Interim Financial Report

MARGOSA GRAPHITE LIMITED

ABN 31 145 267 303

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

Page

CORPORATE DIRECTORY 1

DIRECTORS' REPORT 2

AUDITOR'S INDEPENDENCE DECLARATION 4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 5

CONSOLIDATED STATEMENT OF PROFIT OR LOSS 6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 8

CONSOLIDATED STATEMENT OF CASH FLOWS 9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS..10

DIRECTORS' DECLARATION..24

INDEPENDENT AUDITOR'S REPORT 25

CORPORATE DIRECTORY

Director
Mr John Arthur Shackleton
Mr Peter Thomas Cunningham
Mr Peter James Venn
Mr Varuna Nilanjeewa Mallawarachchi

Company Secretary
Kelly Ann Moore

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Share Registry
Automic Group
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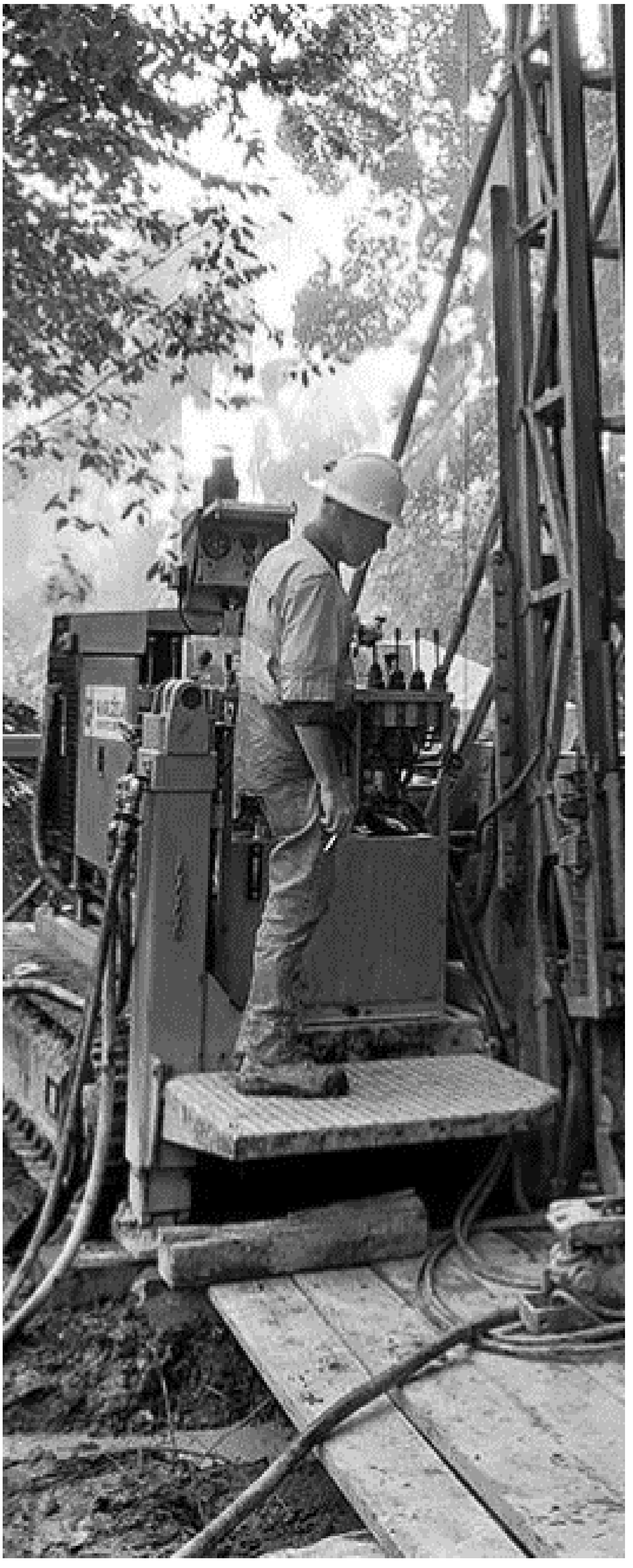
Legal Form of Entity
Public Company

Country of Incorporation and Domicile
Australia



DIRECTORS' REPORT

The Directors present their report together with the financial statements of Margosa Graphite Limited ("the Company" or "Margosa") and of the Group, being the Company and its subsidiaries for the financial half-year ended 31 December 2019 and the auditor's report thereon.

1. DIRECTORS

The names of Directors of the Company who held office during or since the end of the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated

Name	Position
John Arthur Shackleton	Executive Chairman
Peter Thomas Cunningham	Mining Director
Peter James Venn	Technical Director
Varuna Nilanjeewa Mallawarachchi	Non-Executive Director

2. REVIEW OF OPERATIONS

Margosa Graphite Ltd is a public unlisted company incorporated in Western Australia. The Company, through its subsidiaries ("the Group") is primarily involved in mineral exploration and development at Sri Lanka.

Operation review

Group Strategy

The Group's vision is to find, develop and mine high-grade vein graphite deposit in Sri Lanka, and become the leading supplier of this rare and superior graphite form.

Exploration and Development Activities

The Group has granted licences covering 200km2, and applications pending approvals on 103km2 over some of the most prospective graphite areas in southwest Sri Lanka. This tenure has drill ready EM targets supported by significant historical workings.

During the financial period, the Group undertook the following activities:

- Pathakada Prospect

A 14-hole diamond drilling program was completed prior to the 31 December 2019 for a total of 3029 metres to infill and test the open strike and down dip extents of the Conductor 1 Deposit. Independent mining consultants Measured Group Pty Ltd have been asked to update the existing Mineral Resource Estimate (MRE) that stands at 400,340 tonnes grading 79.12% TGC. An updated and upgraded MRE is due to be reported in early 2020.

Following the results of the positive inhouse Scoping Study in FY19, the Board decided to proceed with the Feasibility Study.

Works are currently in progress, including detailed metallurgical testing, geotechnical modelling and stope design, mine layouts, plant flowsheets and design, water balance, power requirements, infrastructure and services, environment and community investigations and management plans, health and safety procedures and economic evaluation. This study is due to be completed in 2020.

The Advanced Exploration Plan (AERP) that will allow the development of a 100m deep shaft for bulk sample and marketing product is due to be approved in the March 2020 quarter following the completion of a Community Water Program (CWP). The Industrial Mining Licence (IML) application that was submitted to the Geological Survey and Mines Bureau (GSMB) in June 2019 and is due to be approved by mid-2020, following the submission of the environmental impact study to the Central Environmental Authority (CEA).

Operational headframes, winders and associated mining equipment purchased in Australian for the Pathakada development shaft is nearing final refurbishment, whilst accommodation and other infrastructure will be purchased from an international supplier.

The consent of the surface owners and occupants is required for prospecting and mining purposes. There is no formal procedure for such consent, and it is a matter of consultation and negotiation with landowners and occupants. During the period the Group has entered lease and option to purchase arrangements covering the entire mine and infrastructure footprint within the Pathakada licence (EL/219).

Corporate Activities

The Company has raised $4,059,124 of equity during the half year ended 31 December 2019.

In late October 2019, the Group engaged the services of Aetas Global Capital (formerly Helmsec Asia) to assist with near term marketing initiatives and future capital raisings throughout Asia and Europe. First Asian roadshow to introduce the Group were carried out in November 2019.

The Directors believe the Group is well positioned to deliver significant shareholder value.

Financial review

a) *Operating results*

For the half year ended 31 December 2019, the Group delivered a loss before tax of $628,141 (31 December 2018: $541,630 loss).

b) *Financial positions*

The net assets of the Group as at 31 December 2019 were $7,614,815 (30 June 2019: $4,262,358).

Significant Changes in the State of Affairs

In the opinion of the Directors there were no matters that significantly affected the state of affairs of the Group during the financial year, other than those matters referred to in the overview above.

3. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001, is included in the Directors' Report for the financial half year ended 31 December 2019.

This Directors' Report is made in accordance with a resolution of the Directors.

John Shackleton
Executive Chairman
Margosa Graphite Limited
13 March 2019

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DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF MARGOSA GRAPHITE LIMITED

As lead auditor for the review of Margosa Graphite Limited for the half-year ended 31 December 2019, 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 Margosa Graphite Limited and the entities it controlled during the period.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 13 March 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 December 2019 $	30 June 2019 $
Assets			
Current assets			
Cash and cash equivalents		2,412,966	286,975
Trade and other receivables	4.1	110,512	53,044
Inventory		20,866	21,266
Prepayments		91,253	36,348
Total current assets		2,635,597	397,633
Non-current assets			
Exploration and evaluation expenditure	3.1	4,902,131	3,696,479
Property, plant and equipment	3.2	371,855	420,903
Right of use assets	3.3	323,636	-
Other assets		32,378	28,588
Total non-current assets		5,630,000	4,145,970
Total assets		8,265,597	4,543,603
Liabilities			
Current liabilities			
Trade and other payables	4.2	294,973	271,596
Lease liability	3.3	4,232	4,502
Total current liabilities		299,205	276,098
Non-current liabilities			
Lease liability	3.3	351,577	5,147
Total non-current liabilities		351,577	5,147
Total liabilities		650,782	281,245
Net assets		7,614,815	4,262,358
Equity			
Share capital	5.1	13,533,997	9,291,551
Share based payment reserve	6.1	12,542	255,000
Foreign currency translation reserve		44,966	64,356
Accumulated losses		(5,976,690)	(5,348,549)
Total equity attributable to equity holders of the Company		7,614,815	4,262,358

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 $	31 December 2018 $
Revenue from operating activities			
Other income	2.2	538	20,651
Expenses			
Consulting fees		(238,643)	(187,428)
Directors fees		(83,784)	(84,318)
Legal fees		(24,420)	(5,128)
Other operating expenses	2.3	(188,659)	(268,051)
Lease payments		(10,418)	(9,424)
Finance expenses	2.4	(31,073)	(6,827)
Amortisation		(5,804)	-
Depreciation		(2,063)	(1,727)
Share based payments		(28,292)	-
Foreign exchange gain/(loss)		(15,523)	622
Loss before income tax		(628,141)	(541,630)
Income tax expense		-	-
Loss for the year		(628,141)	(541,630)
Loss per share			
Basic and diluted (cents per share)		(1.02)	(1.14)

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 $	31 December 2018 $
Loss for the year		(628,141)	(541,630)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation difference of foreign operations		(19,390)	(91,110)
Total items that may be reclassified subsequently to profit or loss			
Total comprehensive loss for the year		(647,531)	(632,740)
Total comprehensive loss attributable to owners of the Company		(647,531)	(632,740)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Share capital $	Share based payments reserve $	Foreign currency translation reserve $	Accumulated Losses $	Total $
Balance at 1 July 2018	6,762,125	-	51,148	(4,042,899)	2,770,374
Loss for the period	-	-	-	(541,630)	(541,630)
Foreign exchange translation difference	-	-	(91,110)	-	(91,110)
Total comprehensive loss for the period	-	-	**(91,110)**	**(541,630)**	**(632,740)**
Contributions by and distributions to owners					
Issue of ordinary shares	1,464,204	-	-	-	1,464,204
Unissued shares	503,452	-	-	-	503,452
Share issue costs	(25,261)	-	-	-	(25,261)
Total transactions with owners	**1,942,395**	-	-	-	**1,942,395**
Balance at 31 December 2018	**8,704,520**	-	**(39,962)**	**(4,584,529)**	**4,080,029**
Balance at 1 July 2019	9,291,551	255,000	64,356	(5,348,549)	4,262,358
Loss for the period	-	-	-	(628,141)	(628,141)
Foreign exchange translation difference	-	-	(19,390)	-	(19,390)
Total comprehensive loss for the period	-	-	**(19,390)**	**(628,141)**	**(647,531)**
Contributions by and distributions to owners					
Issue of ordinary shares	3,313,815	-	-	-	3,313,815
Performance share vested	-	28,292	-	-	28,292
Performance share allotted	270,750	(270,750)	-	-	-
Share issue on convertible note	512,274	-	-	-	512,274
Unissued shares	241,857	-	-	-	241,857
Share issue costs	(96,250)	-	-	-	(96,250)
Total transactions with owners	**4,242,446**	**(242,458)**	-	-	**3,999,988**
Balance at 31 December 2019	**13,533,997**	**12,542**	**44,966**	**(5,976,690)**	**7,614,815**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 $	31 December 2018 $
Cash flows from operating activities			
Cash paid to suppliers and employees		(697,893)	(422,553)
Interest received		483	20,649
Net cash used in operating activities		(697,410)	(401,904)
Cash flows from investing activities			
Expenditure on exploration		(1,143,506)	(612,544)
Acquisition of plant and equipment		(8,413)	(9,177)
Net cash used in investing activities		(1,151,919)	(621,721)
Cash flows from financing activities			
Proceeds from share issue		4,059,123	209,999
Proceeds from rights issue		-	897,009
Proceeds from borrowings		-	710,000
Share issue costs paid		(96,250)	(25,261)
Lease payments		(5,424)	11,908
Repayment of convertible notes		-	(20,452)
Net cash from financing activities		3,957,449	1,783,203
Net decrease in cash and cash equivalents		2,108,120	759,578
Cash at the beginning of the year		286,975	178,711
Foreign exchanges variances on cash		17,871	8,454
Cash and cash equivalents at period end		2,412,966	946,743

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

SECTION 1 BASIS OF PREPARATION

The notes to the interim consolidated financial statements are grouped into the following six sections:

1. Basis of preparation
2. Results for the year
3. Assets and liabilities relating to exploration and evaluation
4. Working capital disclosures
5. Equity and funding
6. Other disclosures

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

1.1. GENERAL INFORMATION

The Company is a for-profit, unlisted public company domiciled in Australia. The Company's registered office is located at Suite 12, 177 Rokeby Road, Subiaco WA 6008.

The Group is primarily involved in graphite exploration and development in Sri Lanka.

The interim condensed consolidated financial statements of the Group as at and for the half-year ended 31 December 2019 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities") and were authorised for issue by the Board of Directors on 13 March 2020. The half-year financial statements are general purpose financial statements which:

- have been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.
- have been prepared on a historical cost basis, except for share-based payments which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- are presented in Australian Dollars, being the Company's functional currency.
- adopt all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2019. Refer to note 6.6 for further details; and
- do not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 30 June 2019 and considered together with any public announcements made by the Company during the half-year ended 31 December 2019 in accordance with the continuous disclosure obligations of the ASX listing rules.

1.2. BASIS OF CONSOLIDATION

The interim consolidated financial statements incorporate the interim financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each half year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

1.3. IMPAIRMENT

Non-financial assets

At each reporting date, the Group reviews the carrying amount of its non-financial assets, other than DTA's, to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

1.4. ACCOUNTING JUDGEMENTS AND ESTIMATE

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements are included as follows:

- **Fair value measurement**
  Due to their short-term nature, the carrying amount of the current receivables, current payables and current borrowings are assumed to approximate their fair value. Loans and borrowings are recognised at the fair value of the consideration received, net of transaction costs.

1.5. GOING CONCERN

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

For the half year ended 31 December 2019, the Group recorded a loss of $628,141 (2018: $541,630), and experienced net cash outflows from operating and investing activities of $1,849,329 (2018: $1,023,625). At 31 December 2019, the Group had net current assets of $7,614,815 (30 June 2019: $4,262,358). At 31 December 2019, the cash balance was $2,412,966 (30 June 2019 $286,975).

The ability of the Group to continue as a going concern is dependent on securing additional equity funding to continue to fund its operational and exploration activities. These conditions indicate a material uncertainty that may cast a significant doubt about the Group'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.

The Directors believe there are sufficient funds to meet the entity's working capital requirements and as at the date of this report. The financial report has been prepared on the basis that the Group 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 Directors have assessed the likely cash flow for a period to June 2021 and its impact on the Group and believe there will be sufficient funds to meet the entity's working capital requirements as at the date of this report. The achievement of the forecast is dependent on further fund raising;
- The Group has historically demonstrated its ability to raise funds to satisfy its immediate cash requirements, including raising $1,009,809 from private share placement between 1 January 2020 and the date of this report.

Should the Group not be able to continue as a going concern, it may be required to realise is assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the half-year financial report. The half-year 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 Group not be able to continue as a going concern.

SECTION 2 RESULTS FOR THE YEAR

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating profit.

2.1. OPERATING SEGMENTS

Accounting Policy

Operating segments are identified, and segment information disclosed, where appropriate based on internal reports reviewed by the Company's Board of Directors, being the Company's Chief Operating Decision Maker, as defined by AASB 8.

Information about reportable segments

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

The Group currently operates one operating segment being the graphite exploration in Sri Lanka.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2019.

2.2. OTHER INCOME

Accounting Policy

Other income is recognised when the amount can be reliably measured and control of the right to receive the income be passed to the Group.

	31 December 2019 $	31 December 2018 $
Interest income	482	-
Other income	56	20,651
	538	20,651

2.3. OTHER OPERATING EXPENSES

	31 December 2019 $	31 December 2018 $
Employee benefit expense	(8,578)	(9,464)
Insurance	(30,126)	(34,111)
Travel and accommodation	(89,936)	(167,550)
Computer, telephone and IT expenses	(21,851)	(18,731)
Other expenses	(38,168)	(38,195)
	(188,659)	(268,051)

2.4. FINANCE EXPENSES

	31 December 2019 $	31 December 2018 $
Interest expense		
Convertible notes	(8,822)	(6,099)
Interest on lease	(20,348)	-
Other interest expense	(1,903)	(728)
	(31,073)	(6,827)

SECTION 3 ASSETS AND LIABILITIES SUPPORTING EXPLORATION AND DEVELOPMENT

This section focuses on the assets and liabilities which form the core of the ongoing business, including those assets and liabilities which support ongoing exploration and evaluation.

3.1. EXPLORATION AND EVALUATION

Accounting Policy

Exploration and evaluation expenditures in relation to each separate area of interest are recognised as an exploration and evaluation asset in the year in which they are incurred where the following conditions are satisfied:

i. the rights to tenure of the area of interest are current; and
ii. at least one of the following conditions is also met:
   (a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or
   (b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Key estimates and judgements

Impairment of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Area of interest

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

	31 December 2019 $	30 June 2019 $
Opening balance 1 July	3,696,479	2,330,584
Additions	1,238,751	1,425,941
Expensed	-	(21,906)
Effects of foreign currency translation	(33,099)	(38,140)
Closing balance	4,902,131	3,696,479

For the period ended 31 December 2019, the recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

3.2. PROPERTY, PLANT AND EQUIPMENT

Accounting Policy

Key estimates and assumptions
Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is measured reliably. Repairs and maintenance expenditure are charged to the Group and the cost of the item can be measured reliably. Repairs and maintenance expenditure are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial period in which it is incurred.

Depreciation
The depreciable amount of all fixed assets is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use.
The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	*Depreciation Rate*
• Plant and Equipment	15 - 25%
• Office Equipment	20%
• Computer Equipment	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Derecognition
Carrying amounts of plant and equipment are derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.
Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in the Statement of Profit or Loss and Other Comprehensive Income.

	Plant & Equipment $	Office equipment $	Computer equipment $	Motor Vehicles $	Total $
Balance at 1 July 2018	478,659	2,528	5,539	-	486,726
Additions	28,026	-	3,259	22,033	53,318
Disposals	-	(2,528)	-	-	(2,528)
Depreciation expense	(96,711)	-	(1,274)	(4,186)	(102,171)
Effects of foreign currency translation	(14,047)	-	(307)	(88)	(14,442)
Balance at 30 June 2019	395,927	-	7,217	17,759	420,903
Balance at 1 July 2019	395,927	-	7,217	17,759	420,903
Additions	7,484	-	929	-	8,413
Transfers	2,165	-	(2,165)	-	-
Disposals	-	-	-	-	-
Depreciation expense	(50,540)	-	(724)	(2,228)	(53,492)
Effects of foreign currency translation	(3,625)	-	(78)	(266)	(3,969)
Balance at 31 December 2019	**351,411**	-	**5,179**	**15,265**	**371,855**

3.3. RIGHT OF USE ASSETS & LEASE LIABILITY

Accounting Policy

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Measurement
The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated amortisation and impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Amortisation
Right-of-use assets are amortised over the shorter period of lease term and useful life of the underlying asset on a straight-line basis.

Key estimates and judgements
Critical judgements in determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Critical judgements in determining the incremental borrowing rate
The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to lease an asset of similar value in a similar economic environment with similar terms and conditions.

	31 December 2019 $	30 June 2019 $
(a) Right of use assets		
Land & Building		
Opening balance 1 July	-	-
Effect of adoption of AASB 16	325,078	-
Adjusted opening balance 1 July	**325,078**	-
Additions	6,289	-
Amortisation	(7,923)	-
Effects of foreign currency translation	192	-
Closing balance as at 31 December 2019	**323,636**	-

3.3 RIGHT OF USE ASSETS & LEASE LIABILITY (continued)

	31 December 2019 $	30 June 2019 $
(b) Lease liabilities		
Lease liabilities		
Current		(14,515)
Non-current	(6,289)	(14,515)
Total		
Movement		
Closing balance 1 July	9,649	-
Effect of adoption of AASB 16	(325,078)	-
Adjusted opening balance 1 July	**(334,727)**	-
Additions	(6,289)	(14,515)
Interest	(21,305)	(1,459)
Lease payments	6,021	5,591
Effects of foreign currency translation	491	734
Closing balance as at 31 December 2019	**(355,809)**	**9,649**

(c) Material leases

The table shows the material leases as at 31 December 2019.

Lease name	Term	Expiry date	Details
Perth office	12 months	1 May 2019	Lease for office premise in Perth.
Pathakada Land 1	35 years	31 March 2049	Lease of land and property in which the Pathakada Exploration licenses are located at
Pathakada Land 2	18 months	10 November 2020	Lease of land in which the Pathakada Exploration licenses are located at
Motor Vehicle	36 months	30 June 2021	Lease of motor vehicles to be used on site.
Colombo Office Premise 2020 (i)	36 months	30 November 2022	Lease of office premises in Colombo.
Colombo Office Premise (now terminated) (i)	24 months	30 September 2020	Lease of an office premise in Colombo. Lease was terminated in December 2019.

(i) During the period ended 31 December 2019, the Sri Lanka office was moved. The previous lease (Colombo Office Premise) has been terminated and the Colombo Office Premise 2020 lease has been entered.

3.4. COMMITMENTS

During the half year, The Group has terminated the lease on the previous office premise in Sri Lanka and entered into a new lease agreement for an office premises for the period 1 December 2019 to 30 November 2020. There were no other significant changes in commitments held by the Group since the last annual reporting date.

SECTION 4 WORKING CAPITAL DISCLOSURES

This section focuses on the cash funding available to the Group and working capital position at year end.

4.1. TRADE AND OTHER RECEIVABLES

	31 December 2019 $	30 June 2019 $
Other receivables	12,946	13,142
GST receivables	97,566	39,902
	110,512	53,044

4.2. TRADE AND OTHER PAYABLES

Accounting Policy

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

	31 December 2019 $	30 June 2019 $
Current		
Trade payables	251,699	239,285
Other payables and accrued expenses	43,274	32,311
	294,973	271,596

SECTION 5 EQUITY AND FUNDING

This section focuses on the share capital, options and debt funding available to the Group at year end.

5.1. CAPITAL AND RESERVES

Accounting Policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(a) Share capital

	6 months to 31 December 2019		Year to 30 June 2019	
	Number of shares	Amount in $	Number of shares	Amount in $
Movements in ordinary shares on issue:				
On issue at 1 July	55,941,933	9,291,551	45,681,430	6,762,125
Share issue - share placement	-	-	1,050,000	210,000
Share issue convertible note (i)	2,561,370	512,274	960,980	192,196
Share issue - rights issue at $0.20	-	-	7,149,523	1,429,904
Share issue - share placement at $0.20	-	-	125,000	25,000
Share issue - share placement at $0.35	9,468,046	3,313,815	-	-
Performance shares (ii)	1,320,001	270,750	-	-
Share based payments	-	-	975,000	195,000
Unissued share – prior period (i)	-	(503,452)	-	503,452
Unissued share – current period (iii)	-	745,309	-	-
Share costs	-	(96,250)	-	(26,126)
On issue at end of the period	69,291,350	13,533,997	55,941,933	9,291,551

(i) Unissued share prior period relates to convertible note with an interest of 7% per annum, with a repayment date of 12 months has been converted into shares during the period at 20 cents per share. The shares were allotted post 30 June 2019.

(ii) Refer to note 6.1 for details on performance shares and share based payments.

(iii) Unissued share in the current period relates to cash that has been received but the shares were allotted post 31 December 2019.

The Company is a public unlisted company limited by shares. The Company is incorporated in Australia. The Company's shares are limited whereby the liability of its members is limited to the amount (if any) unpaid on the shares respectively held by them.

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

(b) Translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. Exchange differences previously accumulated in the foreign currency translation reserve are reclassified to profit or loss on the disposal of the foreign operations.

SECTION 6 OTHER DISCLOSURES

The disclosures in this section focus on other mandatory disclosures, such as details of related party transactions.

6.1. SHARE BASED PAYMENT

(a) Share payment in lieu of cash

During the period ended 31 December 2019, the Company has issued 14,286 shares at $0.35 in lieu of cash payments to Hamish Fraser for his consulting services in relation to the exploration activities.

In the prior period, the Company has issued shares in lieu of cash payments for Director fees and consulting fees as follows:

- On 7 December 2018, the Company had issued 255,000 shares at $0.20 to Noralee Pty Ltd, a company associated with John Shackleton for his Director fees, consulting fees and disbursements;
- On 7 December 2018, the Company had issued 570,000 shares at $0.20 to Peter Venn for his Director fees, consulting fees and disbursements $114,000; and
- On 9 June 2019, the Company had issued 150,000 shares at $0.20 to Hamish Fraser for his consulting services provided in relation to the exploration activities.

(b) Performance shares to Directors

On 28 September 2017, the Company passed a resolution to issue a total of 3,125,000 Performance Rights to the directors of the Company. The issue of the Performance Rights as follow:

Directors	Class A Performance Rights	Class B Performance Rights
Peter Venn	575,000	575,000
John Shackleton	575,000	575,000
Peter Cunningham	-	575,000
Varuna Mallawarachchi	125,000	125,000

The terms of the Performance Rights are as follow:

Class of Performance Rights	Performance Conditions	Expiry date
Class A Performance Right	Prior to 31 March 2019 the Company discovers an Indicated Mineral Resource" of at least 100,000 tonnes having a grade exceeding 80% graphite (Cg).	31 March 2020
Class B Performance Right	Prior to 31 March 2020 the Company both: (1) completes a Feasibility Study on one of the Company's Sri Lankan graphite projects; and (2) is granted a Category A Industrial Mining License (IML) by the Geological Survey and Mines Bureau of Sri Lanka in respect of one of the Company's Sri Lankan graphite projects;	31 March 2021

The Performance Right only vest when the Performance Conditions have been satisfied, and the holder of the Performance Rights has 6 months after the vesting date to exercise the Performance Rights.

During the prior year ended 30 June 2019, the Directors have determined that a high probability of the performance conditions for Class A Performance Rights being met. On this basis, 1,275,000 of Class A Performance Rights at $0.20 each have been expensed in the 30 June 2019 financial year as share based payments. On 29 July 2019, the Class A Performance Rights has vested and exercised. 1,275,000 shares were allotted to the holders of the Performance Rights.

At 31 December 2019, the Directors were continuing to assess the possibility of vesting conditions for Class B Performance Right being met. The application for IML has been submitted and is currently pending.

6.1 SHARE BASED PAYMENT (continued)

(c) Performance shares to Employees

On 19 August 2019, the Company passed a resolution to issue a total of 242,511 Performance Rights to the employees of the Company. The issue and terms of the Performance Rights are as follow:

Class	Number issued	Performance Conditions	Expiry date
Class C Performance Right	80,837	Prior to 31 March 2021 the Company discovers an Indicated Mineral Resource" at Pathakada of at least 100,000 tonnes having a grade exceeding 80% graphite (Cg).	31 March 2021
Class D Performance Right	80,837	Prior to 31 March 2020 the Company is granted a Category A Industrial Mining License (IML) by the Geological Survey and Mines Bureau of Sri Lanka in respect of one of the Company's Sri Lankan graphite projects;	31 March 2021
Class E Performance Right	80,837	Prior to 31 March 2021 the Company discovers an Indicated Mineral Resource" at Aluketiya of at least 100,000 tonnes having a grade exceeding 80% graphite (Cg).	31 March 2021

The Performance Right only vest when the Performance Conditions have been satisfied, and the holder of the Performance Rights has 6 months after the vesting date to exercise the Performance Rights.

During the 31 December 2019 half year, the Directors have determined that the performance conditions for Class C Performance Rights are met. On this basis, 80,837 of on Class C Performance Rights at $0.35 each have been allotted and expensed in the half year as share based payments. The valuation of $0.35 is based on the private placement to sophisticated shareholders during the period. As at 31 December 2019, 45,001 of the Class C Performance Rights have been exercised and converted to shares. The remaining 35,826 performance rights has been expensed in the share-based payment reserve.

At 31 December 2019, the Directors were continuing to assess the possibility of vesting conditions for Class D and Class E Performance Right being met. The application for IML has been submitted and is currently pending.

(d) Share based payment reserve

The share-based payment reserve is used to record the value of equity benefits provided to Directors and employees as part of their remuneration.

	31 December 2019 $	30 June 2019 $
Opening balance 1 July	255,000	-
Class A Performance Rights – expensed (i)	-	255,000
Class A Performance Rights – exercised (i)	(255,000)	-
Class C Performance Rights – expensed (ii)	28,292	-
Class C Performance Rights – exercised (ii)	(15,750)	-
Closing balance	12,542	255,000

(i) In the 30 June 2019 financial year end, an expense of $255,000 has been recognised in the share-based payment reserve due to the high probability of the performance conditions for Class A Performance Right being met. On 29 July 2019, these Performance Rights were exercised and converted to shares.

(ii) During the half year ended 31 December 2019, $26,293 has been expensed in the reserve due to performance conditions for Class C Performance Right being met and $15,750 relating to the Class C performance Right were exercised and converted to shares. The remaining $12,542 of the unexercised performance rights has been expensed into the share-based payment reserve

6.2. RELATED PARTIES

	31 December 2019 $	31 December 2018 $
Short term employee benefits	70,002	67,919
Post-employment benefits	-	-
	70,002	67,919

Other key management personnel transactions

There have been no material changes to related party transactions in the Group since the last annual reporting date except for issuance of Class A Performance Rights to directors (see note 6.1b).

6.3. SUBSIDIARIES

Details of the Group's material subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the Group	
			31 December 2019 %	30 June 2019 %
Margosa Holdings (Australia) Pty Ltd	Holding company	Australia	100	100
Margosa Investments Pvt Ltd	Holding company	Sri Lanka	100	100
Lankan Resources & Mining Pvt Ltd	Exploration	Sri Lanka	100	100

6.4. SUBSEQUENT EVENTS

Between 1 January 2020 and the reporting date, the Company has raised a further $1,009,809 through private placement with investors at $0.35 per share.

The remaining holders of Class C Performance Rights have exercised their rights and the Company has issued 35,838 shares to employees.

6.5. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2019 (30 June 2019: nil).

6.6. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Except for the changes below, the Group has consistently applied the accounting policies set out in the notes to the consolidated financial statements to all periods presented in these consolidated financial statements.

The Group has adopted all new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. The Group had to change its accounting policies as a result of adopting AASB 16 Leases. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

a) AASB 16 Leases

The Group has adopted AASB 16 *Leases* from 1 July 2019 retrospectively but has not restated comparatives for the 2019 reporting period as permitted under the specific transition provisions in the standard. AASB 16 replaces AASB 117 Leases along with three interpretations. Under the new standard, right of use assets are recognized along with the related lease liability in connection with all operating leases except for those identified as low-value or having a lease term of less than 12 months.

There adoption of AASB 16 resulted in a recognition of right of use assets of $325,079 and lease liabilities of $325,079 on 1 July 2019, and changes in accounting policy (see note 3.3).

DIRECTORS' DECLARATION

The Directors of the Group declare that:

1 The financial statements and notes are in accordance with the Corporations Act 2001, and:

(a) comply with Australian Accounting Standard AASB 134: Interim Financial Reporting, the Corporations Regulations 2001, and other mandatory reporting requirements; and

(b) give a true and fair view of the financial position as at 31 December 2018 and of the performance for the half year ended on that date of the Group;

2 The Chief Executive Officer and Chief Financial Officer have each declared that:

(a) the financial records of the Group for the financial year have been properly maintained in accordance with section 266 of the Corporations Act 2001;

(b) the financial statements and note for the half year comply with the Accounting Standards; and

(c) the financial statements and notes for the half year give a true and fair view.

3 In the Directors' opinion there are reasonable grounds to believe that the Group 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.

John Shackleton
Executive Chairman
Margosa Graphite Limited

13 March 2020

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Margosa Graphite Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Margosa Graphite Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, 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, and 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 2019 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 the Corporations Regulations 2001.

Emphasis of matter – Material uncertainty relating to going concern

We draw attention to Note 1.5 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 2019 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, 13 March 2020