Tables 1 to 3 summarise the estimate at a range of cut off grades, material types and total rare earth oxide grades.*

This new Mineral Resource estimate represents a more than seven-fold increase in tonnes and contains well over four times the amount of NdPr compared with the maiden Mineral Resource estimate reported to the ASX on 26 September 2017 at equivalent cut-off grades.

The highest grade mineralisation occurs from surface as a blanket of soft weathered material averaging around 30 metres in thickness and up to 75 metres in places.



Plan view of the 2019 Mineral Resource block model coloured by maximum NdPr grade over simplified geology of the Longonjo Carbonatite. Drill holes are shown as black dots. The limit of the previous Mineral Resource is shown as the black outline.

As the plan above shows, the high grade, near surface mineralisation remains open in several directions, offering the potential for further extensions to the Mineral Resource estimate with additional drilling.

The following tables summarise the Mineral Resource at a range of NdPr cut off grades and mineralisation styles. All are categorised as Inferred according to the JORC (2012) Code and Guidelines.

With the successful delivery of this very large Mineral Resource estimate, the Company is to move forward with a Preliminary Feasibility Study for the Longonjo NdPr Project and has appointed Wood Group as lead engineers for the study. The initial focus for development studies will be on the near surface, higher grade weathered zone mineralisation.

At a .65% NdPr lower grade cut, the new Mineral Resource estimate for the weathered zone contains 22.9 million tonnes at 4.16% REO and .86% NdPr containing around 953,000 tonnes of REO including 197,000 tonnes of NdPr.

Table 1: Longonjo NdPr Mineral Resource estimate – Total

		Grade		Contained oxide	
Cut off (% NdPr)	Million tonnes	NdPr %	REO %	NdPr (tonnes)	REO (tonnes)
0.10	240	0.35	1.60	840,000	3,850,000
0.20	178	0.42	1.94	744,000	3,460,000
0.30	114	0.51	2.43	585,000	2,770,000
0.40	68.4	0.63	2.98	428,000	2,040,000
0.50	44.3	0.72	3.47	321,000	1,540,000
0.60	29.6	0.81	3.93	240,000	1,160,000
0.65	23.9	0.86	4.16	205,000	997,000
0.70	19.3	0.90	4.39	174,000	848,000
0.80	11.7	1.00	4.92	117,000	577,000
0.90	6.87	1.11	5.53	76,200	380,000
1.00	4.05	1.22	6.12	49,600	248,000

NdPr is contained within and is a subset of REO. REO = total rare earth oxides, the sum of La_2O_3, CeO_2, Pr_6O_{11}, Nd_2O_3, Sm_2O_3, Eu_2O_3, Gd_2O_3, Tb_4O_7, Dy_2O_3, Ho_2O_3, Er_2O_3, Tm_2O_3, Yb_2O_3, Lu_2O_3, Y_2O_3. See Table 4 for breakdown of all individual rare earth oxides. Figures may not sum due to rounding

Table 2: Longonjo NdPr Mineral Resource estimate – Weathered* mineralisation

		Grade		Contained oxide	
Cut off (% NdPr)	Million tonnes	NdPr %	REO %	NdPr (tonnes)	REO (tonnes)
0.10	106	0.45	2.03	474,000	2,130,000
0.20	85.2	0.52	2.38	444,000	2,030,000
0.30	65.6	0.60	2.81	395,000	1,840,000
0.40	51.5	0.67	3.18	346,000	1,640,000
0.50	39.5	0.74	3.53	292,000	1,40,000
0.60	28.1	0.82	3.93	229,000	1,100,000
0.65	22.9	0.86	4.16	197,000	953,000
0.70	18.6	0.90	4.39	168,000	816,000
0.80	11.4	1.00	4.91	114,000	560,000
0.90	6.68	1.11	5.51	74,200	368,000
1.00	3.92	1.23	6.10	48,100	239,000

*The Weathered Mineral Resource is contained within and is a subset of the Total Mineral Resource

Table 3: Longonjo NdPr Mineral Resource estimate – Unweathered* mineralisation

		Grade		Contained oxide	
Cut off (% NdPr)	**Million tonnes**	**NdPr %**	**REO %**	**NdPr (tonnes)**	**REO (tonnes)**
0.10	135	0.27	1.27	366,000	1,710,000
0.20	92.7	0.32	1.54	301,000	1,430,000
0.30	48.0	0.40	1.92	190,000	921,000
0.40	17.0	0.49	2.37	82,500	403,000
0.50	4.83	0.60	2.97	29,000	143,000
0.60	1.51	0.74	3.85	11,100	58,000
0.65	1.02	0.79	4.23	8,130	43,300
0.70	0.71	0.85	4.52	6,010	32,100
0.80	0.30	0.99	5.60	2,910	16,600
0.90	0.19	1.07	6.34	1,990	11,800
1.00	0.13	1.13	6.78	1,430	8,530

*The Unweathered Mineral Resource is contained within and is a subset of the Total Mineral Resource

Pensana Metals Ltd moves to 84% ownership of Angolan Project

During the period, the Company acquired an additional 14% equity in Angolan subsidiary company Ozango Minerais SA (Ozango) for US$500,000, which holds title to the Longonjo NdPr project.

Tanzania (Rift Valley 100%)

Kitongo Gold Project - Sale agreement executed

The company executed a conditional sale agreement to sell the Kitongo Gold Project tenements for a total consideration of US$550,000. The purchaser, Busolwa Mining Limited (Managing Director – Baraka Ezekiel) a private company incorporated in the United Republic of Tanzania, has deposited a non-refundable US$50,000 commitment fee as per the agreement.

A further US$150,000 was paid following the establishment of the Mineral Commission.

During the period the company received a further US$150,000.

The remaining amount of US$200,000 shall be paid upon the remaining conditions of the sale as follows:

- Work together on all issues related to relinquishing any part of the licences grounds to the Artisanal Miners or for any other purposes

To date the abovementioned conditions are well advanced and the company is confident that all conditions will be satisfied to enable completion.

Canuck Prospecting Licence – Mineral prospecting rights agreement executed

A Mineral Prospecting rights agreement has been executed by Pensana and the Purchaser for the sale of the company's 100% owned Tanzania prospecting licence PL 11016/2017 - "Canuck". The purchaser, Pamoja Mining Company Limited, (Director – Nathan Conradie), a private company incorporated in the United Republic of Tanzania, has agreed to purchase the licence for a total consideration of US$250,000 subject to the transfer of the prospecting licence to the purchaser.

The purchaser has transferred into Pensana's bank account US$100,000 cash deposit. The remaining US$150,000 will be transferred upon the transfer of the licence.

The cash deposit is refundable should the transfer of the prospecting license not proceed. The transfer documentation and lodgement process well advanced.

Miyabi Gold Project

Pensana had entered into a "non-binding" and "non-exclusive" option agreement for the acquisition of the company's 100% interests in the Miyabi Gold Project. That option agreement had lapsed, however the board is currently considering entering into an "exclusive, non-binding agreement with the same group.

Corporate

Placement

On 2 July 2018, the company received firm commitments from sophisticated and institutional investors for the private placement of 366,666,667 fully paid ordinary shares at $0.015 to raise $5,500,000. The placement was completed in 2 tranches:

- 126,549,809 New Shares under Tranche 1 raised A$1.898 million in July 2018; and
- 240,116,858 New Shares under Tranche 2 raised A$3.602 million in September 2018.

126,549,809 shares were issued on 6 July 2018 to raise approximately A$1.898 million.

On 28 August 2018, the Company announced that it had commenced its 9,000 metre drilling programme at the Longonjo NdPr Project, which will test the full extent of the shallow weathered NdPr mineralisation across the six square kilometre Longonjo carbonatite

Shareholder General Meeting

On 17 September 2018, the Company held a General Meeting for shareholders. At that meeting shareholders approved the following resolution:

- tranche 1 of the capital raising under both LR7.1 and 7.1A to issue 126,549,809 to raise A$1.898 million;

- tranche 2 of the capital raising under LR7.1 to issue 240,116,858 to raise $ A$3.602 million;

- to give authority for Mr Paul Atherley and Mr Neil Maclachlan to participate in the placement;

- an Employee Incentive Plan;

- the issue of up to 115,741,113 Performance Rights to Mr Paul Atherley;

- the issue of up to 30,000,000 Performance Rights to Mr David Hammond;

- the issue of 5,000,000 unquoted options exercisable at $0.04 per share and 5,000,000 unquoted options exercisable at $0.06 per share to Ashanti Capital Pty Ltd (or its nominee), and expiring on the date that is 12 months following the date of issue;
- adopt Pensana Metals Limited as the new name of the Company;

- the Company adopt the Proposed Constitution tabled at the Meeting with effect from the close of the Meeting.

All resolutions were passed by show of hands.

On 18 September 2018 the company changed its name to Pensana Metals Ltd with ASIC.

On 25 September 2018, the company completed the tranche 2 placement issuing 240,116,858 to raise $3.602m.

For further information please contact:

Paul Atherley
Chairman

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Fax +61 8 9221 0095
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Auditor’s independence declaration

The auditor’s independence declaration, as required under section 307C of the Corporations Act 2001, is set out on page 31 and forms part of the directors’ report for the half year ended 31 December 2018.

This report is signed in accordance with a resolution of Board of Directors.

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Paul Atherley
Chairman
Dated this 15 day of March 2019

Competent Persons Statements

The information in this report that relates to Geology, Data Quality and Exploration results is based on information compiled and/or reviewed by David Hammond, who is a Member of The Australasian Institute of Mining and Metallurgy. David Hammond is the Chief Operating Officer and a Director of the Company. He has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and the activity which he is undertaking to qualify as a Competent Person in terms of the 2012 Edition of the Australian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves. David Hammond consents to the inclusion in the report of the matters based on his information in the form and contest in which it appears.

The information in this statement that relates to the 2019 Mineral Resource estimates is based on work done by Rodney Brown of SRK Consulting (Australasia) Pty Ltd. Rodney Brown is a member of The Australasian Institute of Mining and Metallurgy and has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration, and to the activity he is undertaking, to qualify as a Competent Person in terms of The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code 2012 edition).

DIRECTOR'S DECLARATION

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 the financial position of the consolidated entity as at 31 December 2018 and the performance for the half-year ended on that date, and

   II. complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

b. Subject to the matters disclosed at note 1(d), there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

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Paul Atherley

Chairman

Dated this 15 day of March 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the half-year ended 31 December 2018

	Half-year ended 31 Dec 2018 A$	Half-year ended 31 Dec 2017 A$
Interest income	3,508	1,862
Administration expenses	(579,266)	(204,147)
Corporate expenses	(1,734,228)	(370,030)
Other expenses	(496,087)	-
Foreign currency exchange gain	27,794	(250)
Loss before income tax	**(2,778,279)**	**(572,565)**
Income tax benefit	-	-
Total loss for the period	**(2,778,279)**	**(572,565)**
Other comprehensive income		
Items which may be subsequently reclassified to profit or loss		
Foreign currency translation	704,747	(178,888)
Other comprehensive income for the period	704,747	(178,888)
Total comprehensive loss for the period	**(2,073,532)**	**(751,453)**
Net loss for the period is attributable to:		
Owners of Pensana Metals Limited	**(2,778,279)**	**(572,565)**
Total comprehensive loss is attributable to:		
Owners of Pensana Metals Limited	**(2,073,532)**	**(751,453)**
Loss per share attributable to owners of Pensana Metals Limited:		
Basic (cents per share)	(0.10)	(0.08)
Diluted (cents per share)	(0.10)	(0.08)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31 December 2018 A$	30 June 2018 A$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		2,488,495	242,769
Trade and other receivables		41,810	9,372
Deposits		-	32,185
Prepayments		13,576	74,648
Assets held for sale	5	5,598,690	5,645,553
Financial assets at fair value through other comprehensive income		156	-
Available-for-sale financial assets		-	156
TOTAL CURRENT ASSETS		8,142,727	6,004,683
NON-CURRENT ASSETS			
Property, plant and equipment		11,817	5,922
Exploration and evaluation expenditure	6	7,344,309	5,596,961
TOTAL NON-CURRENT ASSETS		7,356,126	5,602,883
TOTAL ASSETS		**15,498,853**	**11,607,566**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		250,524	322,225
Sundry creditors		606,919	392,968
Liabilities associated with held for sale assets	5	60,637	57,726
TOTAL CURRENT LIABILITIES		918,080	772,919
TOTAL LIABILITIES		**918,080**	**772,919**
NET ASSETS		**14,580,773**	**10,834,647**
EQUITY			
Issued capital	4	46,321,345	41,149,646
Reserves	7	6,152,800	4,800,094
Accumulated losses	8	(37,893,372)	(35,115,093)
TOTAL EQUITY		**14,580,773**	**10,834,647**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2018

	Fully paid ordinary shares	Accumulated Losses	Foreign Currency Reserve	Share Based Payments Reserve	Equity Reserve	Total
	A$	A$	A$	A$	A$	A$
Balance at 1 July 2017	**39,734,149**	**(33,290,103)**	**973,890**	**3,044,785**	**-**	**10,462,721**
Loss for the year	-	(572,565)	-	-	-	(572,565)
Other comprehensive income	-	-	(178,888)	-	-	(178,888)
Total comprehensive income for the year	-	(572,565)	(178,888)	-	-	(751,451)
Issue of shares	1,010,500	-	-	-	-	1,010,500
Share based payments	-	-	-	56,875	-	56,875
Balance at 31 December 2017	**40,744,649**	**(33,862,668)**	**795,002**	**3,101,662**	**-**	**10,778,645**
Balance at 1 July 2018	**41,149,646**	**(35,115,093)**	**1,572,052**	**3,228,042**	**-**	**10,834,647**
Loss for the year	-	(2,778,279)	-	-	-	(2,778,279)
Other comprehensive income	-	-	704,747	-	-	704,747
Total comprehensive income for the year	-	(2,778,279)	704,747	-	-	(2,073,532)
Issue of shares	5,500,000	-	-	-	-	5,500,000
Share issue costs	(328,301)	-	-	-	-	(328,301)
Share based payments	-	-	-	1,331,219	-	1,331,219
Purchase of additional 14% interest in Ozango (refer to Note 7)	-	-	-	-	(683,260)	(683,260)
Balance at 31 December 2018	**46,321,345**	**(37,893,372)**	**2,276,799**	**4,559,261**	**(683,260)**	**14,580,773**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2018

	Half-year ended 31 Dec 2018 A$	Half-year ended 31 Dec 2017 A$
Cash flows from operating activities		
Payments to suppliers and employees	(915,208)	(459,724)
Net cash used in operating activities	(915,208)	(459,724)
Cash flows from investing activities		
Interest received	3,508	1,862
Payments for exploration expenditure	(1,538,280)	(1,459,485)
Money received from sale of assets	207,146	-
Payment for additional 14% interest in Ozango	(683,260)	-
Payment for property, plant and equipment	(11,071)	-
Net cash used in investing activities	(2,021,957)	(1,457,623)
Cash flows from financing activities		
Proceeds from issue of shares	5,500,000	1,010,500
Costs associated with issue of shares	(328,302)	-
Net cash provided by financing activities	5,171,698	1,010,500
Net decrease in cash and cash equivalents	2,234,533	(906,847)
Cash and cash equivalents at the beginning of the period	242,768	1,848,248
Effects of exchange rate changes on the balance of cash held in foreign currencies	11,194	620
Cash and cash equivalents at the end of the period	2,488,495	942,021

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

1. SIGNIFICANT ACCOUNTING POLICIES

(a) General information

Pensana Metals Limited (the Company) is a public Company listed on the Australian Securities Exchange (trading under the code: PM8), incorporated in Australia and operating from Perth. The Company's registered office and its principal place of business is Ground Floor, 10 Outram Street, West Perth WA 6005.

Pensana is exploring and developing its NdPr Project in Angola to determine the potential for a very large and high grade NdPr deposit that could rank amongst the world's best.

The financial statements for Pensana Metals Limited and its subsidiaries (the Group) for the half year ended 31 December 2018 were approved and authorised for issue by the Board of Directors on 15 March 2019.

(b) Statement of compliance

The half-year financial report is a general purpose condensed financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual report. It is also recommended that the half-year financial report be considered together with any public announcements made by the Group during the half-year ended 31 December 2018 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(c) Basis of preparation

The half-year financial report has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities. All amounts are presented in Australian dollars.

(d) Going concern

The half-year financial statements have been prepared on the basis that the consolidated entity is a going concern, which considers the realisation of assets and the settlement of liabilities in the normal course of business activities. As at 31 December 2018 the consolidated entity has a net current asset position of $7,224,647 (30 June 2018: $5,231,764), due to Tanzanian assets of $5,598,690 being classified as Assets held for sale.

At 31 December 2018 the company has commitments of $101,701 (30 June 2018: $53,614) in respect of minimum expenditure required under exploration permits and mineral leases in order to keep the rights of tenure current.

During the current period, the Company raised $5.5 million (before costs). For the Group to undertake its planned exploration on the Longonjo NdPr Project in Angola and to fund ongoing working capital requirements beyond the 2019 financial year, additional capital will need to be secured.

The Directors are currently reviewing a range of financing options should the Group be unable to secure the required capital through sale of its Tanzanian assets within the 2019 financial year, as the timing of when these sales will be completed is uncertain and dependent on factors outside of the Group's control. If additional financing is required it is expected to be finalised during 2019 to allow the Group to fund its planned exploration and ongoing working capital requirements, however there is no certainty that this will be completed as anticipated.

The Directors are confident of being able to raise the required capital either through the sale of the Tanzanian assets or through financing, but note that the required capital has not been secured at the date of this report. Should the Group not achieve the matters set out above, there is uncertainty whether the Group would continue as a going concern and therefore whether it would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability or classification of the recorded assets amounts nor to the amounts or classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

(e) Summary of significant accounting policies

The accounting policies adopted in the preparation of the half year financial report are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 June 2018, except for the adoption of the new accounting standards All new and amended accounting standards and interpretations effective 1 July 2018 have been adopted by the Group. The adoption of new standards and amendments from 1 July 2018 has not had a significant impact on the accounting policies of the Group.

The Group has not elected to early adopt any new standards or amendments that are issued but not yet effective.

(f) New Accounting Standards and Interpretations adopted by the Group

The Group applied all new and amended Accounting Standards and Interpretations that were effective as at 1 July 2018, including:

AASB 9 Financial Instruments ("AASB 9")
The Group has adopted AASB 9 as issued in July 2014 with the date of initial application being 1 July 2018. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated. AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement ("AASB 139"), bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The accounting policies have been updated to reflect the application of AASB 9 for the period from 1 July 2018 (see note 2A for details of the new accounting policy for receivables).

Measurement and classification
Under AASB 9, debt instruments 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 SPPI test is applied to the entire financial asset, even if it contains an embedded derivative. Consequently, a derivative embedded in a debt instrument is not accounted for separately.

At the date of initial application, existing financial assets and liabilities of the Group were assessed in terms of the requirements of AASB 9. The assessment was conducted on instruments that had not been derecognised as at 1 July 2018. In this regard, the Group has determined that the adoption of AASB 9 has impacted the classification of financial instruments at 1 July 2018 as follows:

Class of financial instrument presented in the statement of financial position	Original measurement category under AASB 139 (i.e. prior to 1 July 2018)	New measurement category under AASB 9 (i.e. from 1 July 2018)
Cash and cash equivalents	Loans and receivables	Financial assets at amortised cost
Trade and other receivables	Loans and receivables	Financial assets at amortised cost
Deposits	Loans and receivables	Financial assets at amortised cost
Trade and other payables	Financial liability at amortised cost	Financial liabilities at amortised cost
Interest bearing loans and borrowings	Financial liability at amortised cost	Financial liabilities at amortised cost

The change in classification has not resulted in any re-measurement adjustments at 1 July 2018.

Impairment of financial assets

In relation to the financial assets carried at amortised cost, AASB 9 requires an expected credit loss model to be applied as opposed to an incurred credit loss model under AASB 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial asset. In particular, AASB 9 requires the Group to measure the loss allowance at an amount equal to lifetime expected credit loss ("ECL") if the credit risk on the instrument has increased significantly since initial recognition. If the credit risk on the financial instrument has not increased significantly since initial recognition, the Group is required to measure the loss allowance for that financial instrument at an amount equal to the ECL within the next 12 months.

As at 1 July 2018, the Group reviewed and assessed the existing financial assets for impairment using reasonable and supportable information. In accordance with AASB 9, where the Group concluded that it would require undue cost and effort to determine the credit risk of a financial asset on initial recognition, the Group recognises lifetime ECL. The result of the assessment is as follows:

Items existing as at 1 July 2018 that are subject to the impairment provisions of AASB 9	Credit risk attributes	Cumulative additional loss allowance recognised on 1 July 2018 $'000:
Cash and cash equivalents and deposits	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable institutions.	-
Trade receivables	The Group applied the simplified approach and concluded that the lifetime ECL for these assets would be negligible and therefore no loss allowance was required at 1 January 2018.	-
Taxation receivables	The Group applied the simplified approach and concluded that the lifetime ECL for these assets would be negligible and therefore no loss allowance was required at 1 January 2018.	-

AASB 15 Revenue from Contracts with Customers ("AASB 15")

The Group has adopted AASB 15 as issued in May 2014 with the date of initial application being 1 July 2018. The Group has no revenue for the current period. Revenue is recognised at the amount to which the Group expects to be entitled.

(g) Update to accounting judgements – Balance Sheet classification and recoverability of asset carrying values – current assets held for sale

The classification of the group's capitalised Tanzanian mineral exploration and evaluation assets as a current asset held for sale was reviewed during the first half of 2019. Both the Kitongo and Canuck Sales are in the final stages, within completion expected by the end of the financial year. It is due to this that management believe the classification of the capitalised Tanzanian mineral exploration and evaluation assets as a current asset held for sale continues to meet the AASB 5 criteria.

The Company has received a non- exclusive MOU, which the board is considering for the for the sale of the Miyabi Project There has been no impairment charge necessary for the current period related to current assets held for sale.

(h) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which the parent entity controlled from time to time during the year and at balance date.

Subsidiaries are all those entities controlled by the Company. Control exists where the parent entity has the capacity to govern the financial and operating policies of the subsidiary so as to obtain benefits from their activities.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. The financial information of the subsidiaries are prepared for the same reporting period as the Company using consistent accounting policies.

2. OPERATING SEGMENTS

Description of segments

The Group has identified its operating segments based on the internal reports that are used by the chief operating decision makers in assessing performance and determining the allocation of resources.

The Group has identified that it has one operating segment being related to the activities in Angola, on the basis that the assets in Tanzania are held for sale and operations in Australia relate to running the Corporate Head Office only.

All significant exploration and evaluation expenditure are domiciled in Angola.

Non-current assets	As at 31 December 2018 $	As at 30 June 2018 $
Australia	10,332	5,922
Angola	7,345,794	5,596,961
	7,356,126	5,602,883

3. DIVIDENDS

There were no dividends paid or proposed during the half-year.

4. ISSUED CAPITAL

	6 months ended 31 December 2018		12 months ended 30 June 2018	
Company/Consolidated	**No.**	**$**	**No.**	**$**
Fully paid ordinary shares				
Balance at beginning of the period	791,903,044	41,149,646	738,778,046	39,734,149
Share Placement	366,666,667	5,500,000	50,124,998	1,510,500
Share issue costs	-	(328,301)	-	(95,003)
Shares issued on vesting of performance rights	43,580,371	-	3,000,000	-
Balance at end of financial year	1,202,150,082	46,321,345	791,903,044	41,149,646

5. ASSETS HELD FOR SALE

The fair value of the Group's capitalised Tanzanian mineral exploration and evaluation assets at 31 December 2018 has been determined based on comparable market transactions. The fair value methodology adopted at 31 December 2018 is categorised as Level 3 in the fair value hierarchy. In determining the fair value less cost to dispose (FVLCD), estimates are made in relation to the underlying resources and the valuation multiple and agreed transaction value from sales agreements or offers received, which are significant inputs to the valuation. Any changes in these estimates could impact the FVLCD of the underlying asset.

The Board has considered the fair value of the Group's capitalised Tanzanian mineral exploration and evaluation assets at 31 December 2018, and no impairment was required.

At 31 December 2018, the Tanzanian assets are classified as held for sale.

The Major classes of assets and liabilities for Tanzania classified as held for sale as at 31 December 2018 are as follows:

	31 December 2018 $
Assets	
Exploration and valuation assets	5,598,690
Other debtors	471,408
Less provision for doubtful debt	(471,408)
Assets held for sale	5,598,690
Liabilities	
Trade and other payables	60,637
Net assets directly associated with disposal group	5,538,053

Kitongo Gold Project - Sale agreement executed

The company executed a conditional sale agreement to sell the Kitongo Gold Project tenements for a total consideration of US$550,000. The purchaser, Busolwa Mining Limited (Managing Director – Baraka Ezekiel) a private company incorporated in the United Republic of Tanzania, has deposited a non-refundable US$50,000 commitment fee as per the agreement.

A further US$150,000 was paid following the establishment of the Mineral Commission.

During the period the company received a further US$150,000. All amounts received to date are recorded within sundry creditors within the Consolidated Statement of Financial Position.

The remaining amount of US$200,000 shall be paid upon the remaining conditions of the sale as follows:

- Work together on all issues related to relinquishing any part of the licences grounds to the Artisanal Miners or for any other purposes

To date the abovementioned conditions are well advanced and the company is confident that all conditions will be satisfied to enable completion.

Canuck Prospecting Licence – Mineral prospecting rights agreement executed

A Mineral Prospecting rights agreement has been executed by Pensana and the Purchaser for the sale of the company's 100% owned Tanzania prospecting licence PL 11016/2017 - "Canuck". The purchaser, Pamoja Mining Company Limited, (Director – Nathan Conradie), a private company incorporated in the United Republic of Tanzania, has agreed to purchase the licence for a total consideration of US$250,000 subject to the transfer of the prospecting licence to the purchaser.

The purchaser has transferred into Pensana's bank account US$100,000 cash deposit. This amount is recorded within sundry creditors within the Consolidated Statement of Financial Position. The remaining US$150,000 will be transferred upon the transfer of the licence.

The cash deposit is refundable should the transfer of the prospecting license not proceed. The transfer documentation and lodgement process is well advanced.

Miyabi Gold Project

Pensana had entered into a "non-binding" and "non-exclusive" option agreement for the acquisition of the company's 100% interests in the Miyabi Gold Project. That option agreement had lapsed, however the board is currently considering entering into an "exclusive, non-binding agreement with the same group.

6. EXPLORATION AND EVALUATION EXPENDITURE

	6 months ended 31 December 2018 $	12 months ended 30 June 2018 $
Carrying value:		
Balance at beginning of period	5,596,961	8,800,077
Additions	1,538,280	2,059,214
Impairment	-	(110,827)
Transfer to held for sale	-	(5,645,553)
Foreign exchange	209,068	494,050
Balance at end of financial year	7,344,309	5,596,961

During the financial year, the Consolidated Group made an assessment of the carrying value of its exploration assets.

The above amounts represent capitalised costs of exploration carried forward as an asset in accordance with the accounting policy set out in note 1 (e). The ultimate recoupment of the exploration and evaluation expenditure in respect to the areas of interest carried forward is dependent upon the discovery of commercially viable reserves and the successful development and exploitation of the respective areas or alternatively the sale of the underlying areas of interest for at least their carrying value.

7. RESERVES

	2018 $	2017 $
Sharebased Payments Reserve		
Balance at 1 July	3,228,042	3,044,785
Sharebased payment expense	1,331,219	56,875
Balance at 31 December	**4,559,261**	**3,101,660**

	2018 $	2017 $
Foreign Currency Translation Reserve		
Balance at the beginning of the period	1,572,052	973,890
Effect of foreign currency exchange differences	704,747	(178,888)
Balance at the end of the period	**2,276,799**	**795,002**

	2018 $	2017 $
Equity Reserve		
Balance at the beginning of the period	-	-
Purchase of additional 14% interest in Ozango	(683,260)	-
Balance at the end of the period	**(683,260)**	**-**

The movement in the equity reserve for the current period relates to the Company's acquisition of an additional 14% equity in Angolan subsidiary company Ozango Minerais SA (Ozango) for US$500,000, from non-controlling interest. Ozango holds title to the Longonjo NdPr project.

8. ACCUMULATED LOSSES

	2018 $	2017 $
Balance at 1 July	(35,115,093)	(33,290,103)
Net loss for the period	(2,778,279)	(572,565)
Balance at 31 December	**(37,893,372)**	**(33,862,668)**

9. SUBSEQUENT EVENTS

On the 19 February 2019, the Company announced a very substantial upgrade to the Mineral Resource estimate for its Longonjo deposit which has transformed it into one of the world's largest and highest grade NdPr deposits at a time when demand for NdPr in EV drivetrains is taking off.

Highly respected international mining industry consultants SRK Consulting has reported an Inferred Mineral Resource estimate of:

240 million tonnes at 1.60% REO including 0.35% NdPr for 3,850,000 tonnes of REO including 840,000 tonnes of NdPr

**NdPr = neodymium+praseodymium oxide. REO = total rare earth oxides. A 0.1% NdPr cut is applied. Tables 1 to 3 summarise the estimate at a range of cut off grades, material types and total rare earth oxide grades.*

This new Mineral Resource estimate represents a more than seven-fold increase in tonnes and contains well over four times the amount of NdPr compared with the maiden Mineral Resource estimate reported to the ASX on 26 September 2017 at equivalent cut-off grades.

The deposit occurs as a blanket of soft weathered material averaging around 30 metres in thickness and up to 75 metres in places. The highest grades occur from surface. The deposit remains open at depth and in a number of directions laterally. Further drilling is expected to increase the Mineral Resource estimate.

The initial focus will be on the resource occurring within a cut off around .65% NdPr which totals 22.9 million tonnes at 4.16% REO and .86% NdPr containing around 953,000 tonnes of REO including 197,000 tonnes of NdPr.

On the 27 February 2019, the Company issued 10,000,000 shares to Mr David Hammond as a result of his first tranche of Performance Rights vesting upon the increase in the Mineral Resource Estimate.

On 12 March 2019, the announce that it has appointed the international engineering company Wood Group to execute a Preliminary Feasibility Study (PFS) for the expedited development of the Longonjo NdPr Project.

The study will focus on the delivery of a low capital cost open pit mining operation and exporting flotation concentrates to customers in China via the recently upgraded Benguela rail line and the Atlantic port of Lobito.

Discussions with potential financiers have commenced and it is expected that a financing package will be finalised to coincide with the completion of the PFS (scheduled for September 2019).

The Company is of the view that given the work that has been completed to date and the relative simplicity of the operation, following the completion of a favourable PFS it should be possible to move immediately to Front End Engineering Design (FEED) and Engineering Procurement Construction Management (EPCM).

10. COMMITMENTS FOR EXPENDITURE

The consolidated entity has certain obligations to perform exploration work and expend minimum amounts of money on such works on mineral exploration tenements.

These obligations will vary from time to time, subject to statutory approval. The terms of current and future joint ventures, the grant or relinquishment of licences and changes to licence areas at renewal or expiry, will alter the expenditure commitments of the consolidated entity.

Total expenditure commitments at balance date in respect of minimum expenditure requirements not provided for in the financial statements are approximately:

	31 Dec 18 $	30 Jun 2018 $
No longer than 1 year	101,701	53,614
Longer than 1 year and not longer than 5 years	-	-
Longer than 5 years		-
Total	101,701	53,614

Pursuant to the agreement for the acquisition of the Kitongo Gold Project the Company will be required to pay an amount of $750,000 to the vendor on the commencement of production.

The Directors are not aware of any other contingent liabilities or contingent assets that are likely to have a material effect on the results of the Group as disclosed in these financial statements.

Share-based Payments

Performance Rights

During the half year the following performance rights were issued:

Director / KMP	Number of Rights	Vesting Conditions	Grant date	Expiry date	Vesting date
David Hammond	10,000,000	Delivery of an inferred mineral resource of at least 46.4Mt	17 Sep 2018	17 Sep 2020	Upon vesting conditions being met
David Hammond	10,000,000[1]	Delivery of a pre-feasibility study and the Company making the decision to proceed to a definitive feasibility study of the project	17 Sep 2018	17 Sep 2023	Upon vesting conditions being met
David Hammond	10,000,000[2]	Delivery of a positive definitive feasibility study and the Company making the decision to proceed with financing and development of the project.	17 Sep 2018	17 Sep 2023	Upon vesting conditions being met
Paul Atherley	38,580,371	Completion of a capital raising of at least an aggregate amount of A$5.5m, via the issue of new Shares by no later than 13 November 2018.	13 May 2018	13 Nov 2018	25 Sep 2018
Paul Atherley	38,580,371	Delivery of a positive Pre-Feasibility Study and the Company making a decision to proceed to a Definitive Feasibility Study of the Project.	13 May 2018	13 May 2023	Upon vesting conditions being met
Paul Atherley	38,580,371	Delivery of a positive Definitive Feasibility Study and the Company making a decision to proceed with financing and development of the Project.	13 May 2018	13 May 2023	Upon vesting conditions being met

[1] This performance rights issue replaced David Hammond's 2,500,000 performance rights granted on 14 November 2017 vesting upon delivery of a Pre-Feasibility Study, expiring on 14 November 2019.
[2] This performance rights issue replaced David Hammond's 2,500,000 performance rights granted on 14 November 2017 vesting upon the delivery of a Bankable Feasibility Study, expiring on 14 November 2017.

The fair value of performance rights granted to directors and KMP is estimated as at the grant date using the share price on the date of granting. During the period, there were 20,000,000 performance rights issued which replaced 5,000,000 performance rights issued in the prior year (as detailed above). The incremental fair value of the original performance rights and the replacement performance rights is calculated on the grant date of the replacement rights. Together with the fair value of the original performance rights, this incremental fair value is expensed over the estimated vesting period of the replacement performance rights.

The following table lists the inputs to the models for the half year ended 31 December 2018:

	Director Performance Rights
Grant date	17 September 2018
Number of performance rights	145,741,113
Share price	1.8 cents
Exercise price	0 cents
Weighted average fair value	1.8 cents
Total amount[1]	$2,683,340
Expensed in the current period[2]	$1,312,719

[1] Total amount is the incremental fair value of all replacement performance rights, plus the original value of all replaced performance rights.
[2] This amount includes the incremental fair value of all replacement performance rights, plus the original value of all replaced performance rights, recognised over the estimated vesting period.

As at 31 December 2018 there are 107,160,742 performance rights on issue (30 June 2018: 133,741,113 performance rights).

Options

During the half year the following options were issued:

Name	Share options Number	Exercise price	Grant date fair value	Grant date	Expiry date	Volatility	Risk free rate	Vesting date
Corporate Advisor	5,000,000	$0.04	$0.0025	17 Sep 2018	25 Sep 2019	90%	1.63%	Vested at date of grant
Corporate Advisor	5,000,000	$0.06	$0.0012	17 Sep 2018	25 Sep 2019	90%	1.63%	Vested at date of grant

$18,500 has been expensed in relation to these options in the current period.

The following table lists the inputs to the models for the valuation of the options:

	Corporate Advisor	**Corporate Advisor**
Grant date	17 September 2018	17 September 2018
Number of options	5,000,000	5,000,000
Share price	1.8 cents	1.8 cents
Exercise price	4.0 cents	6.0 cents
Weighted average fair value	0.25 cents	0.12 cents
Total amount	$12,500	$6,000
Expensed in the current period	$12,500	$6,000

As at 31 December 2018 there are 17,000,000 options on issue (30 June 2018: 17,500,000 options).

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Independent Auditor's Review Report to the Members of Pensana Metals Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Pensana Metals Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

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

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Emphasis of Matter – Material uncertainty related to going concern

We draw attention to Note 1 of the financial report, which describes the principal conditions that raise doubt about the Group's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. 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, anything has come to our attention that causes us to 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 consolidated financial position as at 31 December 2018 and its consolidated 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*.

Ernst & Young

Darryn Hall
Partner
Perth
15 March 2018

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Auditor's Independence Declaration to the Directors of Pensana Metals Limited

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

a) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review.

b) No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Pensana Metals Limited and the entities it controlled during the financial period.

Ernst & Young

Darryn Hall
Partner
15 March 2019