



**MARGOSA**  
GRAPHITE LIMITED



# ANNUAL REPORT 30 JUNE 2021

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Directors	Mr John Shackleton Mr Peter Cunningham Mr Peter Venn Mr Varuna Mallawarachchi Mr Donald James
Company secretary	Ms Kelly Moore
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Bankers	Westpac Banking Group Limited Westpac Bank Centre, 109 St Georges Terrace, Perth WA 6000 <a href="http://www.westpac.com.au">www.westpac.com.au</a>
Share Registry	Automic Group Level 2, 267 St Georges Terrace, Perth WA 6000 Ph: 1300 288 664 <a href="http://www.automicgroup.com.au">www.automicgroup.com.au</a>
Legal Form of Entity	Public Company
Website	<a href="http://www.margosagraphite.com">www.margosagraphite.com</a>

Dear Fellow Shareholders

The 2020/21 financial year was a challenging year for our business and industry. Over the last 12 months we have continued to navigate our way through the health, social and economic impacts of the global COVID-19 pandemic. The pandemic is now very much becoming a part of our everyday lives and whilst there are still many uncertainties ahead of us, we are adapting and moving forward positively.

Against the backdrop of the global and ongoing COVID-19 pandemic, Margosa Graphite Limited ('the Company' or 'Margosa'), has continued to deliver our core functions, adopt new, world-best practices and technologies that enable us to generate long term future value for our stakeholders.

This means keeping our people safe, progressing with the development of the Ridee Ganga Vein Graphite Project, exploring other Company project areas and investigating other opportunities within the graphite space in Sri Lanka. Our management team has operated remotely, successfully guiding our Sri Lankan based workforce effectively during continual in-country lockdowns and curfews to deliver the progress.

Achievements during FY21 include the following:

- Successfully safeguarding the health and wellbeing of our workforce during the COVID 19 global pandemic;
- Successful completion of the Technical Feasibility Study for our Ridee Ganga Project located at Pathakada. The financial model output indicates a Pre-tax Net Present Value of USD 258.2 million at a 10% discount rate. The Pre-tax Internal Rate of Return is 70% and the payback period is 3.83 years;
- Receiving Advanced Exploration and Restoration Plan approval from the Geological Survey and Mining Bureau for the refurbishment and development of a shaft at the Ridee Ganga Vein Graphite Project, Pathakada, Sri Lanka;
- Appointment of Donald James to the Margosa Board. Donald brings key corporate and operational knowledge, skills and experience that is invaluable with assisting Margosa navigate through and deliver on its next phase of development;
- Further testing of high priority targets with encouraging results by the in-country Exploration team within the Pathakada license, close to the Ridee Ganga deposit; and
- Positioning the Company well for its next phase of growth and development.

The Board acknowledges and appreciates the continuing support provided to Margosa during the past financial year by its shareholders, workforce and other stakeholders. Management recognises Margosa cannot achieve long-term sustainability without setting clear strategic objectives that promote positive and meaningful development in social, environmental and governance outcomes. Specifically, the Board recognises the importance and benefits of enhancing workforce diversity and inclusiveness and has set itself the following objectives for the next financial year:

- Developing and adopting modern work practices and technologies to best extract and process graphite ore targeting a smaller mining footprint and less waste;
- Engaging the services of experts to potentially simplify and optimise the current flow sheet for the graphite processing route to further enhance recoveries and enable the reduction of emissions within our proposed operations; and
- Ensuring the Margosa Board collectively has the requisite expertise, industry knowledge and experience, and diversity to successfully deliver on the next stage of the Company's development. Areas of focus for the board include, strategy development and execution, risk management, governance, international operations management and delivering on its commitments to shareholders, stakeholders, the workforce and the broader communities that we operate in.

On behalf of the Directors, I'd like to thank the Margosa team for remaining diligent and health conscious during these difficult and challenging times, and, for maintaining a positive and proactive approach to tasks made even more complicated by COVID-19.

We look forward to FY22 as we gear up to return to Sri Lanka and create and deliver value for our investors

Sincerely



**John Shackleton**  
Executive Chairman  
**Margosa Graphite Ltd**



The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Margosa Graphite Limited (referred to hereafter as the 'Company' or 'Margosa') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

## **Directors**

The following persons were Directors of Margosa Graphite Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr. John Shackleton (Executive Chairman)  
Mr. Peter Cunningham (Mining Director)  
Mr. Peter Venn (Technical Director)  
Mr. Varuna Mallawarachchi (Non-executive Director)  
Mr. Donald James (Non-executive Director)

## **Information on Directors**

Name: John Shackleton  
Title: Executive Chairman  
Experience and expertise: John is a professional with over 35 years of experience in the mining industry from construction to management duties in gold and base metal projects. John has Project Management experience in Australia, multiple African countries, the USA, Philippines and Dominican Republic, dealing with both local and government agencies.

Interest in equity:  
Shares 5,729,998  
Performance rights 450,000

Name: Peter Cunningham  
Title: Mining Director  
Experience and expertise: Peter is a highly qualified mining engineer with over 39 years of experience in mine development and management in Australia, Asia and Africa. He has extensive prior experience being at Senior Executive and Board levels.

Interest in equity:  
Shares 1,050,000  
Performance rights 275,000

Name: Peter Venn  
Title: Technical Director  
Experience and expertise: Peter is a Geologist with over 30 years of experience and achievement in the global resources sector. After commencing his career in the WA Goldfields as a consultant he held senior and executive roles with Resolute Mining Limited in Africa and Australia for more than 20 years. Peter has established and led highly successful teams and has been closely involved in the exploration, acquisition, evaluation and development of more than ten gold mines.

Interest in equity:  
Shares 1,490,298  
Performance rights 275,000

Name: Varuna Mallawarachchi  
 Title: Non-executive Director  
 Experience and expertise: Varuna has 30 years legal experience and Senior Partner at Mallawarachchi Associates: A Sri Lankan law firm specializing in corporate advisory services. He is a recognised expert in labour law. He has held board level positions in several local mining companies.

Interest in equity  
 Shares 4,722,134  
 Performance rights 275,000

Name: Donald James – appointed 17 May 2021  
 Title: Non-executive Director  
 Experience and expertise: Donald is a Chartered Accountant with extensive financial and corporate experience in high value private and listed public companies. He has held strategic key management positions and non-executive director roles in developing and operational entities, within which he has demonstrated a strong focus on delivering high return business outcomes. Donald commenced his career with six years at PricewaterhouseCoopers and more recently has been a member of group executive leadership teams in ASX 200 companies, with specific accountability in roles including Chief Executive – Investments, Chief Operating Officer and Chief Financial Officer.

Interest in equity  
 Shares -  
 Performance rights -

### **Company secretary**

*Ms Kelly Moore*

Ms Moore is a qualified Chartered Accountant and Company Secretary with extensive experience in providing accounting and secretarial advice to public companies. Ms Moore holds a Bachelor of Commerce degree from the University of Western Australia, is a member of the Institute of Chartered Accountants Australia and New Zealand, is a graduate of the Australian Institute of Company Directors and an associate member of the Governance Institute of Australia.

### **Meetings of Directors**

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2021, and the number of meetings attended by each Director were:

	<b>No of meetings held whilst a</b>	
	<b>attended</b>	<b>director</b>
John Shackleton	7	7
Peter Cunningham	7	7
Peter Venn	7	7
Varuna Mallawarachchi	6	7
Donald James	2	2

Held: represents the number of meetings held during the time the Director held office.

### **Principal activities**

The Company, through its subsidiaries is primarily involved in mineral exploration and development at Sri Lanka.

## **Review of operations**

### **Overview**

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

### **Company Strategy**

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

### **Company Milestones for the financial year ended 30 June 2021**

- (1) The Company, updated the Ridee Ganga Vein Graphite Project ('Ridee Ganga Project') Mineral Resource Estimate (MRE), that delivered a threefold increase in tonnages and contained graphite and completed a Pre-Feasibility Study report,
  - with the assistance of BDO Corporate Finance WA Pty Ltd (BDO) constructed a Financial Model and prepared a Financial Model Report on the projects fundamentals and;
  - with the assistance of Measured Group Pty Ltd (Measured Group) completed a Mining Plan and Mining Report based on the updated MRE also prepared by the Measured Group,
  - with the assistance of other independent geotechnical, metallurgical and marketing consultants.Results from the PFS has estimated development plans, schedules, cash flows and vein graphite production over a 15-year mine life (LOM).  
The financial model indicates a Pre-tax Net Present Value (NPV) of USD 258.2 million at a 10% discount rate. The study Pre-tax Internal Rate of Return (IRR) is 70% with a payback period of 3.83 years. The post-tax NPV is US \$220.7 million at 10% discount rate and the post-tax IRR is 64% with a payback period of 3.92 years.
- (2) The Company received an Advanced Exploration and Restoration Plan ('AERP') approval from the Sri Lankan Geological Survey and Mining Bureau ('GSMB') for the refurbishment and development of a shaft at the Ridee Ganga Project.
- (3) Exploration and drilling programs continued and were executed by the Company's in-country Exploration team. and high priority targets close to the Ridee Ganga deposit were drilled with encouraging results.
- (4) The Company successfully adopted practices to help protect and keep safe its Sri Lankan employees, consultants, and contractors, prior to, and during the COVID-19 pandemic.

### **Projects Review**

A review of work on the Pathakada licence (EL/219), and over the Company's other Sri Lankan licence areas during the year and planned programs for the next year is set out below:

#### **Pathakada EL 219**

##### **Technical Pre-Feasibility**

During the financial year, the Company has successfully completed its Technical Feasibility Study for the Ridee Ganga Project located within the Pathakada EL/219 licence area.

Based on the Mineral Resource Estimate ('MRE') prepared by Measured Group in April 2020, there are 1,316,190 t of contained vein graphite associated with the Ridee Ganga Project. A mining model has assumed the mining of viable Indicated Resources, and a portion of the Inferred Resource (as per industry standard procedure). Of the contained graphite outlined in the MRE, only 470,610 t are forecast to be mined. The model does not account for, nor values, the remaining portion of the MRE outside the mine plan. The remainder of the resource, although not valued represents a significant opportunity for the operation to consolidate further mine life and increase production levels as the market may demand

Margosa engaged BDO to construct and prepare a financial model and report as part of the Feasibility Study for the Ridee Ganga Project. The model estimates the future cash flows expected from vein graphite production from the Project, calculated on a monthly basis over the 15-year life of mine.



As per the model, the capital expenditure requirement for mining at Ridee Ganga is USD 55 million and for the graphite processing plant USD 29 million, over the life of mine (in nominal terms). The life of mine average total operating cost is estimated at USD 603/t. At an average sale price of graphite concentrate of USD 1,980/t, the financial results indicate a Pre-tax Net Present Value ('NPV') of USD 258.2 million at a 10% discount. The Pre-tax Internal Rate of Return ('IRR') is 70% with a payback period of 3.83 years. The Post-tax NPV is USD 220.7 million at a 10% discount. The Post-tax IRR is 64% and the payback period is 3.92 years. The Company considers the payback period as realistic, based on the development and ramp-up strategy adopted by the Company.

During the year, infill, and extensional drilling continued at the Ridee Ganga Project to reclassify and further upgrade the MRE and possible mining inventory.

### *Metallurgy*

A graphite processing flow sheet was developed based on detailed metallurgical test work and was presented in the Pre-Feasibility Study. This flowsheet was represented by a simple crush-sensor sort, grind-float circuit and is anticipated to have a very low capital cost, provide highly competitive operational costs, high recovery percentages and deliver high concentrate grades (+97%TGC) at a number of particle fractions.

Further test works have recently commenced at Nagrom Laboratories, Perth to refine and optimise the flotation flow sheet consisting of the following:

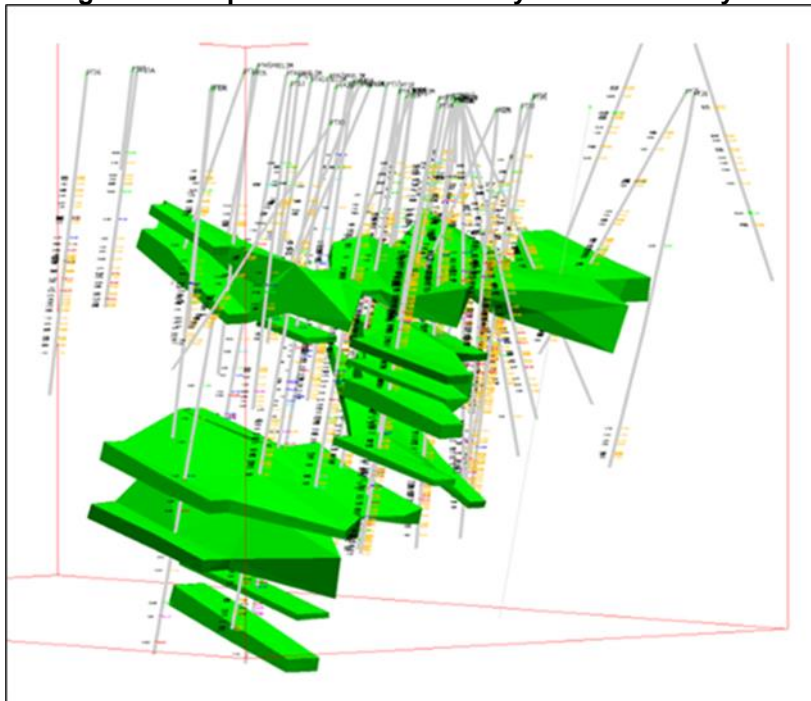
- Finer resolution of particle size vs TGC for the less than 75 um fraction of the concentrate
- Run a number of simpler flotation circuit tests utilising less cleaner and regrind stages to verify if the overall process circuit can be further improved
- Test different collectors and frother, as well as addition of a suppressant within the flotation circuit.

### *Mining*

The Ridee Ganga Project has been significantly advanced over the last year with the following developments undertaken:

- Resource drilling at Ridee Ganga continued and resulted in a much larger and better-defined MRE
- An upgraded JORC 2012 compliant resource was calculated and reported by the Measured Group
- A feasibility level mine study based on the resource was completed by the Measured Group
- Optimisation of extraction methods demonstrated the viability of bulk mechanised stoping and development practices
- An innovative, but untested, selective hydraulic mining method has been proposed to exploit veins not amenable to bulk methods
- Executable mine plans and schedules have been developed and are ready for implementation on approval of an Industrial Mining License ("IML") for the Project
- The mine has an expected life, based on the current resource and plans, of 15 years but with mineralisation open in all directions it is possible the Life of Mine will be extended
- The AERP was approved by the GSMB for development of an exploration shaft and production of bulk samples
- COVID-19 has delayed the environmental and IML approvals, so apart from continuing exploration there were no ground-based activities undertaken

**Figure 1 - Graphite Pods Identified by Drill Core Analysis**



#### *Approval of Advanced Exploration and Restoration Plan*

The AERP approval was signed on 15 December 2020 by the Director General of the GSMB, Eng. De Sajjana De Silva, and Lankan Resources & Mining (Pvt) Ltd.'s ('LRM') Company Director, Kanchana Kodituwakku. LRM is the wholly owned Sri Lankan subsidiary company of Margosa.

The approval of the AERP means the Company may proceed with dewatering and shaft development. The primary objectives of the shaft development will include:

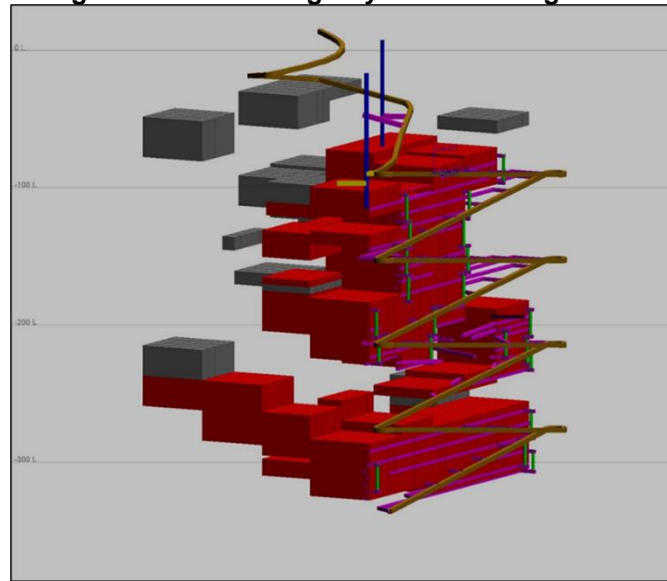
- confirming lithostructural information and vein geometry;
- mining bulk samples of graphite ore for finalisation of metallurgy and advance marketing and off-take negotiations;
- confirming mine plan assumptions and assessments such as geotechnical properties, extraction and vein recovery factors, hydrological conditions, and material handling aspects; and
- providing ventilation, services and emergency egress for future mine development.

These activities have been delayed due to the COVID 19 restrictions and are set to restart in early FY22.

#### *Mining Development*

Independent consultants, Measured Group Pty Ltd, Brisbane were awarded a scope of work to undertake mining studies for the Ridee Ganga Project. These studies form part of the technical Pre-Feasibility Study which has been completed. The final mine plan adopted is based on mechanised decline access, bulk mining envelopes amenable to those methods and hydraulic selective methods targeting veins not within bulk envelopes.

Figure 2 - Ridee Ganga Hydraulic Mining Areas

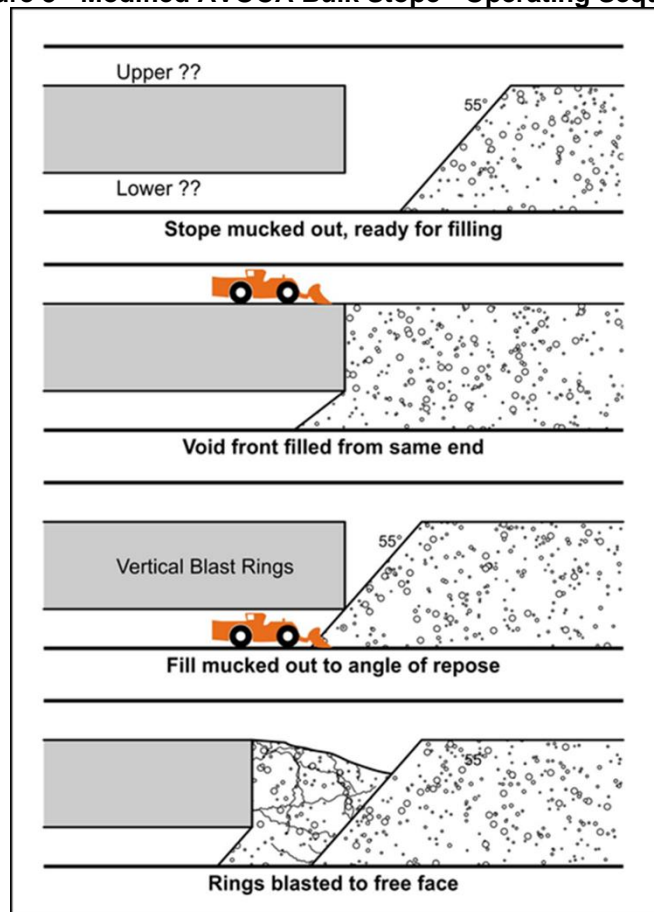


Other methods of extraction have been considered in undertaking the mine study but are not expected to deliver comparable results and do not utilise the resource at high levels.

The Mine Development Plan includes;

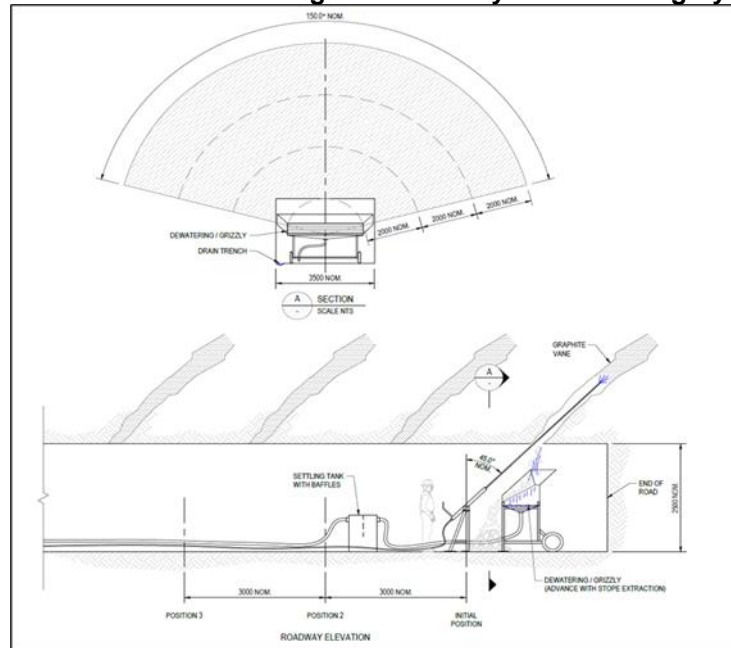
- Excavation of a serviced shaft to 65 vertical metres (AERP) and extraction of up to 100 tonnes of ore as a bulk sample for metallurgical testing and market development. The shaft will connect to the decline at a later date and will serve as the mine emergency egress, provide mine ventilation, and allow service installation to carry power, water, compressed air, and pump discharge lines.
- Development of a decline grading 1:7 having a clear dimension of 3.5m by 3.5m as the primary mine access.
- Equipment employed for development will include mobile diesel loaders, low profile off-highway articulated trucks, and an electric hydraulic jumbo drilling machine.
- A support membrane (shotcrete/fibrecrete) will be applied to all primary development walls, as recommended by the independent geotechnical report.
- A modified Avoca method will be the main method of bulk ore extraction. This highly productive method that has been modified to cater for the specific requirements of the Ridee Ganga resource. A graphite overcall is expected from the bulk envelopes because the geological model and resource do not include the significant number of veins with thicknesses of less than 5cm.
- Avoca stopes will be progressively backfilled, and the fill placed in every odd panel will be consolidated with cement. This enables extraction of adjacent panels once the fill has set.

Figure 3 - Modified AVOCA Bulk Stope - Operating Sequence



Selective hydraulic mining has been adapted from coal mining environments for use to extract graphite veins in areas not amenable to bulk mining. This method is somewhat experimental for graphite but has been used successfully to mine narrow coal seams. High pressure water is used to lance graphite from narrow seams and is recovered in settling vessels and sumps. The country or host rocks are of contrasting competency so largely remain unaffected by the water blast. This method will supplement production with higher grade ore and may offer opportunity to market some high-grade course material.

**Figure 4 - Process Flow Diagram for the Hydraulic Mining System**



**Exploration**

Exploration activities have continued throughout FY20/21 at Pathakada EL/219. Both the Exploration Manager and Drilling Superintendent managed activities remotely due to border closures and travel restrictions due to the COVID-19 pandemic.

Initially, drilling focused on untested geophysical targets within the EL/219 tenement, but with the ensuing COVID-19 pandemic restrictions, exploration activities retreated back to the Ridee Ganga Project site, and drilling commenced on further infill and extensional holes within and outside the current MRE model. Nagrom Laboratories in Perth, Australia are currently processing the samples from these drilling activities.

The Company's drill superintendent along with Alton Drilling (New Zealand), commissioned a purpose built, exploration diamond drill rig in August 2020. This mobile, light weight, containerised diamond drill rig and all the associated drilling equipment is now ready for shipment to Sri Lanka. The drill rig has remained in New Zealand pending travel restrictions and arrival of the Margosa management team back into Sri Lanka in 2021. This rig is designed to test the Company's other very priority targets, some of which are in more difficult terrain

**Figure 5 – Purpose built diamond drill rig**



### **Aluketiya EL218**

- The Aluketiya Project is located in the Kalutara district. The Aluketiya area is recognised as one of the richest areas for past graphite production. This area was last surveyed by the GSMB in 1974, with 474 pits at 108 localities described, with depths ranging from 100 to 780 feet.
- Aluketiya has three high priority targets. These targets were identified during the 2017 AEM survey and all represent walk-up drill targets as EM data indicates the strike and dip direction of the graphite conductors.
- A 7-hole drill program was completed in 2019 to test one of these targets, focusing on geophysics, geological structures (i.e. faults, antiforms). Significant vein graphite mineralisation was identified in drill core and additional drilling is planned in Aluketiya for FY22.

### **Dumbara EL264, EL311, EL312, EL313**

- The Dumbara Project is located about 55 km southeast of Colombo and is recorded as the first area to be commercially mined for graphite in Sri Lanka in the 1850s.
- The GSMB surveyed the Dumbara area in 1975 and examined 327 localities and identified abandoned graphite mines and pits at 45 locations (Ceylon Geological Survey, 1975).
- Initial field work by the Company has located numerous historical mine workings with substantial concrete foundations remnant from processing facilities. The September 2017 Airborne EM ("AEM") survey was flown to locate new mineralisation and assess remnant potential within areas previously mined. This project is a Tier 1 target for exploration and future development.
- The Dumbara Project comprises four exploration licences. Due to the topography and increased flight heights, the targets generated from the AEM were not quite as clear as the information returned from Pathakada and Aluketiya. As a result, the Company's geophysical consultants Southern Geoscience (SGC) have recommended follow-up FLEM surveys to be conducted over the most prospective outlined anomalies. The aim of this work will be to confirm the size depth and orientation of the already outlined AEM anomalies. This will ultimately aid in the designing and refining of drill campaigns.
- Detailed field mapping undertaken in 2019/2020, has enhanced several of the priority targets.

### **Waharaka EL294**

- The Waharaka Project is located about 40 km east north east of Colombo and about 15 km southwest of the Graphit Kropfmuhl's Bogala graphite mine, which has operated for nearly 150 years and is currently over 500 m deep.
- Government mapping indicates numerous graphite occurrences.
- Field mapping by the Company has located clusters of historical mine workings, including shafts, adits and remnant foundations. Further mapping in this area has been hampered by COVID-19 restrictions
- Vein graphite mineralisation was noted around some of the old workings. Bulk sample ~25 kg of graphite has been collected for metallurgical comparison.
- This Waharaka Project is ranked as a Tier 1 target for exploration. A geophysical survey and follow up drilling is planned in the next 24 months, pending the lifting of restrictions due to COVID-19.

### **Kithulgala EL270**

- The Kithulgala Project lies about 60 km east of Colombo and approximately 5 km south of the producing Bogala graphite mine, on the Bogala Antiform. There are several workings operated by Bogala Graphite PLC, of which the Bogala mine is the main location
- The Kithulgala Project represents a Tier 1 exploration target based on its history and geology.
- Ground EM surveys have been delayed due to COVID-19.

### **Bopitiya EL255**

- The Bopitiya Project comprises two blocks of ground and is situated about 50 km northeast of Colombo, just south of the Colombo-Kandy road. The Bogala graphite mine is approximately 10 km to the southeast.
- Early mapping by the GSMB indicated two graphite occurrences to the southwest of the Exploration Licence, and the Company identified four clusters of workings during FY19 field investigations.
- The Company plans to conduct further field investigations to advance this Project.

### ***Dehiowita EL319***

- The Dehiowita Project is situated about 45 km east of Colombo and south of the Waharaka project.
- GSMB mapping shows several graphite occurrences and initial fieldwork by the Company has verified numerous clusters of old mine workings on north-northwest trending shear zones and fold axes. This Project is a Tier 1 target for future exploration.
- The Company has carried out intensive mapping on the Exploration Licence,
- Advanced field exploration is to be undertaken in the next 12 months on the most prospective areas.

### ***Yattawatura EL271***

- The Yattawatura project is located about 45 km east of Colombo, located between the Dehiowita and Dumbara projects.
- Government mapping displayed evidence of historical graphite mining in the licence area and the Company field visits confirmed three locations where mining took place early in the last century.
- Additional geological reconnaissance and mapping was undertaken with varying results.

### ***Avissawella & Kukulaga***

- These Exploration Licence applications are awaiting final approval, with delays in the applications due to COVID-19.
- These applications represent strike extensions to the Dehiowita-Waharaka and Dumbara Tier 1 Project areas, respectively.
- The Avissawella and Kukulaga licences application fees have been paid for and will be issued when the final work program is presented to the GSMB in FY22.

### ***Gabbala***

- The Gabbala licence application is located approximately 100 km northeast of Colombo in the Kegalle District in Sabaragamuwa Province.
- The initial field investigations and report highlighted at least 20 graphite pits from historical workings dating back to the 1940s.
- The application has been submitted to GSMB, delays in approval are due to COVID-19.

### ***Kumbuk Investment (Private) Limited ("Kumbuk") Investment***

During the year, the Group has acquired 49% shares in Kumbuk for the purchase of land at the Pathakada site. The Group has determined that they have control. On this basis, the consolidated financial statements incorporate Kumbuk's assets, liabilities and results with a non-controlling interest.

### ***COVID-19***

On 30 January 2020, the World Health Organisation declared the coronavirus outbreak ('COVID-19') a "Public Health Emergency of International Concern" and on March 10, 2020, declared COVID-19 a pandemic. The operations of the Company could be negatively impacted by the regional and global outbreak of COVID-19 and may impact the Company's results and its ability to source funding for the next reporting year.

As at the date of this report, the full effect of the outbreak remains uncertain. The effects are likely to be significant but cannot be reliably estimated or quantified. The Company will monitor the ongoing developments and be proactive in mitigating the impact on its operations.

### ***Corporate Activities***

During the year, the Company has raised \$1,977,700 through the issue of shares and \$1,413,543 through the conversion of convertible notes.

### ***Financial results and condition***

The loss for the Group after providing for income tax amounted to \$2,634,946 (2020: \$1,355,438). The net assets of the Group as at 30 June 2021 were \$10,641,877 (2020: \$8,846,644).

For the year ended 30 June 2021, the Group had a working capital surplus of \$1,743,767 (2020: \$1,787,163) and net cash outflows of \$170,335 (2020: inflow \$1,599,857).

## Summary of results

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Revenue from ordinary activities	-	-
Other income	2,270	4,562
Expenditure	<u>(2,637,216)</u>	<u>(1,360,000)</u>
Loss from continuing operations	<u>(2,634,946)</u>	<u>(1,355,438)</u>
Other comprehensive income	<u>174,163</u>	<u>80,397</u>
Total comprehensive loss	<u>(2,460,783)</u>	<u>(1,275,041)</u>
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Loss attributable to owners of Margosa Graphite Ltd	(2,634,679)	(1,355,438)
Shares on issue at reporting date	85,210,223	76,772,385
Weighted average number of shares	<u>78,936,200</u>	<u>67,713,672</u>
Loss per share (cents)	(3.34)	(2.00)

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

## Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial year.

## Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

## Shares under option

There were no unissued ordinary shares of Margosa Graphite Limited under option outstanding at the date of this report.

## Shares issued on the exercise of options

There were no ordinary shares of Margosa Graphite Limited issued on the exercise of options during the year ended 30 June 2021 and up to the date of this report.

## Shares under performance rights

Unissued ordinary shares of Margosa Graphite Limited under performance rights at the date of this report are as follows:

<b>Grant date</b>	<b>Expiry date</b>	<b>Number under rights</b>
22 May 2020	31 March 2022	1,275,000

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.



### **Shares issued on the exercise of performance rights**

There were no ordinary shares of Margosa Graphite Limited issued on the exercise of performance rights during the year ended 30 June 2021 and up to the date of this report.

### **Indemnity and insurance of officers**

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### **Indemnity and insurance of auditor**

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

### **Environmental regulation**

The Group is subject to environmental regulation in relation to its exploration activities. It aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are not aware of any breaches during the period covered by this report.

### **Likely developments and expected results of operations**

Likely developments in the operations of the Group are set out in the above review of operations in this annual report. Any future prospects are dependent upon the results of future exploration and evaluation.

### **Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

### **Matters subsequent to the end of the financial year**

The impact of the Coronavirus (COVID-19) pandemic is ongoing. Whilst it has slowed the Company's activities and fundraising aspirations, it has had limited financial impact for the consolidated entity up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

### **Non-audit Services**

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

- all non-audit services were subject to the corporate governance procedures adopted by the Company; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, BDO Perth, and its related practices for non-audit services provided during the year are set out in note 16 in the financial statements.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in blue ink, appearing to read 'JAS', written over a horizontal line.

John Arthur Shackleton  
Executive Chairman

29 October 2021  
Perth

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

As lead auditor of Margosa Graphite Limited for the year ended 30 June 2021, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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, 29 October 2021

**Margosa Graphite Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2021**



	Note	2021 \$	2020 \$
<b>Revenue</b>			
Other income		2,270	4,562
<b>Expenses</b>			
Professional fees		(524,385)	(420,166)
Directors fees		(168,813)	(172,752)
Legal fees		(29,165)	(50,006)
Other operating expenses	4	(294,899)	(527,125)
Finance expenses		(27,549)	(36,316)
Lease payments		(35,181)	(45,684)
Acquisition of Kumbuk	20	(108,768)	-
Depreciation and amortisation expense	10,11	(79,707)	(11,632)
Foreign exchange (loss) / gain		(681,249)	(68,026)
Share based payments	19	(687,500)	(28,293)
<b>Loss before income tax expense</b>		(2,634,946)	(1,355,438)
Income tax expense	5	-	-
<b>Loss after income tax expense for the year</b>		(2,634,946)	(1,355,438)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		174,163	80,397
Other comprehensive income for the year, net of tax		174,163	80,397
<b>Total comprehensive income for the year</b>		(2,460,783)	(1,275,041)
Loss for the year is attributable to:			
Non-controlling interest	20	(267)	-
Owners of Margosa Graphite Limited		(2,634,679)	(1,355,438)
		(2,634,946)	(1,355,438)
Total comprehensive income for the year is attributable to:			
Non-controlling interest	20	(5,362)	-
Owners of Margosa Graphite Limited		(2,455,421)	(1,275,041)
		(2,460,783)	(1,275,041)
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	6	(3.34)	(2.00)
Diluted earnings per share	6	(3.34)	(2.00)

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

**Margosa Graphite Limited**  
**Statement of financial position**  
**As at 30 June 2021**



	Note	2021 \$	2020 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	1,901,501	2,070,989
Trade and other receivables		53,263	70,744
Inventories		68,251	61,987
Other		34,951	199,808
Total current assets		<u>2,057,966</u>	<u>2,403,528</u>
<b>Non-current assets</b>			
Exploration and evaluation	9	7,442,590	5,813,596
Property, plant and equipment	10	1,392,966	1,095,218
Right-of-use assets	11	314,997	320,575
Other		21,593	153,257
Total non-current assets		<u>9,172,146</u>	<u>7,382,646</u>
<b>Total assets</b>		<u>11,230,112</u>	<u>9,786,174</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	260,332	587,400
Lease liabilities		53,867	28,965
Total current liabilities		<u>314,199</u>	<u>616,365</u>
<b>Non-current liabilities</b>			
Lease liabilities		274,036	323,165
Total non-current liabilities		<u>274,036</u>	<u>323,165</u>
<b>Total liabilities</b>		<u>588,235</u>	<u>939,530</u>
<b>Net assets</b>		<u>10,641,877</u>	<u>8,846,644</u>
<b>Equity</b>			
Issued capital	13	19,553,093	15,405,878
Reserves		324,011	144,753
Accumulated losses		(9,338,666)	(6,703,987)
Equity attributable to the owners of Margosa Graphite Limited		<u>10,538,438</u>	<u>8,846,644</u>
Non-controlling interest	14	103,439	-
<b>Total equity</b>		<u>10,641,877</u>	<u>8,846,644</u>

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

**Margosa Graphite Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2021**



	Issued capital \$	Share based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Non- controlling interest \$	Total equity \$
Balance at 1 July 2019	9,291,551	255,000	64,356	(5,348,549)	-	4,262,358
Loss after income tax expense for the year	-	-	-	(1,355,438)	-	(1,355,438)
Other comprehensive income for the year, net of tax	-	-	80,397	-	-	80,397
Total comprehensive income for the year	-	-	80,397	(1,355,438)	-	(1,275,041)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 13)	5,706,297	-	-	-	-	5,706,297
Share-based payments (note 19)	124,737	-	-	-	-	124,737
Performance shares vested	-	28,293	-	-	-	28,293
Performance shares issued	283,293	(283,293)	-	-	-	-
Balance at 30 June 2020	15,405,878	-	144,753	(6,703,987)	-	8,846,644
	Issued capital \$	Share based payment reserve \$	Foreign currency translation reserve \$	Accumulated losses \$	Non- controlling interest \$	Total equity \$
Balance at 1 July 2020	15,405,878	-	144,753	(6,703,987)	-	8,846,644
Loss after income tax expense for the year	-	-	-	(2,634,679)	(267)	(2,634,946)
Other comprehensive income for the year, net of tax	-	-	179,258	-	(5,095)	174,163
Total comprehensive income for the year	-	-	179,258	(2,634,679)	(5,362)	(2,460,783)
<i>Transactions with owners in their capacity as owners:</i>						
Contributions of equity, net of transaction costs (note 13)	3,378,743	-	-	-	-	3,378,743
Share-based payments (note 19)	768,472	-	-	-	-	768,472
Acquisition of Kumbuk (note 20)	-	-	-	-	108,801	108,801
Balance at 30 June 2021	19,553,093	-	324,011	(9,338,666)	103,439	10,641,877

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

**Margosa Graphite Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2021**



	Note	2021 \$	2020 \$
<b>Cash flows from operating activities</b>			
Payments to suppliers and employees (inclusive of GST)		(1,259,444)	(1,131,404)
Interest received		2,261	(40,205)
Net cash used in operating activities	8	<u>(1,257,183)</u>	<u>(1,171,609)</u>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	10	(259,841)	(822,627)
Payments for exploration and evaluation	9	(1,746,509)	(2,038,619)
Payment for acquisition in Kumbuk	20	(216,430)	-
Net cash used in investing activities		<u>(2,222,780)</u>	<u>(2,861,246)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	13	1,977,700	5,802,547
Proceeds from convertible notes	13	1,394,796	-
Lease payments		(50,368)	(73,585)
Share issue costs paid		(12,500)	(96,250)
Net cash from financing activities		<u>3,309,628</u>	<u>5,632,712</u>
Net increase/(decrease) in cash and cash equivalents		(170,335)	1,599,857
Cash and cash equivalents at the beginning of the financial year		2,070,989	286,975
Effects of exchange rate changes on cash and cash equivalents		847	184,157
Cash and cash equivalents at the end of the financial year	7	<u>1,901,501</u>	<u>2,070,989</u>

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

## **Note 1. General information**

The financial statements cover Margosa Graphite Limited as a Group consisting of Margosa Graphite Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Margosa Graphite Limited's functional and presentation currency.

Margosa Graphite Limited is an unlisted public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

### **Registered office**

Unit 2, 2 Centro Avenue, Subiaco, WA, 6008

### **Principal place of business**

34 Bushland Ridge, Bibra Lake, WA, 6163

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 29 October 2021.

## **Note 2. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **New or amended Accounting Standards and Interpretations adopted**

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

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

### **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 year ended 30 June 2021, the Group recorded a loss of \$2,634,946 (2020: \$1,355,438), and experienced net cash outflows from operating and investing activities of \$3,479,963 (2020:4,032,855). At 30 June 2021, the Group had a net current assets of \$1,743,767 (2020: \$1,787,163). At 30 June 2021, the cash balance was \$1,901,501 (2020: \$2,070,989).

The Directors have prepared an estimated cash flow forecast for the period to October 2022 to determine if the Company may require additional funding during this period. The cash flow forecast includes a number of assumptions regarding exploration activity and funding requirements which have not yet been finalised. This results in a material uncertainty that may cast a significant doubt about the Company's ability to continue as a going concern.

The COVID-19 pandemic, announced by the World Health Organisation on 31 January 2020, is having a negative impact on world stock markets, currencies and general business activity. The Group has developed a policy and is evolving procedures to address the health and wellbeing of employees, consultants and contractors in relation to COVID-19. The timing and extent of the impact and recovery from COVID-19 is unknown but it may have an impact on activities and potentially impact the ability for the entity to raise capital in the current prevailing market conditions.

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.



## **Note 2. Significant accounting policies (continued)**

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 the ability to reduce expenditure in order to preserve cash if required; and
- The Group has historically demonstrated its ability to raise funds to satisfy its immediate cash requirements.

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

### **Asset Acquisition**

For the year ended 30 June 2021, the Group has completed the acquisition of 49% shares in Kumbuk Investment (Private) Limited ("Kumbuk"). Kumbuk is deemed not to be carrying on a business hence, the transaction was accounted for as an asset acquisition as it was not considered a business combination under AASB 3 Business Combinations.

### **Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

#### *Historical cost convention*

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment, share based payments and derivative financial instruments.

#### *Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### **Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 21.

### **Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Margosa Graphite Limited ('Company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Margosa Graphite Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Non-controlling interest in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group. Losses incurred by the Group are attributed to the non-controlling interest in full, even if that results in a deficit balance.

### **Foreign currency translation**

The financial statements are presented in Australian dollars, which is Margosa Graphite Limited's functional and presentation currency.

## **Note 2. Significant accounting policies (continued)**

### *Foreign currency transactions*

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### *Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

## **Revenue recognition**

The Group recognises revenue as follows:

### *Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### *Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

## **Fair value**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurable date. Fair value for measurement and / or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 2 or value in use in AASB 136.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurable date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors, accruals and employee entitlements have been excluded from the above analysis as their fair values are equal to the carrying values.

## **Impairment of non-financial assets**

Non-financial assets, other than deferred tax assets ("DTAs") are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

## **Note 2. Significant accounting policies (continued)**

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

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

### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2021. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

## **Note 3. Critical accounting judgements, estimates and assumptions**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

### *Exploration and evaluation costs*

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.

### *Business combinations*

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

The Group has determined that the Kumbuk Investments acquisition is not deemed a business acquisition. In assessing the requirements of AASB 3 Business Combinations, the Group has determined that the asset acquired does not constitute a business. The asset acquired consists of land. When an asset acquisition does not constitute a business combination, the assets and liabilities are assigned a carrying amount based on the fair values in an asset purchase transaction and no deferred tax will arise in relation to the acquired asset and assumed liabilities as the initial recognition exemption for deferred tax under AASB 112 applies. No goodwill will arise on the acquisition and transaction costs of the acquisition.

### Note 3. Critical accounting judgements, estimates and assumptions (continued)

#### *Control of entities where less than half of voting rights held*

Management have determined that the Group controls the subsidiary Kumbuk Investments, even though it holds less than half of the voting rights of this entity. This is because the Group has contributed majority of share capital amount in Kumbuk Investments and hence are significantly exposed to the risks of Kumbuk Investments. The Group has rights, under a shareholder agreement, to direct the activities of Kumbuk Investments and also has rights to the variable returns from its involvement with Kumbuk Investments.

#### *Coronavirus (COVID-19) pandemic*

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavorably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

### Note 4. Other operating expenses

	2021 \$	2020 \$
Travel and accommodation	46,128	251,203
Insurance	70,501	62,849
Computer, telephone and IT expenses	38,065	41,083
Employee benefit expense	17,170	17,023
Other expenses	123,035	154,967
	<u>294,899</u>	<u>527,125</u>

### Note 5. Income tax

	2021 \$	2020 \$
<i>Income tax expense</i>		
Current tax	-	-
Deferred tax - origination and reversal of temporary differences	-	-
Aggregate income tax expense	<u>-</u>	<u>-</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	<u>(2,634,946)</u>	<u>(1,355,438)</u>
Tax at the statutory tax rate of 27.5%	(724,610)	(372,745)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	189,063	7,781
Other permanent adjustments	9,675	69,081
	<u>(525,872)</u>	<u>(295,883)</u>
Current year tax losses not recognised	<u>525,872</u>	<u>295,883</u>
Income tax expense	<u>-</u>	<u>-</u>

## Note 5. Income tax (continued)

	2021 \$	2020 \$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	5,432,478	3,970,740
Potential tax benefit @ 27.5%	1,493,931	1,091,954
Unused tax losses for which no deferred tax asset has been recognised	1,629,743	1,191,222
Potential tax benefit at statutory tax rates	-	-

These tax losses can only be utilised in the future if future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised, the conditions for deductibility imposed by tax legalisation continue to be complied with, no changes in tax legislation adversely affect the Group in realising the benefit and, the continuity of ownership test is passed, or failing that, the same business test is passed.

The Group is not a tax consolidated group.

### *Accounting policy for income tax*

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

## Note 6. Earnings per share

	2021 \$	2020 \$
Loss after income tax	(2,634,946)	(1,355,438)
Non-controlling interest	267	-
Loss after income tax attributable to the owners of Margosa Graphite Limited	(2,634,679)	(1,355,438)

## Note 6. Earnings per share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>78,936,200</u>	<u>67,713,672</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>78,936,200</u>	<u>67,713,672</u>
	Cents	Cents
Basic earnings per share	(3.34)	(2.00)
Diluted earnings per share	(3.34)	(2.00)

### *Accounting policy for earnings per share*

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Margosa Graphite Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## Note 7. Cash and cash equivalents

	2021 \$	2020 \$
<i>Current assets</i>		
Cash and cash equivalents	<u>1,901,501</u>	<u>2,070,989</u>

### *Accounting policy for cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Note 8. Cash flow information**

*Reconciliation of loss after income tax to net cash used in operating activities*

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Loss after income tax expense for the year	(2,634,946)	(1,355,438)
Adjustments for:		
Depreciation and amortisation	79,707	11,632
Share-based payments	687,500	28,293
Foreign exchange differences	686,955	(1,589)
Interest expense on convertible note	18,748	8,822
Interest on leases	8,892	25,294
Lease payments made	66,158	37,642
Change in operating assets and liabilities:		
Trade and other receivables	15,725	(44,814)
Other assets	115,560	(4,114)
Prepayments	(26,478)	(164,803)
Inventories	23,702	(43,134)
Right of use assets	(5,578)	(320,575)
Lease liability	24,982	316,802
Trade and other payables	<u>(318,110)</u>	<u>334,373</u>
Net cash used in operating activities	<u>(1,257,183)</u>	<u>(1,171,609)</u>

*Non-cash investing and financing activities*

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Additions to the right-of-use assets	51,753	6,289
Shares issued to directors	687,500	-
Shares issued under performance rights	-	283,293
Share-based payments	<u>80,972</u>	<u>124,737</u>
	<u>820,225</u>	<u>414,319</u>

## **Note 9. Exploration and evaluation**

### *Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	<b>Exploration and evaluation \$</b>
Balance at 1 July 2019	3,696,480
Additions	2,200,954
Exchange differences	<u>(83,838)</u>
Balance at 30 June 2020	5,813,596
Additions	1,909,243
Exchange differences	<u>(280,249)</u>
Balance at 30 June 2021	<u>7,442,590</u>

For the year ended 30 June 2021, 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.

### *Accounting policy for exploration and evaluation assets*

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.



## Note 10. Property, plant and equipment

	2021 \$	2020 \$
<i>Non-current assets</i>		
Land - at cost	192,385	-
Plant and equipment - at cost	1,594,930	1,272,973
Less: Accumulated depreciation	(415,964)	(199,743)
	<u>1,178,966</u>	<u>1,073,230</u>
Fixtures and fittings - at cost	4,424	-
Less: Accumulated depreciation	(737)	-
	<u>3,687</u>	<u>-</u>
Motor vehicles - at cost	18,250	21,346
Less: Accumulated depreciation	(10,770)	(8,328)
	<u>7,480</u>	<u>13,018</u>
Computer equipment - at cost	15,127	12,110
Less: Accumulated depreciation	(4,679)	(3,140)
	<u>10,448</u>	<u>8,970</u>
	<u>1,392,966</u>	<u>1,095,218</u>

### Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	Land \$	Plant and equipment \$	Office equipment \$	Computer equipment \$	Motor vehicle \$	Total \$
Balance at 1 July 2019	-	395,927	-	7,218	17,758	420,903
Additions	-	819,023	-	3,604	-	822,627
Exchange differences	-	(38,518)	-	(277)	(276)	(39,071)
Depreciation expense	-	(103,201)	-	(1,576)	(4,464)	(109,241)
Balance at 30 June 2020	-	1,073,230	-	8,970	13,018	1,095,218
Additions	202,216	479,422	4,424	4,967	-	691,029
Exchange differences	(9,831)	(131,220)	-	(1,392)	(1,702)	(144,145)
Depreciation expense	-	(242,467)	(737)	(2,096)	(3,836)	(249,136)
Balance at 30 June 2021	<u>192,385</u>	<u>1,178,966</u>	<u>3,687</u>	<u>10,448</u>	<u>7,480</u>	<u>1,392,966</u>

### Accounting policy for property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives commencing from the time the asset is held ready for use. The depreciation rates used for each class of depreciable assets are:

Computer equipment	20%
Office equipment	20%
Plant and equipment	15% to 25%

## **Note 10. Property, plant and equipment (continued)**

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

## **Note 11. Right-of-use assets**

During the year, the Group has purchased a land that was leased in prior year. Accordingly the lease was cancelled and the right-of-use asset was disposed.

### *Reconciliations*

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

	<b>Land &amp; Building \$</b>
Balance at 1 July 2019	325,078
Additions	6,289
Exchange differences	454
Depreciation expense	<u>(11,246)</u>
Balance at 30 June 2020	320,575
Additions	51,753
Disposals	(1,163)
Exchange differences	(22,138)
Depreciation expense	<u>(34,030)</u>
Balance at 30 June 2021	<u>314,997</u>

### *Accounting policy for right-of-use assets*

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are amortised on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Group expects to obtain ownership of the leased asset at the end of the lease term, the amortisation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities. The subsequent measurement of the right-of-use assets is at cost less accumulated amortisation and impairment losses.

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

## Note 12. Trade and other payables

	2021 \$	2020 \$
<i>Current liabilities</i>		
Trade payables	186,759	440,613
Other payables and accrued expenses	73,573	146,787
	<u>260,332</u>	<u>587,400</u>

Refer to note 15 for further information on financial risk management.

### *Accounting policy for trade and other payables*

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method. The amounts are unsecured and are usually paid at the end of the month following date of recognition.

## Note 13. Issued capital

	2021 Shares	2020 Shares	2021 \$	2020 \$
Ordinary shares - fully paid	85,210,223	76,772,385	19,553,093	15,405,878

### *Movements in ordinary share capital*

Details	Date	Shares	Issue price	\$
Balance	1 July 2019	55,941,933		9,291,551
Share issue - convertible note <sup>1</sup>		2,561,370	\$0.00	-
Share issue - share placement at \$0.35		16,527,566	\$0.35	5,802,547
Share based payment		356,391	\$0.35	124,737
Performance shares (note 19)		1,385,125	\$0.20	283,293
Share issue costs		-	\$0.00	(96,250)
Balance	30 June 2020	76,772,385		15,405,878
Share issue - share placement at \$0.35		130,000	\$0.35	40,500
Share issue - share placement at \$0.50		3,874,400	\$0.50	1,937,200
Share issue - convertible note <sup>2</sup>		2,827,089	\$0.50	1,413,543
Share based payments at \$0.35 (note 19)		231,349	\$0.35	80,972
Share based payments at \$0.50 (note 19)		1,375,000	\$0.50	687,500
Share issue costs		-	\$0.00	(12,500)
Balance	30 June 2021	85,210,223		19,553,093

<sup>1</sup> Shares relate to convertible note issued in the 2019 financial year, with an interest of 7% per annum, with a repayment date of 12 months, convertible into shares at 20 cents per share. The shares were allotted post 30 June 2019.

<sup>2</sup> Shares relate to convertible note issued in December 2020, with interest at 7% per annum. The convertible notes and its interest were converted with the allotment of shares in February 2021 at \$0.50 per share (price of most recent capital raising event).

## **Note 13. Issued capital (continued)**

### *Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### *Capital risk management*

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

### *Accounting policy for issued capital*

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## **Note 14. Non-controlling interest**

On 3 September 2020, the Group acquired 49% of the shares in Kumbuk Investment (Private) Limited and has determined that they have control. On this basis, the consolidated financial statements incorporate Kumbuk's assets, liabilities and results with non-controlling interest (see note 20).

	<b>2021</b>	<b>2020</b>
	\$	\$
Issued capital	108,802	-
Reserves	(5,096)	-
Accumulated losses	(267)	-
	<u>103,439</u>	<u>-</u>

## **Note 15. Financial risk management**

### *Financial risk management objectives*

The Group's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is responsible for developing and monitoring the Group's risk management policies.

## Note 15. Financial risk management (continued)

### Market risk

#### Foreign currency risk

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date were as follows:

	2021 \$	Assets 2020 \$	2021 \$	Liabilities 2020 \$
US dollars	69,973	1,075,416	-	-

The Group is mainly exposed to United States Dollar (USD). The following table details the Group's sensitivity to a 10% (2020: 10%) increase and decrease in the Australian dollar against the relevant foreign currencies and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% (2020: 10%) change in foreign currency rates. A positive number indicates an increase in other profit and loss where the Australian dollar strengthens against the respective currency.

2021	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
US Dollar	10%	7,775	7,775	(10%)	(6,361)	(6,361)

2020	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
US Dollars	10%	80,689	80,689	(10%)	(66,018)	(66,018)

#### Price risk

The Group is not exposed to any significant price risk.

#### Interest rate risk

The Group only has interest rate risk relating to its funds on deposit with banking institutions. Accordingly, the Group does not hedge its interest rate risk exposure.

At the reporting date the Group hold variable rate financial assets and did not hold any variable rate financial liabilities.

## Note 15. Financial risk management (continued)

As at the reporting date, the Group had the following variable rate financial assets as reported to management for the Group as follows

	2021 Balance \$	2020 Balance \$
Cash and cash equivalents	<u>1,901,501</u>	<u>2,070,989</u>
Net exposure to cash flow interest rate risk	<u>1,901,501</u>	<u>2,070,989</u>

The Group does not account for any other fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

A change of basis points in interest rates at the reporting date would have increased / (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis as for twelve months ended 30 June 2021.

2021	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Cash and cash equivalents	100	<u>19,015</u>	<u>19,015</u>	(100)	<u>(19,015)</u>	<u>(19,015)</u>

2020	Basis points change	Basis points increase		Basis points change	Basis points decrease	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Cash and cash equivalents	100	<u>20,710</u>	<u>20,710</u>	(100)	<u>(20,710)</u>	<u>(20,710)</u>

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and investments in debt securities. The carrying amount of financial assets in represents the maximum credit exposure as follows:

	2021 \$	2020 \$
<b>Financial assets</b>		
Trade and other receivables	<u>53,263</u>	<u>70,744</u>

Currently, the Group undertakes exploration and evaluation activities exclusively in Sri Lanka, hence the Group is not generating trading revenue and does not have material trade receivables. Hence, the Group is not exposed to credit risk. Trade and other receivables relate to advances made to the director of the Company. There are no financial assets past due as at the reporting date.

### Allowance for expected credit losses

The Group has not recognised a loss in profit or loss in respect of the expected credit losses for the year ended 30 June 2021. No allowances have been made for further expected credit losses.

### Liquidity risk

Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

## Note 15. Financial risk management (continued)

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

### Remaining contractual maturities

The following tables detail the Group's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	1 year or less \$	Over 1 year \$	Remaining contractual maturities \$
<b>2021</b>			
<b>Non-derivatives</b>			
<i>Non-interest bearing</i>			
Trade payables	260,332	-	260,332
<i>Interest-bearing - variable</i>			
Lease liability	53,867	274,036	327,903
Total non-derivatives	<u>314,199</u>	<u>274,036</u>	<u>588,235</u>
<b>2020</b>			
<b>Non-derivatives</b>			
<i>Non-interest bearing</i>			
Trade and other payables	587,400	-	587,400
<i>Interest-bearing - variable</i>			
Lease liability	28,965	323,165	352,130
Total non-derivatives	<u>616,365</u>	<u>323,165</u>	<u>939,530</u>

### Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 16. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by, the auditor of the Company:

	2021 \$	2020 \$
<i>Audit services -</i>		
Audit or review of the financial statements	36,400	23,667
<i>Other services -</i>		
Preparation of the tax return	4,635	3,277
Financial modelling	33,475	-
	<u>38,110</u>	<u>3,277</u>
	<u>74,510</u>	<u>26,944</u>

It is the Group's policy to employ BDO on assignments additional to their statutory audit duties where BDO's expertise and experience with the Group are important. It is the Group's policy to seek competitive tenders for all major consulting projects.

## Note 17. Related party transactions

### *Parent entity*

Margosa Graphite Limited is the parent entity.

### *Subsidiaries*

Interests in subsidiaries are set out in note 20.

### *Key management personnel*

Disclosures relating to key management personnel are set out in note 18.

### *Receivable from and payable to related parties*

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

### *Loans to/from related parties*

There were no loans to or from related parties at the current and previous reporting date.

## Note 18. Key management personnel disclosures

### *Compensation*

The aggregate compensation made to Directors and other members of key management personnel of the Group is set out below:

	2021 \$	2020 \$
Short-term employee benefits	144,950	140,000
Post-employment benefits	470	-
Share-based payments (note 19)	687,500	-
	<u>832,920</u>	<u>140,000</u>



## Note 18. Key management personnel disclosures (continued)

### *Other key management personnel transactions*

A number of key management personnel, or their related parties, hold positions in other companies that result in them having control or significant influence over the financial or operating policies of those entities.

Some of these companies transacted with the Group during the year. The terms and conditions of these transactions were no more favourable than those available, or which might reasonably be expected to be available, in similar transactions to non-key management personnel related companies on an arm's length basis.

The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	2021 \$	2020 \$
Noralee Pty Ltd <sup>1</sup>	281,193	145,653
Venn Family Trust <sup>2</sup>	129,510	99,510
Allbeach Nominees Pty Ltd <sup>3</sup>	175,653	98,447
Varuan Mallawarachchi <sup>4</sup>	63,374	67,325
Donald James <sup>5</sup>	5,416	-
	655,146	410,935

The following balances are outstanding at the reporting date in relation to transactions with key management personnel:

	2021	2020
Noralee Pty Ltd <sup>1</sup>	4,584	-
Venn Family Trust <sup>2</sup>	20,365	-
Allbeach Nominees Pty Ltd <sup>3</sup>	20,924	-
Varuna Mallawarachchi <sup>4</sup>	2,535	-
Donald James <sup>5</sup>	2,453	-
	50,861	-

<sup>1</sup> Noralee Pty Ltd, a company associated with John Shackleton, has charged the Company for director fees, consulting fees, travel and disbursements in relation to his role as Chairman of the Company.

<sup>2</sup> Venn Family Trust, an entity associated with Peter Venn, has charged the Company for director fees, consulting fees and disbursements in relation to his role as a Director of the Company.

<sup>3</sup> Allbeach Nominees Pty Ltd, a company associated with Peter Cunningham, has charged the Company for director fees, consulting fees and other disbursements in relation to his role as a Director of the Company.

<sup>4</sup> Varuna Mallawarachchi, in relation to his role as a Director of the Company, has charged the Company for director fees, consulting fees and other disbursements.

<sup>5</sup> Donald James has been paid director fees and superannuation in relation to his role as a Non-executive Director of the Company.

## Note 19. Share-based payments

### *Share based payments*

During the year, the Company has issued share based payments as follows:

- On 11 August 2020, 231,349 shares at \$0.35 in lieu of cash payments to Alton Drilling Ltd as part payment for the purchase of a drill rig. This amounts to \$80,972 of share-based payment capitalised as property, plant and equipment on the statement of financial position.
- On 17 May 2021, 1,375,000 shares at \$0.50 were issued to the Directors as approved by shareholder in the general meeting on 6 May 2021. This amounts to \$687,500 of share based payments expensed in the statement of profit and loss and other comprehensive income.

## **Note 19. Share-based payments (continued)**

### *Performance rights to directors*

On 22 May 2020, the Company passed a resolution to issue a total of 4,450,000 Performance Rights to the Directors of the Company. The issue and terms of the performance rights are as follows:

<b>Class</b>	<b>Performance conditions</b>	<b>Expiry date</b>	<b>Number issued</b>
Class A Performance Right	On or before 30 September 2020 the Company announces or reports to its shareholders the completion of a feasibility study in relation to any resource (as defined by the JORC Code 2012) concluding that Ridee Ganga Vein Graphite Deposit development is commercially viable (Feasibility Study); and; the Board has resolved to proceed with financing activities for the development of the Ridee Ganga Vein Graphite Deposit.	30 September 2020	1,375,000
Class B Performance Right	On or before 31 December 2020 the Company announces or reports to its shareholders the receipt and acceptance of the Company or one of its subsidiaries of an offer of unconditional finance, either debt and/or equity, for the commencement of development of primary mine access at the Ridee Ganga Vein Graphite Deposit.	31 December 2020	850,000
Class D Performance Right	On or before 31 May 2021, the Company announces or reports to its shareholders that the Company or one of its subsidiaries has entered one or more binding agreements with unrelated third parties for the unconditional purchase of a minimum of 5,000 tonnes per annum of graphite produced by the Company at its Ridee Ganga Vein Graphite Deposit.	31 May 2021	950,000
Class E Performance Right	On or before 31 March 2022, the Company announces or reports to its shareholders a new JORC Code 2012 compliant Indicated Mineral Resource Estimate of at least 100,000 tonnes with a minimum grading of 75% TGC outside of the Ridee Ganga Vein Graphite Deposit.	31 March 2022	1,275,000

The Performance Rights 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.

At 30 June 2021, the Directors have noted the vesting conditions for Class A, Class B and Class D Performance Rights will not be met given the deadlines for the respective rights have passed. The Feasibility study is currently ongoing and no offer of unconditional finance has been accepted. No binding agreements have been entered on the purchase of graphite. On this basis, Class A, Class B and Class D Performance Right have expired. The Directors have continued to assess the possibility of vesting conditions of Class E Performance Rights and have determined that the vesting conditions are unlikely to be met, therefore no performance rights have been expensed as share-based payments for the year. No performance rights have been expensed as share based payments for the year.

### *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:

## Note 19. Share-based payments (continued)

Class	Performance conditions	Expiry date	Number issued
Class C Performance Right	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	80,837
Class D Performance Right	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 2020	80,837
Class E Performance Right	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	80,837

The Performance Rights 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.

In prior year, the Directors determined that the performance conditions for Class C Performance Rights were met. On this basis, the shares have been allotted and expensed. As at 30 June 2021, the Directors noted the vesting conditions for Class D and Class E Performance Right will not be met given the deadline has passed. The application for IML has been submitted and is currently pending. The Company has been unable to complete further drilling during the year due to COVID-19 access restrictions. On this basis, Class D and Class E performance rights to employees have expired. No performance rights has been expensed during the year and no performance rights remained on issue.

### *Accounting policy for share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

## Note 19. Share-based payments (continued)

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

## Note 20. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following entities

Name	Principal place of business / Country of incorporation	Ownership interest	
		2021 %	2020 %
Margosa Holdings (Australia) Pty Ltd	Australia	100%	100%
Margosa Investments Pvt Ltd	Sri Lanka	100%	100%
Lankan Resources & Mining Pvt Ltd	Sri Lanka	100%	100%
Kumbuk Investments (Private) Limited	Sri Lanka	49%	-

On 3 September 2020, the Group has acquired 49% shares in Kumbuk Investment (Private) Limited ("Kumbuk") and has determined that they have control. On this basis, the consolidated financial statements incorporate Kumbuk's assets, liabilities and results with non-controlling interest. Upon acquisition, an expense of \$108,768 was recognised to take account of the 51% minority interests.

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary with non-controlling interests in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest 2021 %	Parent Ownership interest		Non-controlling interest Ownership interest	
			2020 %	2021 %	2020 %	
Kumbuk Investments (Private) Limited	Sri Lanka	49%	-	51%	-	

**Note 20. Interests in subsidiaries (continued)**

*Summarised financial information*

Summarised financial information of the subsidiary with non-controlling interests that are material to the Group are set out below:

	<b>Kumbuk</b>	
	<b>2021</b>	
	<b>\$</b>	
<i>Summarised statement of financial position</i>		
Current assets	11,406	
Non-current assets	<u>191,582</u>	
Total assets	<u>202,988</u>	
Current liabilities	<u>168</u>	
Total liabilities	<u>168</u>	
Net assets	<u>202,820</u>	
<i>Summarised statement of profit or loss and other comprehensive income</i>		
Revenue	1,358	
Expenses	<u>(1,881)</u>	
Loss before income tax expense	(523)	
Income tax expense	<u>-</u>	
Loss after income tax expense	(523)	
Other comprehensive income	<u>-</u>	
Total comprehensive income	<u>(523)</u>	
<i>Statement of cash flows</i>		
Net cash from operating activities	497	
Net cash used in investing activities	(216,430)	
Net cash from financing activities	<u>213,708</u>	
Net decrease in cash and cash equivalents	<u>(2,225)</u>	
<i>Other financial information</i>		
Loss attributable to non-controlling interests	<u>(267)</u>	
Accumulated non-controlling interests at the end of reporting period	<u>103,438</u>	
<i>Transactions with non-controlling interests</i>		
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Consideration paid to non-controlling interests	213,273	-
Carrying amount of non-controlling interest acquired	<u>(104,505)</u>	<u>-</u>
Excess of consideration paid recognised in non-controlling interest and loss on acquisition of Kumbuk	<u>108,768</u>	<u>-</u>

## Note 21. Parent entity information

Set out below is the supplementary information about the parent entity.

### *Statement of profit or loss and other comprehensive income*

	2021 \$	Parent 2020 \$
Loss after income tax	(2,351,986)	(1,275,041)
Total comprehensive income	(2,351,986)	(1,275,041)

### *Statement of financial position*

	2021 \$	Parent 2020 \$
Total current assets	832,363	7,119,202
Total non-current assets	10,056,533	2,265,224
Total assets	10,888,896	9,384,426
Total current liabilities	217,182	537,781
Total non-current liabilities	29,839	-
Total liabilities	247,021	537,781
Equity		
Issued capital	19,553,093	15,405,878
Accumulated losses	(8,911,218)	(6,559,233)
Total equity	10,641,875	8,846,645

### *Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020.

### *Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2021 and 30 June 2020.

### *Capital commitments - Property, plant and equipment*

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

## Note 22. Events after the reporting period

The impact of the Coronavirus (COVID-19) pandemic is ongoing. Whilst it has slowed the Company's activities and fundraising aspirations, it has had limited financial impact for the consolidated entity up to 30 June 2021, it is not practicable to estimate the potential impact, positive or negative, after the reporting date.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in blue ink, appearing to read 'JAS', written over a horizontal line.

John Arthur Shackleton  
Executive Chairman

29 October 2021  
Perth

## INDEPENDENT AUDITOR'S REPORT

To the members of Margosa Graphite Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Margosa Graphite Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

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





#### Material uncertainty related to going concern

We draw attention to Note 2 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 opinion is not modified in respect of this matter.

#### Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Annual Report, but does not include the financial report and our auditor's report thereon.

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

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

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

#### Responsibilities of the directors for the Financial Report

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

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

#### Auditor's responsibilities for the audit of the Financial Report

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



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf)

This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd

A handwritten signature in black ink, appearing to read 'Dean Just', is written over the BDO logo.

Dean Just

Director

Perth, 29 October 2021