



**NORTHERN
MINERALS**

Powering Technology.

NORTHERN MINERALS LIMITED

ABN 61 119 966 353

ANNUAL FINANCIAL STATEMENTS

30 JUNE 2020

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

The directors present their report together with the consolidated financial report of the Group, being Northern Minerals Limited (the "parent entity" or "Company") and its controlled entities, for the financial year ended 30 June 2020 and the independent auditors report thereon.

DIRECTORS

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

Colin James McCavana – *Non-executive Chairman*

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

- Reward Minerals Limited (Director February 2010 – Present)

George Bauk – *Managing Director / Chief Executive Officer – resigned 5 June 2020*

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

As Managing Director of Northern Minerals since 2010, he has led its rapid development from a greenfields heavy rare earth explorer to the first commercial-scale heavy rare earths project outside of China, mainly producing dysprosium and terbium. During the past three years Mr Bauk has served as a director of the following listed companies:

- Lithium Australia NL (Non-executive Chairman July 2015 – Present)
- Blackearth Minerals NL (Non-executive Director January 2018- Present)

Adrian Christopher Griffin – *Non-executive Director*

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

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

Yanchun Wang – *Non-executive Director*

Ms Wang acts as a strategic investor for a number of Chinese based companies. Ms Wang is Vice Chairman of Conglin Baoyuan International Investment Group and also a Director of Huachen. During the past three years Ms Wang has not served as a director of any other listed companies.

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DIRECTORS (Continued)

Ming Lu – *Non-executive Director*

Mr Lu is a CPA qualified senior finance leader with over a decade of commercial experience in successful multinational businesses worldwide, and is a member of the Australian Institute of Company Directors. Mr Lu has extensive experience in working with investors, boards and senior executive teams in modelling, strategic planning, providing financial support and delivering returns. Throughout his career as a finance professional, he has had hands-on experience in leading finance functions in multinational businesses worldwide. Mr Lu has versatile industry experience in manufacturing, engineering and R&D, education, mining services and private equity, spanning privately owned SMEs, private equity backed ventures to listed public listed companies and Fortune 500s. Mr Lu was appointed as a nominee of Huatai Mining. Mr. Lu is not a Director of any other listed companies.

Congyan Xue – *Non-executive Director – resigned 7 November 2019*

Mr Xue is a corporate finance executive, with over 15 years' experience in fundraising, corporate advisory and mergers and acquisitions, predominantly in China. Mr Xue has a Masters in Global Finance from the Hong Kong University of Science and Technology and the NYU Stern School of Business. He also holds a Master's degree in International Finance from the University of Leeds. Mr. Xue is not a director of any other listed companies.

Xiaohua Liu – *Non-executive Director – resigned 7 October 2019*

Ms Liu is an investment banker with over 7 years' experience in corporate advisory and equity markets, predominately in China. Ms Liu has a Masters of Law from the China University of Geosciences in Beijing and a Bachelor of Law from Tianjin University of Commerce. Ms Liu is not a director of any other listed companies.

Bin Cai – *Alternate Director*

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

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

CHIEF EXECUTIVE OFFICER AND COMPANY SECRETARY – *appointed CEO on 29 July 2020*

Mark Tory

Mr Tory is a Chartered Accountant with an MBA majoring in finance. He is a highly experienced executive in the mining and resources sector having held senior finance and strategic positions with both large and small resource companies. He has been CFO and Company Secretary since Dec 2012 until recently appointed as CEO. Previously he was Managing Director of Crescent Gold Limited after two years as CFO and Company Secretary. Before this Mr Tory held executive positions with Anglo American Exploration and Homestake Gold of Australia (now Barrick Gold).

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DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

DIRECTORS' MEETINGS & AUDIT AND REMUNERATION COMMITTEE MEETINGS

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2020, and the number of meetings attended by each director while they were a director was as follows:

Director	Board Meetings		Audit Committee		Remuneration Committee	
	A	B	A	B	A	B
Colin McCavana	14	14	2	2	2	2
George Bauk	11	11	2	2	N/A	N/A
Adrian Griffin	14	14	2	2	2	2
Yanchun Wang	0	14	0	2	N/A	N/A
Ming Lu	13	14	2	2	N/A	N/A
Congyan Xue	8	8	1	1	N/A	N/A
Xiaohua Liu	8	8	1	1	N/A	N/A
Bin Cai	14	14	2	2	N/A	N/A

A – meetings attended

B – meetings held during the time the director held office

DIRECTORS' INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

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

Director (direct and indirect holdings)	Ordinary Shares	Performance Rights	Options
Colin McCavana	2,953,847	1,000,000	-
Adrian Griffin	3,500,626	1,000,000	-
Yanchun Wang ¹	211,157,999	1,000,000	-
Ming Lu	-	-	-
Bin Cai	5,700,000	1,000,000	-

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

DIVIDENDS

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

PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the financial year was the operation of a pilot scale project aimed at assessing the technical and economic feasibility of a full-scale commercial operation at its Browns Range Pilot Plant Project.

REVIEW OF OPERATIONS

During the period, the Company continued operation at the Browns Range Pilot Plant Project. The pilot plant project is a three-year research and development project, to assess the economic and technical feasibility of a full-scale plant and forms part of a broader ongoing economic and technical feasibility study underpinning the Browns Range Pilot Plant Project.

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Browns Range Pilot Plant Operations

During FY20, the Pilot Plant milled 19,314 tonnes of ore and produced 124,607 kg of rare earth carbonate. These operations allowed us to continue to test the pilot plant operation and collect valuable data to drive innovative solutions and improvement.

A major shutdown was undertaken in the first quarter to enable modifications to the kiln feed system. These modifications addressed scale build up in the kiln, throughput rates and availability. These works were successful, with a notable increase in kiln performance when operations recommenced after the shutdown.

On 22 November 2019 the Company officially opened the Training2Work facility as a part of a program that is being jointly undertaken with the Wunan Foundation. The Training2Work facility was established to enable members of the local indigenous community at Ringer Soak and Halls Creek to be trained in the skills that are required for positions in and around the mine site.

In March 2020, a decision was made to temporarily suspend operations at the Browns Range Pilot Plant and move to care and maintenance due to the Covid-19 restrictions. This suspension involved the temporary stand down of most site based staff (except for a small care and maintenance team), along with corporate office staff as well as the implementation of several cashflow saving measures.

On 1 July 2020, the Company made the decision to partially restart operations at the Browns Range Pilot Plant Project. This decision was made following the lifting of Commonwealth biosecurity restrictions applied to the Kimberley region as a part of Covid-19 control measures. The partial return of pilot plant operations at Browns Range resulted in about three quarters of the previous Project workforce being re-mobilised. Initial operations will focus on test work in the beneficiation circuit followed by tests in the hydrometallurgical circuit along with mechanical construction and installation of the ore sorter.

Research & Development (R&D) Projects

A total of 271 individual R&D experiments were originally planned for the duration of the three-year Pilot Plant stage and additional experiments have been performed based on new information obtained from the experiments done to date.

In the 2020 financial year, experiments were conducted on all areas of the plant, including fine grinding, magnetic separation, flotation, sulphation bake, leaching, purification, ion exchange, rare earth precipitation and waste water treatment.

Major breakthroughs were achieved in improving the efficiency and operation of the sulphation bake kiln. These resulted from tests on the kiln that led to significant changes to the equipment, including: seals, feed system, materials of construction, and mechanical devices designed to limit scaling in the kiln to improve availability and throughput.

A rare earth separation study was commenced early in the year with US company K-Technologies, Inc. (**K-Tech**) to assess the possibility of producing separated rare earth oxides that currently require separation in China. K-Tech is focussed on processes which involve continuous ion exchange, continuous ion-chromatography and other related advanced separation methodologies.

Initial bench scale test work completed by K-Tech showed that the Stage 1 continuous ion exchange process was successful with the rare earths (**RE**) loading in preference to the non-RE on the resin. Regeneration was successful and the composition and the regeneration solution showed that final non-RE/RE ratio is in the range that would allow for the regeneration solution to be used as the feed for the Stage 2 continuous ion chromatography step, where initial separation of the rare earths by group begins.

Completion of this work was ultimately delayed as a result of the impacts of shutdown orders in the US as a result of the Covid-19 pandemic.

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Offtake

During the reporting period, the Company terminated the offtake agreement with Lianyungang Zeyu New Materials Sale Co., Ltd. (JFMAG) and entered into a new offtake agreement with German conglomerate, thyssenkrupp Materials Trading GmbH (**TK**).

The new offtake agreement included all mixed heavy rare earth carbonate stockpiled at Browns Range as well as future production from the Browns Range Pilot Plant Project.

A total of 3 shipments comprising 157,076kg of Rare Earth Carbonate were sold to TK during the year.

EXPLORATION

In August 2019, the Company released assay results from diamond drilling completed at the Dazzler and Iceman prospects. The diamond drilling programme, which comprised 3 drill holes at Dazzler and one at Iceman was designed to twin and validate the reverse circulation drilling programmes undertaken in 2018 and early 2019. One of the diamond drill holes at Dazzler was drilled to provide samples for metallurgical test work. Results from the first twinned hole shows the interval as being narrower but much higher grade, while the second showed an interval width approximately the same as the twinned hole but a significantly lower grade.

Further drilling commenced in September 2019, including 3,797m of infill and exploration RC drilling in the Dazzler-Iceman area and 641m exploration RC drilling at four other prospects. Significant results from this drill programme included 52m @ 4.15% TREO from 20m and 20m @ 0.62% TREO from 16m.

In January 2020, the Company announced high grade copper assays following a selective rock chip sampling program at the Company's 100% owned John Galt Project. A selective rock chip sampling program was conducted during October 2019 over an area of 2.0km x 0.5km and of the 24 samples collected and analysed, 12 returned assays of greater than 1.0% Cu.

In April 2020 an update to the Mineral Resource estimate for Dazzler was released. The inferred Mineral Resource was estimated at 214,000 tonnes at 2.33% TREO comprising 5,000,000kg TREO using a cut-off grade of 0.15% TREO. This was a 50% increase in the contained TREO from the maiden Mineral Resource estimate reported in March 2019.

Exploration activities were temporarily suspended along with other activities at Browns Range as a result of the impacts of Covid-19.

Following the restart of operations at Browns Range, the Company announced that exploration would be ramped up over the next 12 months with a budget of \$4.5 - \$5.0 million being allocated for greenfields exploration, further evaluation of identified mineralisation and to boost confidence in resources, with the objective of increasing the overall life-of-mine potential of the project.

CORPORATE

R&D Funding

In early 2019, the Company lodged a formal appeal with AusIndustry regarding its initial decision that the Company's activities were 'ineligible R&D claims' for the FY17 and FY18 periods. On 24 February 2020 the Company was advised that AusIndustry had completed a review of its initial decision and subsequently found that most of the Company's R&D activities for these periods were in fact eligible.

In August 2020, the Company announced that it had reached a settlement agreement with the Australian Taxation Office (**ATO**) that settled all matters relating to the FY17 and FY18 R&D tax offset claims. The settlement agreement also documented the agreed refundable R&D offset claim for the FY19 as well as a framework for reviewing the Company's refundable R&D offset claim for FY20.

Capital Raising

In June 2019 the Company announced a A\$21.95 million placement and Accelerated Non-Renounceable Entitlement Offer. The placement was completed for A\$15 million via the issue of

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333,333,333 fully paid ordinary shares at \$0.045 per share. The Entitlements offer for A\$6.95 million was offered on a 1 for 13 basis at a price of \$0.045 per fully paid ordinary share. A total of A\$2.66 million was received during FY19 with the balance (A\$ 4.29 million) received in FY20.

In July 2019, the Company announced it had entered multiple subscription agreements with sophisticated investors, for the placement of 483,870,970 fully paid ordinary shares at an issue price of \$0.062 per share to raise A\$30 million before costs. A total of A\$25.7 million of the A\$30 million was received before the agreement was terminated on 31 January 2020 due to non-payment of the remaining balance.

In August 2019, the Company entered into a subscription agreement with Baogang Investment (Australia) Pty Ltd (**BGIA**) to raise A\$20 million at A\$0.062 million per share via the issue of 322,580,645 fully paid ordinary shares. The investment by BGIA was subject to shareholder approval, Australian Foreign Investment Review Board (**FIRB**) approval as well as regulatory approvals in the People's Republic of China. On 20 April 2020, the Company was advised by BGIA that the Treasurer of the Commonwealth of Australia, following an assessment by the FIRB, had prohibited the transaction.

In December 2019, an amendment was made to the JHY Investments Pty Ltd (**JHY**) convertible note terms. The \$4.0 million convertible note subscription was due to mature on 31 December 2019. The Company successfully negotiated an extension of the maturity date for the notes for a further year and at a lower interest rate of 10% (previously 16%). The maturity date for the notes is now 31 December 2020 and the interest rate was reduced to 10% from 1 January 2020. As consideration for agreeing to amend the terms of the notes, the Company issued 2 million fully paid ordinary shares in the Company to JHY.

On 2 March 2020 the Company entered into a Convertible Security Funding Agreement with Lind Global Macro Fund, LP (**Lind**). Under the funding agreement the Company received a net amount of A\$2.5 million (after deduction of commitment fees payable to Lind of \$125,000), from the issue of one unsecured convertible note with a face value of A\$3 million. The A\$2.5 million funding was received on 6 March 2020. As a part of this transaction, the Company also agreed to issue Lind with 34,000,000 unlisted options with an exercise price of \$0.045 and expiry date of 2 March 2024 along with 60,000,000 fully paid ordinary shares which were to be used as collateral for the purposes of the funding agreement.

On 7 May 2020, the Company issued 52,631,579 fully paid ordinary shares to a nominee of Lind in respect of the conversion of A\$1 million of the face value of the convertible security.

On 22 June 2020 a replacement convertible security was issued to Lind in accordance with the Convertible Security Funding Agreement announced on 2 March 2020 following shareholder approval being obtained at the Company's general meeting held on 18 June 2020. The replacement convertible security was issued with a face value of A\$2 million.

On 20 April 2020 the Company announced it had entered into subscription agreements with various sophisticated investors to raise A\$22 million (before costs) via private placement and in 4 tranches as detailed below:

Tranche	# Shares	Issue Price	Subscription Amount
Tranche 1	450,000,000	\$0.02	\$9,000,000
Tranche 2	210,000,000	\$0.02	\$4,200,000
Tranche 3	170,000,000	\$0.02	\$3,400,000
Tranche 4	270,000,000	\$0.02	\$5,400,000
Total	1,100,000,000	\$0.02	\$22,000,000

By the end of the year, the Company had received a total of A\$15.43 million of the total of A\$22 million with the balance of A\$6.57 million received post year end. Of the shares issued, 225,000,000 were issued to Yuzhen Ma in full repayment of the remaining amounts owing (A\$4.5 million) on the convertible notes issued on 26 June 2019, which had an initial aggregate face value of A\$7.5 million, (which was reduced to A\$4.5 million after completion of tranche 1 of the placement).

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In conjunction with the Placement, the Company also launched a Share Purchase Plan (**SPP**) for eligible shareholders. Under the SPP, eligible shareholders were able to subscribe for up to A\$30,000 in Ordinary shares at \$0.02, the same price as the placement. The SPP closed on 2 June 2020 with total funds raised of A\$9.98 million (before costs) and the issue of 499,020,000 fully paid ordinary shares.

Board & Management

There were a number of director resignations during the year. Non-Executive Directors Ms Xiaohua Liu resigned on 7 October 2019 while Mr Congyan Xue resigned on 7 November 2019. Long-standing Managing Director and CEO George Bauk announced his resignation on 5 June 2020, with existing Non-Executive Chairman Colin McCavana temporarily assuming the role of Executive Chairman while replacement CEO candidates were considered. Mark Tory (CFO and Company Secretary) was appointed CEO on 29 July 2020.

SUMMARY OF FINANCIAL PERFORMANCE

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

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
Total income	28,426,653	2,002,375	4,564,718
Net loss after tax	(54,328,360)	(63,966,330)	(18,497,161)
Basic EPS (cents)	(2.04)	(4.7)	(2.0)
Net cash used in operating activities	(31,756,314)	(19,693,943)	(15,058,308)
Net cash used in investing activities	(15,844,542)	(11,932,810)	(29,781,958)
Net cash from financing activities	46,152,294	29,411,876	46,658,629

The net loss of the Group for the year ended 30 June 2020 of A\$54.3 million (2019: A\$64.0 million) mainly consisted of the R&D rebates being accounted for, as mentioned below, partially offsetting a A\$24.8 million impairment on the beneficiation and hydrometallurgical assets at Browns Range after completing an impairment review.

Current year income is comprised of A\$23.3 million relating to R&D rebates for the current tax year along with the FY17, FY18 and FY19 tax years. In 2019 the Company received notification from AusIndustry that it was their opinion that the R&D activities of Northern Minerals were ineligible R&D activities and therefore would not be eligible for the R&D tax rebate for the 2016/2017 and 2017/2018 income years. The Company appealed this finding and was successful in having the original decision from AusIndustry overturned. Previously, in accordance with applicable accounting standards, Income from Government Grants, revenue was not accrued for the 2019 financial year and amounts that were recognised as income in prior periods were reversed as a change in estimate totalling \$6.2 million. Refer Note 5.

2020 also represented the Company's first sales revenue from 3 shipments comprising 156,848kg of Rare Earth Carbonate that were sold to TK during the year. Sales revenue totalled A\$3.0 million.

Depreciation expenses increased to A\$24.4 million (2019: A\$19.4 million) due to the completion of the pilot plant construction and supporting infrastructure in 2019, and therefore depreciation being charged for a full year on the assets.

Processing costs totalled A\$18.0 million (2019: A\$20.6 million), with the most significant expenditure relating to wages and salaries, camp accommodation and messing costs and travel and maintenance

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costs. This was slightly lower due to the impacts of the temporary suspension of operations at Browns Range Pilot Plant due to the Covid-19 virus.

The Company's cash receipts were A\$3.6 million (2019: A\$12.4 million). Receipts in 2020 included A\$2.6 million received from the sale of rare earth carbonate as well as A\$0.85 million in receipts from government grants (including A\$0.48 million for the Federal Government's Building Better Regions Fund (BBRF) and A\$0.37 million related to the Federal Government's jobkeeper and other related cashflow boost programmes). 2019's cash receipts included a A\$1.43 million receipt for the 3rd milestone payment awarded under the BBRF to develop an Aboriginal training-to-work (T2W) program at the Browns Range Pilot Plant Project as part of a consortium led by the Wunan Foundation.

Investing cash flows increased from A\$11.9 million in 2019 to A\$15.8 million in FY20. The focus of this investing cash flows was related to the additional improvement works at the Browns Range Pilot Plant and also included A\$6.5 million in payments under the original EPC contract with Sinosteel.

Financing cash inflows for the year ended 30 June 2020 included A\$51.8 million for the issue of shares (net of costs). In addition A\$2.6 million was received from the issue of convertible notes, while A\$8.3 million was repaid in cash in the year.

SUMMARY OF FINANCIAL POSITION

	30 June 2020 \$	30 June 2019 \$	30 June 2018 \$
Total assets	42,479,796	61,577,238	101,231,091
Debt (current and non - current)	5,853,678	25,908,071	24,393,876
Other liabilities	24,969,604	24,989,227	45,109,868
Shareholder funds/net assets	11,656,514	10,679,938	31,727,347
Number of shares on issue (million)	3,987M	2,083M	1,114M
Share price at reporting date (cents)	1.8	7.50	8.72

The Company's cash reserves at 30 June 2020 totalled A\$6.6 million compared to A\$8.1 million as at 30 June 2019.

The Company's receivables balance has increased from A\$2.1 million to A\$24.3 million due to the reversal of AusIndustry's previous decision to disallow R&D claims by the Company and recognition of R&D receivables for the 2017, 2018, 2019 and 2020 financial years. Refer to Note 5 for additional information.

Property, plant and equipment has decreased from A\$50.5 million to A\$10.4 million. Additions for the year totalled A\$9.1 million while the depreciation charge for the period was A\$24.4 million. An impairment loss of A\$24.7 million was also recognised in the current year.

Total interest bearing liabilities reduced by A\$20.1 million from A\$25.9 million to A\$5.8 million mainly due to the settlement of the liability due to the ATO for repayment of previous R&D claims along with conversion and repayment of convertible notes.

Total deferred revenue increased from A\$2.7 million to A\$7.5 million as a result of the recognition of the deferred revenue relating to the R&D rebate during the year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

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FINANCIAL POSITION

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 the settlement of liabilities in the normal course of business.

The Group has incurred a loss for the year ended 30 June 2020 of \$54,328,360 (2019: \$63,966,330) and experienced net cash outflows from operating activities of \$31,756,314 (2019: \$19,693,943). As at 30 June 2020 the Group had cash on hand of \$6,660,568 (2019: \$8,140,422) and a net working capital surplus of \$6,147,783 (2019: deficit of \$22,124,648). The loss mainly reflects the impairment loss on property, plant and equipment and depreciation expense.

Subsequent to year end the Group received funding from the following sources:

- In August 2020, the Company announced it had reached a settlement agreement with the ATO that settled all matters relating to the FY17, FY18 and FY19 R&D tax offset claims. In September 2020, the Company received the net refund from the ATO of \$10.0 million in relation to the FY17 to FY19 tax offset claims.
- As at the date of this report, a further \$6.57 million had been received post year end for the outstanding tranches of the A\$22 million placement announced on the ASX on 20 April 2020. This now completes the placement in full.
- On 21 August 2020, the Company issued fully paid ordinary shares as a result of the conversion of the final amounts outstanding under the Lind convertible note (which has now been redeemed in full). Lind also elected to reduce its collateral shareholding number (under the original funding agreement) from 60,000,000 shares to nil by paying the Company \$1.08 million in cash.

In addition the claim for the refundable R&D tax offset for FY20 of is currently under review by the ATO and is expected to be lodged and received within the December 2020 quarter. The ATO settlement agreement also documented a framework for reviewing the Company's refundable R&D offset claim for FY20 to ensure there were no significant delays.

The directors carefully manage discretionary expenditure in line with the Group's cash flow forecast.

Based on the matters described above, the Directors consider the going concern basis of preparation appropriate.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company proposes to continue with its development of the Browns Range Pilot Plant Project as detailed in the Review of Operations in the Annual Report.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

RISK MANAGEMENT

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

Northern Minerals has developed a framework for a risk management policy and internal compliance and control system that covers the organisational, financial and operational aspects of the Company's affairs. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management, and management are required to regularly report back to

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the Board. This involves the tabling of a risk register which is monitored and updated by management periodically. The CEO is responsible for ensuring the maintenance of, and compliance with, appropriate systems. The Board adopts practices to identify significant areas of risk and to effectively manage those risks in accordance with the Group's risk profile. Where appropriate the Board draws on the expertise of appropriate external consultants to assist in dealing with or mitigating risk.

OPTIONS AND PERFORMANCE RIGHTS

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

	Number of options/rights	Exercise price – (cents)	Expiry date
Unlisted options	3,000,000	\$0.15	24 May 2021
Unlisted options ¹	10,000,000	\$0.1225	20 December 2021
Unlisted options	34,000,000	\$0.045	2 March 2024
Unlisted performance rights ^{2,3}	13,307,000	Nil	Based on performance conditions
Total	60,307,000		

¹ - As advised per the ASX announcement on 31 July 2019, the exercise prices of these unquoted options over fully paid ordinary shares in the capital of the Company have been recalculated in accordance with their terms of issue, which are consistent with the formula set out in ASX Listing Rule 6.22, as a result of the accelerated non-renounceable 1 for 13 pro-rate entitlement offer announced by the Company on 6 June 2019.

² - Included in these performance rights were rights issued as remuneration to the Directors and the five most highly remunerated officers during the 2017 financial year. Details of performance rights granted to key management personnel are referred to in the remuneration report.

³ - Vesting of the rights are subject to the Company meeting numerous performance conditions beginning on grant of the performance right and subject to meeting various hurdles. The performance conditions are set out in Note 11(c).

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

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

The following ordinary shares were issued during the year ended 30 June 2020 on the exercise of performance rights issued as remuneration to the Directors, key management personnel and employees of the Company (no amounts are unpaid on any of the shares):

Date performance rights were granted	Exercise price of shares – (cents)	Number of shares issued
30 November 2016	Nil	1,000,000
21 May 2019	Nil	3,361,150

The following ordinary shares were issued after the year ended 30 June 2020 on the exercise of performance rights issued as remuneration to the Directors, key management personnel and employees of the Company (no amounts are unpaid on any of the shares):

Date performance rights were granted	Exercise price of shares – (cents)	Number of shares issued
30 November 2016	Nil	4,000,000

INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company has entered into an Access, Indemnity and Insurance Deed with the Directors to indemnify them to the maximum extent permitted by law against liabilities and legal expenses incurred

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in, or arising out of, the conduct of the business of the Company or the discharge of their duties as Directors.

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

PROCEEDINGS ON BEHALF OF COMPANY

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

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

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

REMUNERATION REPORT (Audited)

This Remuneration Report for the year ended 30 June 2020 outlines the remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 and its Regulations. This information has been audited as required by section 308(3C) of the Act.

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

Northern Minerals Limited (the Company) received more than 75% of the votes in favour of the Remuneration Report for the 2019 financial year.

Details of directors and key management personnel

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

- Colin McCavana (Non-executive Chairman – took on the role of Executive Chairman from 5 June 2020 until 29 July 2020)
- George Bauk (Managing Director/ Chief Executive Officer) – resigned 5 June 2020
- Adrian Griffin (Non-executive Director)
- Yanchun Wang (Non-executive Director)
- Ming Lu (Non-executive Director)
- Congyan Xue (Non-executive Director) – resigned 7 November 2019
- Xiaohua Liu (Non-executive Director) – resigned 7 October 2019
- Bin Cai (Alternate Director)

Other key management personnel were:

- Robin Wilson (Geology and Exploration Manager)
- Robin Jones (Chief Operating Officer)
- Mark Tory (Company Secretary and Chief Financial Officer – appointed Chief Executive Officer on 29 July 2020)

Other than indicated above, there were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

1. Remuneration Policy

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

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

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

Remuneration packages contain the following key elements:

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

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

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

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

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

2. Non-executive Director Remuneration

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

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

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

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

3. Executive Remuneration

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

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

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

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

4. Service agreements

Employment Contract – Mr George Bauk (Managing Director/Chief Executive Officer) – Resigned 5 June 2020

The employment contract commenced on 1 August 2019 for a fixed term period of two years.

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

- Remuneration package of \$673,425 pa (inclusive of superannuation).
- Salary may be reviewed during the 2 year term.
- The Company is entitled to terminate the agreement at any time during the first 12 months of the term by giving 12 months' notice.
- If the Company terminates the agreement at any time within 12 months of the expiry of the fixed term period, the amount of notice required to be given to Mr Bauk is equivalent to the number of months remaining until the expiry of the term, with a minimum of 3 months notice.
- Mr Bauk is entitled to terminate the agreement by giving no less than 4 months' notice.
- If the agreement comes to an end automatically at the end of the 2 year term, Mr Bauk will be entitled to a one off completion payment equivalent to 3 months base salary including superannuation.
- On 1 April 2020 Mr Bauk's salary was reduced by 50% to \$336,712 pa by way of a temporary variation agreement due to the impact of COVID-19.
- On 5th June 2020 Mr Bauk resigned from his position as Managing Director / Chief Executive Officer. The Company paid Mr Bauk 4 months in lieu of notice plus an additional 2 months on the basis that Mr Bauk provided consultancy and advice for a period of 6 months.

Employment Contract – Mr Robin Wilson (Exploration Manager)

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

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

- Remuneration package of \$240,000 pa (inclusive of superannuation).
- Salary reviewed in June each year.
- The Company is entitled to terminate the agreement by giving no less than 3 months' notice.
- Mr Wilson is entitled to terminate the agreement by giving no less than 3 months' notice.
- On 1 April 2020 Mr Wilson's salary was reduced by 30% to \$168,000 pa by way of a temporary variation agreement due to the impact of COVID-19.
- On 1 July 2020 Mr Wilson returned to his remuneration package of \$240,000 pa (inclusive of superannuation).

Employment Contract – Mr Robin Jones (Chief Operating Officer)

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

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

- Remuneration package of \$366,825 pa (inclusive of superannuation).
- Salary reviewed in June each year.
- The Company is entitled to terminate the agreement by giving no less than 3 months' notice.
- Mr Jones is entitled to terminate the agreement by giving no less than 3 months' notice.
- On 1 April 2020 Mr Jones' salary was reduced by 50% to \$183,412 pa by way of a temporary variation agreement due to the impact of COVID-19.
- On 27 May 2020 Mr Jones returned to his remuneration package of \$366,825 pa (inclusive of superannuation).

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

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

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

- Remuneration package of \$383,250 pa (inclusive of superannuation).
- Salary reviewed in June each year.

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

- The Company is entitled to terminate the agreement by giving no less than 3 months' notice.
- Mr Tory is entitled to terminate the agreement by giving no less than 3 months' notice.
- On 1 April 2020 Mr Tory's salary was reduced by 50% to \$191,625 pa by way of a temporary variation agreement due to the impact of COVID-19.
- On 27 May 2020 Mr Tory returned to his remuneration package of \$383,250 pa (inclusive of superannuation).
- On 29 July 2020 Mr Tory was appointed as Managing Director. There were no changes to his terms of employment.

Consultancy Agreement – Mr Bin Cai (Alternate Director)

The contract commenced on 1 November 2013 and is not for a fixed period.

The main terms of the contract with Australian Cayenne Holdings Pty Ltd, of which Mr Bin Cai is a director for the year under review are as follows:

- Remuneration package of \$285,000 pa (Inclusive of superannuation).
- On 1 April 2020 Mr Cai's remuneration package was reduced by 50% to \$142,500 pa due to the impact of COVID-19.
- On 1 July 2020 Mr Cai returned to his remuneration package of \$285,000 pa (inclusive of superannuation).
- Continues until completion of services required by the agreement.

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

5. Details of Remuneration for the Year Ended 30 June 2020

	Short-term			Post-Employment		Share-based Payments		Total	% Fixed remuneration	% Remuneration linked to performance
	Salary & Fees	Other Benefits	Cash Bonus	Superannuation Benefits	Long Service Leave	Share Plan	Options/Performance Rights			
	\$	\$	\$	\$	\$	\$	\$	\$		
Directors										
Colin McCavana ^{4,5,7}	164,913	16,062	-	7,212	-	-	-	188,187	100%	0%
George Bauk ^{1,4,6}	958,313	14,962	-	19,252	(13,529)	-	-	978,998	100%	0%
Adrian Griffin ^{4,5}	59,931	16,062	-	5,694	-	-	-	81,687	100%	0%
Yanchun Wang ^{4,5}	56,875	16,062	-	-	-	-	-	72,937	100%	0%
Bin Cai ^{4,5}	249,375	16,062	-	-	-	-	-	265,437	100%	0%
Ming Lu ⁴	51,940	16,062	-	4,934	-	-	-	72,936	100%	0%
Congyan Xue ²	22,928	5,677	-	-	-	-	-	28,605	100%	0%
Xiaohua Liu ³	24,932	4,313	-	-	-	-	-	29,245	100%	0%
Key Management Personnel										
Robin Wilson ^{4,5}	200,203	4,206	-	19,260	4,932	-	-	228,601	100%	0%
Robin Jones ^{4,5}	317,505	-	-	21,003	9,196	-	-	347,704	100%	0%
Mark Tory ^{4,5}	330,853	16,062	-	21,003	9,608	-	-	377,526	100%	0%
TOTAL	2,437,768	125,530	-	98,358	10,207	-	-	2,671,863	100%	0%

Notes:

1. Resigned on 5 June 2020. Salary and fees includes payout of annual leave and notice period.

2. Resigned on 7 November 2019.

3. Resigned on 7 October 2019.

4. Received 50% salary while a temporary variation agreement was in place as noted in details of service agreements.

5. Share based payments are credit balances due to the revaluation of rights due to a change in the probability of achieving performance hurdles creating a reversal of previously recognised share based payments. As such they have not been shown in the above table.

6. Share based payments are credit balances due to the forfeiture of rights resulting from resignation, creating a reversal of previously recognised share based payments. As such they have not been shown in the above table.

7. Includes additional amounts paid for consultancy fees as well as time as Executive Chairman.

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

Details of Remuneration for the Year Ended 30 June 2019

	<i>Short-term</i>			<i>Post-Employment</i>		<i>Share-based Payments</i>		<i>Total</i>	<i>% Fixed remuneration</i>	<i>% Remuneration linked to performance</i>
	<i>Salary & Fees</i>	<i>Other Benefits</i>	<i>Cash Bonus</i>	<i>Superannuation Benefits</i>	<i>Long Service Leave</i>	<i>Share Plan</i>	<i>Options/ Performance Rights</i>			
	\$	\$	\$	\$	\$	\$	\$	\$		
Directors										
George Bauk ¹	511,600	16,605	250,000	20,531	24,277	-	56,221	879,234	65.17%	34.83%
Adrian Griffin	68,493	16,605	-	6,507	-	-	28,111	119,716	76.52%	23.48%
Colin McCavana	86,758	16,605	-	8,242	-	-	28,111	139,716	79.88%	20.12%
Yanchun Wang	65,000	16,605	-	-	-	-	28,111	109,716	74.38%	25.62%
Bin Cai	255,297	16,605	-	-	-	-	28,111	300,013	90.63%	9.37%
Ming Lu ²	40,850	11,359	-	3,881	-	-	-	56,090	100%	0%
Congyan Xue ³	13,356	3,421	-	-	-	-	-	16,777	100%	0%
Xiaohua Liu ⁴	7,301	1,870	-	-	-	-	-	9,171	100%	0%
Nan Yang ^{5,6}	16,250	5,246	-	-	-	-	-	21,496	100%	0%
Key Management Personnel										
Robin Wilson	219,469	6,668	-	20,531	6,000	-	28,111	280,779	89.99%	10.01%
Robin Jones	346,294	-	-	20,531	9,170	-	28,111	404,106	93.04%	6.96%
Mark Tory ¹	324,906	16,605	170,000	20,531	17,212	-	28,111	577,365	65.69%	34.31%
TOTAL	1,955,574	128,194	420,000	100,754	56,659	-	252,998	2,914,179	80.59%	19.41%

Notes:

1. Cash bonuses were paid based on the successful capital raising of \$10 million in March 2019.

2. Ming Lu was appointed 24th October 2018.

3. Congyan Xue was appointed 16 April 2019.

4. Xiaohua Liu was appointed 20 May 2019.

5. Nan Yang resigned 24th October 2018.

6. Share-based payments for Nan Yang are credit balances for the period due to forfeiture of performance rights due to his resignation, creating a reversal of share-based payments in the reporting period. As such they have not been shown in the above table.

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

6. Employee share/performance rights plan

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

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

Options/ Performance Rights

Grant date	Vesting and exercise date	Expiry date	Value per performance right at grant date	Performance achieved	% vested
30/11/2016	Various	Various	\$0.12	To be determined	60%

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

No share-based payments were granted as compensation to key management personnel during the 2019 or 2020 financial years.

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

30 June 2020

	Value of options/performance rights granted during the year \$	Value of options/performance rights exercised during the year \$	Value of options/performance rights forfeited during the year \$
Directors			
George Bauk	-	-	200,321
Adrian Griffin	-	60,000	-
Colin McCavana	-	-	-
Yanchun Wang	-	-	-
Bin Cai	-	-	-
Ming Lu	-	-	-
Congyan Xue	-	-	-
Xiaohua Liu	-	-	-
Nan Yang	-	-	-
Key Management Personnel			
Robin Wilson	-	60,000	-
Robin Jones	-	-	-
Mark Tory	-	-	-
TOTAL	-	120,000	200,321

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

6.2 Performance Rights Holdings of Key Management Personnel for 2020

	Held at Beginning of Year	Granted as Compensation	Exercise of Options/Performance Rights	Other Changes ¹	Held at 30 June 2020	Vested	Unvested
Directors:							
George Bauk	3,000,000	-	-	(2,000,000)	1,000,000	1,000,000	-
Adrian Griffin	2,000,000	-	(500,000)	-	1,500,000	500,000	1,000,000
Colin McCavana	1,500,000	-	-	-	1,500,000	500,000	1,000,000
Yanchun Wang	1,500,000	-	-	-	1,500,000	500,000	1,000,000
Bin Cai	1,500,000	-	-	-	1,500,000	500,000	1,000,000
Ming Lu	-	-	-	-	-	-	-
Congyan Xue	-	-	-	-	-	-	-
Xiaohua Liu	-	-	-	-	-	-	-
Key Management Personnel							
Robin Wilson	1,500,000	-	(500,000)	-	1,000,000	-	1,000,000
Robin Jones	1,500,000	-	-	-	1,500,000	500,000	1,000,000
Mark Tory	1,500,000	-	-	-	1,500,000	500,000	1,000,000
	14,000,000	-	(1,000,000)	(2,000,000)	11,000,000	4,000,000	7,000,000

1. Forfeited on resignation

Performance Rights Holdings of Key Management Personnel for 2019

	Held at Beginning of Year	Granted as Compensation	Exercise of Options/Performance Rights	Other Changes ¹	Held at 30 June 2019	Vested	Unvested
Directors:							
George Bauk	4,000,000	-	(1,000,000)	-	3,000,000	-	3,000,000
Adrian Griffin	2,000,000	-	-	-	2,000,000	500,000	1,500,000
Colin McCavana	2,000,000	-	(500,000)	-	1,500,000	-	1,500,000
Yanchun Wang	2,000,000	-	-	(500,000)	1,500,000	-	1,500,000
Bin Cai	2,000,000	-	(500,000)	-	1,500,000	-	1,500,000
Ming Lu	-	-	-	-	-	-	-
Congyan Xue	-	-	-	-	-	-	-
Xiaohua Liu	-	-	-	-	-	-	-
Nan Yang	2,000,000	-	-	(2,000,000)	-	-	-
Key Management Personnel							
Robin Wilson	2,000,000	-	(500,000)	-	1,500,000	-	1,500,000
Robin Jones	2,000,000	-	(500,000)	-	1,500,000	-	1,500,000
Mark Tory	2,000,000	-	(500,000)	-	1,500,000	-	1,500,000
	20,000,000	-	(3,500,000)	(2,500,000)	14,000,000	500,000	13,500,000

1. Other changes include forfeited performance rights on resignation for Nan Yang and performance rights for Yanchun Wang transferred to Bin Cai on exercise

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

6.3 Shareholdings of Key Management Personnel for 2020

	Held at Beginning of Year	Granted as Compensation	Exercise of Options/Performance Rights	Other Changes ²	Held at 30 June 2020	Vested	Not Vested
Directors:							
George Bauk ^{1,3}	6,281,650	-	-	(6,281,650)	-	-	-
Adrian Griffin	4,079,150	-	500,000	421,476	5,000,626	5,000,626	-
Colin McCavana	5,200,000	-	-	(1,099,999)	4,100,001	4,100,001	-
Yanchun Wang	195,610,998	-	-	15,047,001	210,657,999	210,657,999	-
Bin Cai ²	5,100,000	-	-	384,616	5,484,616	5,484,616	-
Ming Lu	-	-	-	-	-	-	-
Congyan Xue ³	134,134,760	-	-	(134,134,760)	-	-	-
Xiaohua Liu ³	110,000,000	-	-	(110,000,000)	-	-	-
Key Management Personnel							
Robin Wilson	1,930,609	-	500,000	(590,114)	1,840,495	1,840,495	-
Robin Jones	1,010,308	-	-	(498,154)	512,154	512,154	-
Mark Tory	1,707,008	-	-	145,506	1,852,514	1,852,514	-
	465,054,483	-	1,000,000	(236,606,078)	229,448,405	229,448,405	-

1. Other changes for George Bauk includes share plan shares that have expired in the year due to loan expiry and revert back to the Company in accordance with the Share Plan rules.
2. Other changes also includes sales and purchases on-market
3. Directors resigned in the year – their shares on resignation are shown as movements in other changes

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

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

Shareholdings of Key Management Personnel for 2019

	Held at Beginning of Year	Granted as Compensation	Exercise of Options/Performance Rights	Other Changes ⁵	Held at 30 June 2019	Vested	Not Vested
Directors:							
George Bauk ¹	9,281,650	-	1,000,000	(4,000,000)	6,281,650	6,281,650	-
Adrian Griffin	4,079,150	-	-	-	4,079,150	4,079,150	-
Colin McCavana	4,700,000	-	500,000	-	5,200,000	5,200,000	-
Yanchun Wang	198,610,998	-	-	(3,000,000)	195,610,998	195,610,998	-
Bin Cai ²	4,100,000	-	500,000	500,000	5,100,000	5,100,000	-
Ming Lu	-	-	-	-	-	-	-
Congyan Xue ³	-	-	-	134,134,760	134,134,760	134,134,760	-
Xiaohua Liu ³	-	-	-	110,000,000	110,000,000	110,000,000	-
Nan Yan ^{3,4}	500,000	-	-	(500,000)	-	-	-
Key Management Personnel							
Robin Wilson	1,630,609	-	500,000	(200,000)	1,930,609	1,930,609	-
Robin Jones	810,308	-	500,000	(300,000)	1,010,308	1,010,308	-
Mark Tory	867,008	-	500,000	340,000	1,707,008	1,707,008	-
	224,579,723	-	3,500,000	236,974,760	465,054,483	465,054,483	-

1. Other changes for George Bauk includes share plan shares that have expired in the year due to loan expiry and revert back to the Company in accordance with the Share Plan rules.
2. Other changes include transfer from Yanchun Wang on exercise of performance rights
3. Directors appointed in the year – their balances on appointment are shown as movements in other changes.
4. Nan Yang resigned in year – his balances as at resignation date are shown as a movement in other changes.
5. Other changes also includes sales and purchases on-market

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

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

6.4 Other transactions with key management personnel

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

	2020	2019
	\$	\$
Rental Income	125,941	95,294

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

Current receivables	20,767	12,452
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During the year ended 30 June 2019, Northern Minerals entered into a consultancy agreement with Go & Company Ltd, a company associated with Non-executive Director Congyan Xue, under which Go & Company Ltd advised the Company on equity raisings. The Company issued 10,000,000 fully paid ordinary shares to Go & Company Ltd as partial consideration for entry into the consultancy agreement upon receipt of the \$3 million placement for 50,000,000 fully paid ordinary shares in the Company at an issue price of \$0.06 per share as announced on 1 February 2019. A further 20,000,000 fully paid ordinary shares were issued upon receipt of the \$3 million placement for 60,000,000 fully paid ordinary shares in the Company at an issue price of \$0.05 per share. The value of these shares issued in relation to this consultancy agreement totalled \$1,270,000 for FY19.

No such services were provided during the year ended 30 June 2020.

*** End of Remuneration Report ***

NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

CORPORATE GOVERNANCE STATEMENT

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

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 73.

NON-AUDIT SERVICES

There were no non-audit services carried out in the year ended 30 June 2020.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 1 July 2020, the Company made the decision to partially restart operations at the Browns Range Pilot Plant Project. This decision was made following the lifting of Commonwealth biosecurity restrictions applied to the Kimberley region as a part of Covid-19 control measures. The partial return of pilot plant operations at Browns Range resulted in about three quarters of the previous project workforce being re-mobilised. Initial operations will focus on test work in the beneficiation circuit followed by tests in the hydrometallurgical circuit along with mechanical construction and installation of the ore sorter.

On 22 July 2020, the Company issued 183,500,000 fully paid ordinary shares upon receipt of \$3.67 million relation to the outstanding tranches of the \$22 million placement announced on the ASX on 20 April 2020. A further 145,000,000 fully paid ordinary shares were issued on 16 September following the receipt of the final \$2.9 million of the placement.

In August 2020, the Company announced it had reached a settlement agreement with the ATO that settled all matters relating to the FY17 and FY18 R&D tax offset claims. The settlement agreement also documented the agreed refundable R&D offset claim for FY19 as well as a framework for reviewing the Company's refundable R&D offset claim for FY20. On 14 September 2020, the Company received \$8.64 million from the ATO in relation to the refundable R&D tax offset claims for FY17 to FY19. The final \$1.3 million relating to these claims was received on 17 September.

On receipt of the first tranche of R&D funding the Company made a repayment of \$2 million of the outstanding \$4 million of convertible notes issued to JHY Investments Pty Ltd. The final balance of \$2 million payable to JHY is due on 31 December 2020.

On 17 July 2020 Lind issued a notice for the conversion of \$0.8 million owing under the convertible note agreement and as a result the Company issued 50,000,000 fully paid ordinary shares.

On 21 August 2020 the Company issued a further 66,666,667 fully paid ordinary shares as a result of the conversion of \$1.2 million of the face value of the convertible note. Following this conversion, there are no amounts outstanding under the convertible note (which has now been redeemed in full). In addition, Lind also elected to reduce its collateral shareholding number (under the original funding agreement) from 60,000,000 shares to zero by paying the Company \$10.8 million in cash.

The impact of the Coronavirus (COVID-19) pandemic is ongoing as at 30 June 2020 and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other

**NORTHERN MINERALS LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020**

countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Signed in accordance with a resolution of the directors.



Colin McCavana
Director
24 September 2020

NORTHERN MINERALS LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME
FOR THE YEAR ENDED 30 June 2020

	Note	2020 \$	2019 \$
Revenue from continuing operations			
Revenue from contracts with customers	5	3,069,070	-
Interest	6	24,432	2,307
Research and development rebate	5	23,272,772	-
Other income	5	2,060,379	2,000,068
Total revenue		28,426,653	2,002,375
Corporate expenses			
Administration expenses		1,334,803	935,836
Depreciation expense	10(a)	24,430,719	19,415,157
Share based payments expense	17	(586,159)	2,124,684
Legal and professional expenses		2,364,618	2,297,026
Occupancy expenses		247,176	286,825
Employee benefits expense		3,385,067	3,076,389
Other corporate expenditure		1,684,557	261,013
Royalty expense		125,926	1,228
Research and development rebate reversal	5	-	6,198,937
Impairment loss on property, plant and equipment	10	24,763,044	-
Changes in the fair value of interest bearing liabilities at fair value through profit & loss	8(g)	(189,162)	(90,182)
Total corporate expenses		57,560,589	34,506,913
Exploration and evaluation expenditure			
Exploration costs	4	2,605,662	1,591,966
Project evaluation and pre-feasibility	4	19,618,647	21,221,271
Mining expenditure	4	116,319	-
Total exploration and evaluation expenditure expenses		22,340,628	22,813,237
Total expenses		79,901,217	57,320,150
Operating loss		(51,474,564)	(55,317,775)
Finance costs / (Income)	6	2,853,796	8,648,555
Loss before income tax		(54,328,360)	(63,966,330)
Income tax expense	7	-	-
Loss for the year		(54,328,360)	(63,966,330)
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to members of the entity		(54,328,360)	(63,966,330)
Loss per share attributable to ordinary equity holders of the company:			
Basic and diluted loss per share (cents per share)	19	(2.04)	(4.67)

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

NORTHERN MINERALS LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 June 2020

	Note	2020 \$	2019 \$
Current assets			
Cash and cash equivalents	8 (a)	6,660,568	8,140,422
Trade and other receivables	8 (b)	24,315,603	2,118,577
Inventories	10 (b)	992,099	722,015
Total Current Assets		31,968,270	10,981,014
Non-current assets			
Other financial assets	8 (c)	60,523	89,272
Property, plant and equipment	10 (a)	10,451,003	50,506,952
Total Non-Current Assets		10,511,526	50,596,224
Total assets		42,479,796	61,577,238
Current liabilities			
Trade and other payables	8 (d)	11,364,370	12,365,446
Interest bearing liabilities	8 (e)	5,828,193	18,435,416
Deferred revenue	8 (f)	7,521,406	1,333,680
Provisions	10 (c)	1,106,518	971,120
Total Current Liabilities		25,820,487	33,105,662
Non-current liabilities			
Trade and other payables	8 (d)	-	4,269,253
Interest bearing liabilities	8 (e)	25,485	7,472,655
Deferred revenue	8 (f)	-	1,333,589
Provisions	10 (c)	4,977,310	4,716,141
Total Non-Current Liabilities		5,002,795	17,791,638
Total liabilities		30,823,282	50,897,300
Net assets		11,656,514	10,679,938
Equity			
Issued Capital	11 (a)	243,671,335	188,482,276
Reserves	11 (g)	12,521,187	12,405,310
Accumulated losses		(244,536,008)	(190,207,648)
Total equity		11,656,514	10,679,938

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

NORTHERN MINERALS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
AS AT 30 June 2020

	Note	ISSUED CAPITAL	ACCUMULATED LOSSES	SHARE BASED PAYMENTS RESERVE	PERFORMANCE RIGHTS AND OPTIONS RESERVE	OTHER RESERVES	TOTAL
		\$	\$	\$	\$	\$	\$
Consolidated Entity							
Balance at 1 July 2018		143,944,809	(126,241,318)	4,347,380	8,398,451	1,278,025	31,727,347
Loss for the period		-	(63,966,330)	-	-	-	(63,966,330)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive loss for the financial year		-	(63,966,330)	-	-	-	(63,966,330)
Transactions with owners in their capacity as owners:							
Shares issued net of transaction costs	11(a)	44,537,467	-	-	-	-	44,537,467
Shares/options issued		-	-	-	677,961	-	677,961
Shares not issued	11(g)	-	-	(1,540,000)	-	-	(1,540,000)
Decrease in value in collateral shares reissued	11(g)	-	-	-	-	(1,701,892)	(1,701,892)
Convertible notes issued	11(g)	-	-	-	-	945,385	945,385
Balance at 30 June 2019		188,482,276	(190,207,648)	2,807,380	9,076,412	521,518	10,679,938
Balance at 1 July 2019		188,482,276	(190,207,648)	2,807,380	9,076,412	521,518	10,679,938
Loss for the financial year		-	(54,328,360)	-	-	-	(54,328,360)
Other comprehensive income		-	-	-	-	-	-
Total comprehensive loss for the financial year		-	(54,328,360)	-	-	-	(54,328,360)
Transactions with owners in their capacity as owners:							
Shares issued net of transaction costs	11(a)	55,189,059	-	-	-	-	55,189,059
Shares/options issued		-	-	-	(110,159)	-	(110,159)
Convertible notes issued	11(g)	-	-	-	-	226,036	226,036
Balance at 30 June 2020		243,671,335	(244,536,008)	2,807,380	8,966,253	747,554	11,656,514

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

NORTHERN MINERALS LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
AS AT 30 June 2020

	NOTE	2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers		2,661,735	-
Payments to suppliers and employees		(29,732,767)	(27,987,212)
Interest paid		(1,218,134)	(4,083,593)
Research & development rebate on eligible expenditure		(4,401,712)	-
Other income received		934,564	12,376,862
Net cash outflow from operating activities	12(a)	<u>(31,756,314)</u>	<u>(19,693,943)</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(15,844,542)	(11,932,810)
Net cash outflow from investing activities		<u>(15,844,542)</u>	<u>(11,932,810)</u>
Cash flows from financing activities			
Proceeds from issues of shares		55,522,026	40,161,541
Proceeds from issue of convertible notes		2,625,000	13,500,000
Repayment of convertible notes		-	(1,653,099)
Share issue costs		(3,708,166)	(1,831,158)
Proceeds from borrowings		-	3,187,894
Repayment of borrowings		(8,286,566)	(23,953,302)
Net cash inflow from financing activities		<u>46,152,294</u>	<u>29,411,876</u>
Net (decrease) / increase in cash and cash equivalents		(1,448,562)	(2,214,877)
Cash and cash equivalents at beginning of the financial year		8,140,422	10,394,113
Effects of exchange rate changes on cash and cash equivalents		(31,292)	(38,814)
Cash and cash equivalents at the end of the financial year	8(a)	<u>6,660,568</u>	<u>8,140,422</u>

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

The consolidated financial statements of Northern Minerals Limited (“the Company”) and its subsidiaries (“the Group”) for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the directors on 24 September 2020.

1. Reporting Entity

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

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

2. Basis of Preparation

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

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

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

The Group has, where applicable, adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the year ended 30 June 2020. Refer to Note 23 New Standards and Interpretations for further details. The Group did not early adopt any Accounting Standards and Interpretations that have been issued or amended but are not yet effective.

a) Financial Position

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 the settlement of liabilities in the normal course of business.

The Group has incurred a loss for the year ended 30 June 2020 of \$54,328,360 (2019: \$63,966,330) and experienced net cash outflows from operating activities of \$31,756,314 (2019: \$19,693,943). As at 30 June 2020 the Group had cash on hand of \$6,660,568 (2019: \$8,140,422) and a net working capital surplus of \$6,147,783 (2019: deficit of \$22,124,648). The loss mainly reflects the impairment loss on property, plant and equipment and depreciation expense.

Subsequent to year end the Group received funding from the following sources:

- In August 2020, the Company announced it had reached a settlement agreement with the ATO that settled all matters relating to the FY17, FY18 and FY19 R&D tax offset claims. In September 2020, the Company received the net refund from the ATO of \$10.0 million in relation to the FY17 to FY19 tax offset claims.
- As at the date of this report, a further \$6.57 million had been received post year end for the outstanding tranches of the A\$22 million placement announced on the ASX on 20 April 2020. This now completes the placement in full.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

2. Basis of Preparation (continued)

- On 21 August 2020, the Company issued fully paid ordinary shares as a result of the conversion of the final amounts outstanding under the Lind convertible note (which has now been redeemed in full). Lind also elected to reduce its collateral shareholding number (under the original funding agreement) from 60,000,000 shares to nil by paying the Company \$1.08 million in cash.

In addition the claim for the refundable R&D tax offset for FY20 is currently under review by the ATO and is expected to be lodged and received within the December 2020 quarter. The ATO settlement agreement also documented a framework for reviewing the Company's refundable R&D offset claim for FY20 to ensure there were no significant delays.

The directors carefully manage discretionary expenditure in line with the Group's cash flow forecast.

Based on the matters described above, the Directors consider the going concern basis of preparation appropriate.

b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Northern Minerals Limited and its subsidiaries as at and for the year ended 30 June 2020. A list of controlled entities at year end is contained within note 13.

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

3. Critical Accounting Judgements, Estimates, Assumptions and Errors

(a) Significant estimates and judgements

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

Taxation

Balances disclosed in the financial statements and the notes thereto related to taxation are based on the best estimates of the Directors. These estimates take into account both the financial performance and position of the Group as they pertain to current income taxation legislation, and the Directors understanding thereof. No adjustment has been made for pending or future taxation legislation. The current income tax position represents the directors' best estimate, in respect of R & D and the decline in value of the pilot plant.

Details of the tax assessment are further discussed in Note 7.

Share-based payment transactions

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

Rehabilitation provision

The recognition of closure and rehabilitation provisions require significant estimates and assumptions such as requirements of the relevant legal and regulatory framework and the timing, extent and costs

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

of required closure and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided. Refer to Note 10(c).

Convertible notes

The fair value of convertible notes is determined at the end of each reporting date. The fair value is determined using a market interest rate. The compound convertible notes are subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders equity. All other convertible notes are recognised at fair value through profit and loss. Refer to Note 8(e).

Impairment of Property, Plant and Equipment

During the year, the Browns Range Pilot Plant ("BRPP") was placed into care and maintenance due to the effects of Covid-19. Post year end, the board made the decision to partially restart operations at the BRPP rather than resuming full operations. The Board is therefore of the view that indications of impairment exist due to this planned reduction to overall activities and estimates of future cash flows were determined in order to assess the recoverable amount of the BRPP. In assessing the recoverable amount the board was required to exercise judgement in order to calculate the BRPP's fair value as well as its estimated value in use. Refer to note 10(a) for additional information.

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 consolidated entity based on known information. This consideration extends to the nature of the activities and geographic regions in which the consolidated entity 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 consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

4. Exploration and evaluation expenditure

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Revenue

The Group derives the following types of revenue:

	Consolidated	
	2020	2019
	\$	\$
Revenue from contracts with customers	3,069,070	-
R&D rebate on eligible expenditure	23,272,772	-
Covid-19 grant programs	583,000	-
Other government grants	1,333,680	1,813,682
Other	143,699	186,386
Total revenue from continuing operations	28,402,221	2,000,068

Revenue Recognition

Revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group:

- identifies the contract with a customer;
- identifies the performance obligations in the contract;
- determines the transaction price which takes into account estimates of variable consideration and the time value of money;
- allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and
- recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods and services promised.

Current year revenue from contracts with customers has resulted from the sale of Rare Earth Carbonate (“**REC**”) to a single external customer. Revenue from REC sales is brought to account when the significant risks and rewards of ownership have transferred to the buyer and selling prices are known or can be reliably estimated.

R&D rebates and government grants

The Company’s accounting policy for R&D rebates and government grants is to recognise these when there is reasonable assurance that:

- The expenditure incurred during the financial period complies with relevant legislation and activities; and
- The rebates claimed will be received.

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

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

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

A government grant is not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Receipt of a grant does not of itself provide conclusive evidence that the conditions attaching to the grant have been or will be fulfilled.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

5. Revenue (continued)

In early 2019, the Company lodged a formal appeal with AusIndustry regarding its initial decision that the Company's activities were 'ineligible R&D claims' for the FY17 and FY18 periods. On 24 February 2020 the Company was advised that AusIndustry had completed a review of its initial decision and subsequently found that most of the Company's R&D activities for these periods were in fact eligible.

In August 2020, the Company announced that it had reached a settlement agreement with the ATO that settled all matters relating to the FY17 and FY18 R&D tax offset claims. The settlement agreement also documented the agreed refundable R&D offset claim for the FY19 as well as a framework for reviewing the Company's refundable R&D offset claim for FY20

In the current financial year, the Company has recognised the R&D rebate attributable to the FY17 to FY19 periods in addition to accruing the expected R&D offset claim for FY20 as described above.

6. Finance Income and Costs

	2020 \$	2019 \$
Finance income		
Interest income	24,432	2,307
Total finance income	24,432	2,307
Finance costs		
Interest for financial liabilities	2,531,274	5,949,198
Provisions: unwinding of discount	34,306	89,988
Net exchange losses on foreign currency borrowings	-	1,221,552
Financing transactions and costs	288,216	3,151,627
Total finance costs	2,853,796	10,412,365
Amount capitalised	-	(1,763,810)
Finance costs expensed	2,853,796	8,648,555
Net finance costs/(income)	2,853,796	8,648,555

Interest income

Interest income 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.

For credit impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income on financial assets at amortised cost is recognised in the statement of profit or loss as other income.

Capitalised borrowing costs

Borrowing costs capitalised include costs that are directly attributable to the acquisition and construction of the Browns Range Pilot Plant Project. The rate used is the actual borrowing costs eligible for capitalisation.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Income Tax Expense

	2020	2019
	\$	\$
(a) Income tax expense		
<i>Reconciliation of income tax expense to prima facie tax payable:</i>		
Loss from continuing operations before income tax expense	(54,328,360)	(63,966,330)
Tax calculated at 27.5% (2019: 27.5%) on loss before income	(14,940,299)	(17,590,740)
Add tax effect of:		
Share-based payments	(161,194)	592,925
Non-deductible expenses	7,446	3,430
Unused tax losses and temporary differences not recognised	12,266,875	16,994,385
R & D adjustments	2,827,172	-
Income tax expense/(benefit)	-	-
(b) Unrecognised deferred tax balances		
The balance comprises temporary differences attributable to:		
<i>Deferred tax assets</i>		
Unused tax losses	35,794,404	34,891,210
Unused capital losses	175,661	175,661
Property, plant & equipment	4,574,990	-
Deductible temporary differences	5,913,705	2,700,734
Total unrecognised deferred tax assets	46,458,760	37,767,605
<i>Deferred tax liabilities</i>		
Property, plant and equipment	-	(3,550,196)
Taxable temporary differences - other	-	(25,520)
Total unrecognised deferred tax liabilities	-	(3,575,716)
Net unrecognised deferred tax balances	46,458,760	34,191,889

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

(c) Income tax expense / (benefit)

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

Deferred tax is provided using the balance sheet liability method, providing for the tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax assessment or deduction purposes.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

7. Income Tax Expense (continued)

The tax effect of certain temporary differences is not recognised, principally with respect to:

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

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

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

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

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

Based on the disclosure in Note 3, the current income tax position represents the Directors' best estimate, in respect of R&D and the decline in value of the pilot plant.

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

(a) Cash and cash equivalents

	2020	2019
Current	\$	\$
Cash at bank and on hand	6,660,568	8,140,422
	6,660,568	8,140,422

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

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

(b) Trade and other receivables

	2020	2019
Current	\$	\$
Trade receivables	407,335	-
GST receivable	516,718	778,525
Prepayments	2,664,719	824,295
Other receivables	318,843	515,757
R&D rebate receivable (Refer Note 5)	20,407,988	-
	24,315,603	2,118,577

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

(i) Other receivables

Other receivables are amounts that generally arise from transactions outside the usual operating activities of the Group. They are recognised at amortised cost, less any allowance for expected credit losses. The Company assessed the balance in other receivables for expected credit losses but they were deemed to have no material impact.

(ii) Research and development rebate receivable

In early 2019, the Company lodged a formal appeal with AusIndustry regarding its initial decision that the Company's activities were 'ineligible R&D claims' for the FY17 and FY18 periods. On 24 February 2020 the Company was advised that AusIndustry had completed its review of its initial decision and subsequently found that most of the Company's R&D activities for these periods were in fact eligible and as a result, the Company has finalised its FY17 to FY19 tax returns which include the relevant R&D rebate for those periods. The Company has also estimated the R&D rebate for the 2020 financial year.

(iii) Trade receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses as per AASB 9 *Financial Instruments*. Trade receivables are generally due for settlement within 30 days.

Information about the methods and assumptions used in determining fair value is provided in Note 8(g). Information about the impairment of trade and other receivables, their credit quality and the group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 9.

(iv) Fair values of trade and other receivables

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

Prepayments include the following share-based payments:

	2020	2019
	\$	\$
Lind collateral shares issued in the year (refer Note 8 (e))	2,040,000	-
Lind options issued in the year (refer Note 8(e))	396,667	-
JHY Investments options issued in the year (refer Note 8(e))	-	49,539
	2,436,667	49,539

(c) Other financial assets

Non-Current

Security deposits – rent and performance bonds	60,523	89,272
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NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

Other financial assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

(i) Fair values of other financial assets

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

(d) Trade and other payables

	2020	2019
	\$	\$
Current		
Trade and other payables	6,901,061	5,799,385
Trade and other payables (Refer to Note 8(e)) (Secured)	4,463,309	6,566,061
	11,364,370	12,365,446
Non-Current		
Trade and other payables (Refer to Note 8 (e)) (Secured)	-	4,269,253

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

(i) Fair values of trade and other payables

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

(e) Interest Bearing Liabilities

<i>At Amortised Cost</i>	Interest Rate	2020	2019
		\$	\$
Current			
Convertible note (Unsecured) - JHY Inv Pty Ltd	10%/16%	3,831,044	4,016,650
Convertible note (Unsecured) - Yuzhen Ma	10%	319,726	7,037,622
ATO Liability (Unsecured)	4.96%	-	6,602,568
Equipment finance (Secured)	2.90%-6.50%	142,865	138,855
Insurance premium funding	5.10%/3.15%	-	639,721
		<u>4,293,635</u>	<u>18,435,416</u>
Non-Current			
Equipment finance (Secured)	2.90%-6.50%	25,485	176,341
ATO Liability (Unsecured – Refer Note 7)	4.96%	-	7,296,314
		<u>25,485</u>	<u>7,472,655</u>

At Fair value through profit and loss

Current			
Convertible note (Unsecured) - Lind	0%	1,534,558	-
		<u>1,534,558</u>	<u>-</u>

Total Interest Bearing Liabilities

Current	5,828,193	18,435,416
Non-Current	25,485	7,472,655
	<u>5,853,678</u>	<u>25,908,071</u>

Commitments in relation to hire purchase leases are payable as follows:

Within one year	147,371	154,106
Later than one year but not later than five years	25,485	176,341
Minimum lease payments	172,856	330,447
Future finance charges	(4,506)	(15,251)
Total lease liabilities	<u>168,350</u>	<u>315,196</u>

The present value of hire purchase lease liabilities is as follows:

Within one year	147,753	150,060
Later than one year but not later than five years	20,597	165,136
Minimum lease payments	<u>168,350</u>	<u>315,196</u>

Aside from amounts disclosed above as measured at Fair Value through profit and loss, borrowings are classified as loans and are initially recognised at fair value net of directly attributable transaction costs. Subsequent to initial recognition, interest bearing liabilities are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised. Interest bearing liabilities are classified as current liabilities, except when the Group has an unconditional right to defer settlement for at least 12 months after the reporting date in which case the liabilities are classified as non-current.

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

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

The Convertible Note issued to Lind Global Macro Fund, LP is not convertible at a fixed conversion price and includes a floor price in the contract so has been accounted for as fair value through profit or loss. Financial liabilities designated at fair value through profit or loss are measured at fair value, with any gains or losses arising on changes in fair value recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

The amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon de-recognition of the financial liability.

Leases, which transfer to the Group, substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Convertible Note – JHY Investments Pty Ltd

In December 2018 a subscription agreement was entered into with JHY Investments Pty Ltd (JHY), for the issue of 4,000,000 convertible notes over two tranches with a face value of \$1.00 each. Tranche 1 was completed in December 2018 and 3,500,000 notes were issued. Tranche 2 for a further 500,000 notes was completed in January 2019.

The maturity date for the convertible notes was 31 December 2019 at a conversion price of \$0.06 per share. The interest rate was 16% per annum, accruing daily and payable monthly from immediately available funds on the face value of the notes from the date the notes are issued until the earlier of the date the note is converted into shares and the maturity date. Conversion can be at any time before the maturity date at JHY's election, and must be for a minimum 300,000 notes at any one time.

10,000,000 unlisted options were issued to JHY Investments Pty Ltd on 18 December 2018 as part of the Convertible Security Funding Agreement. These options have an exercise price of \$0.09 each and have an expiry date of 31 December 2019.

During the year, the Company successfully negotiated an extension of the maturity date of the convertible notes issued to JHY as well as a lower interest rate. The new maturity date for the notes is 31 December 2020 and the interest rate payable was reduced to 10% per annum from 1 January 2020.

Convertible Note – Yuzhen Ma

In April 2019 a subscription agreement was entered into with Yuzhen Ma for the issue of 7,500,000 convertible notes over two tranches with a face value of \$1.00 each. Tranche 1 was completed with \$2.5 million received in April 2019 and 2,500,000 notes were issued. Tranche 2 for a further 5,000,000 notes was completed and \$5.0 million received in June 2019.

The maturity date for the convertible notes is 30 June 2020 at a conversion price of \$0.10 per share. The interest rate is 10% per annum, accruing daily and payable monthly from immediately available

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

Funds on the face value of the notes from the date the notes are issued until the earlier of the date the note is converted into shares and the maturity date. Conversion can be at any time before the maturity date at the note holder's election.

Equipment Finance

These loans are secured by a first charge over the equipment under finance and are for a period of between 36-48 months.

Convertible Note – Lind Global Macro Fund, LP

On 2 March 2020, a Convertible Security Funding Agreement was entered with Lind Global Macro Fund, LP ("Lind") of \$2.625 million. Under the Agreement, the Company received the net amount of \$2.5 million after the deduction of fees payable to Lind of \$0.125 million from the issue of one unsecured convertible note with a face value of \$3.0 million.

The conversion price of the note is calculated as the lesser of: (i) 90% of the average of the five lowest daily VWAPs during the 20 trading days prior to conversion; and (ii) \$0.055, and the convertible security may be converted into fully paid ordinary shares at the conversion price at any time before the maturity date (2 March 2022). If a conversion would result in a conversion price of less than \$0.03, the Company may settle that conversion in cash. Lind may then elect to accept such cash payment or have the conversion settled at a conversion price of \$0.03.

The Company has the right to redeem the outstanding face value of the convertible note at any time by giving 10 days notice by paying the amount outstanding on the convertible security. Upon receiving such notice, Lind may convert up to (in aggregate) 33% of the face value of the convertible security.

As a part of the agreement, the Company also issued 60,000,000 fully paid ordinary shares with a value of \$2.04 million to Lind as collateral shares along with 34,000,000 unlisted options with an exercise price of \$0.045 and expiry date of 2 March 2024.

On 7 May 2020, the Company issued 52,631,579 fully paid ordinary shares to a nominee of Lind in respect of the conversion of \$1m of the face value of the convertible security.

On 22 June 2020 a replacement convertible security was issued to Lind in accordance with the Convertible Security Funding Agreement announced on 2 March 2020 following shareholder approval being obtained at the Company's general meeting held on 18 June 2020. The replacement convertible security was issued with a face value of \$2.0 million.

A reconciliation of the balance at year end is as follows:

	2020	2019
	\$	\$
Opening Balance	-	-
Funding Received	2,625,000	-
Repayments made	(1,000,000)	-
Finance costs incurred	98,720	-
Fair value adjustments	(189,162)	-
Closing Balance	<u>1,534,558</u>	<u>-</u>

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

Assets pledged as security

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

	2020	2019
	\$	\$
Current		
<i>Fixed charge</i>		
Receivables	-	-
<i>Floating charge</i>		
Cash and cash equivalents	-	8,140,422
Receivables	-	1,289,602
Derivative financial assets	-	-
Inventory	-	722,015
Total current assets pledged as security	-	10,152,039
Non-Current		
<i>Fixed charge</i>		
Property, plant and equipment *	-	42,028,642
<i>Finance lease</i>		
Property, plant and equipment	312,023	479,971
<i>Floating charge</i>		
Receivables	-	-
Property, plant and equipment	-	7,998,337
	-	50,506,950
Total non-current assets pledged as security	-	50,506,950
Total assets pledged as security	312,023	60,658,989

* Sinosteel has a Specific Security Deed giving it security over the Company's mechanical equipment, electrical and instrumentation equipment, structural steel, platework and piping for the beneficiation and hydrometallurgical process plants supplied and installed by the contractor as defined by the Process Engineering package in the EPC Contract. These assets were fully impaired during the year hence have a nil carrying value as at 30 June 2020.

(f) Deferred revenue

	2020	2019
	\$	\$
Current		
Deferred revenue	7,521,406	1,333,680
Non-Current		
Deferred revenue	-	1,333,589
	-	1,333,589

Refer to Note 5 for the accounting policy in relation to R&D rebates and government grants.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

(g) Accounting classification and fair value

Financial assets

A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cashflows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to hold both assets in order to collect contractual cashflows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either:

- held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or
- designated as such upon initial recognition where permitted.

Fair value movements are recognised in profit or loss. Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instruments credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the assets lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the assets lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Financial liabilities

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

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

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

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

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

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

Measurement

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

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

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

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

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

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

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

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

9. Financial Risk Management

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

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

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

a) Market Risk

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

Foreign Exchange Risk

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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated or linked to a currency that is not the entity's functional currency. The Group's revenue from contracts with customers was invoiced in US dollars in FY2020. The Group did not enter into any FX hedging agreements in relation to its revenue transactions.

In FY2019 the Group hedged the currency risk of the Brevet facility by hedging the entire value of the notional value of the loan, which is mainly an exposure to US Dollar borrowings. The risk was measured through forecasting the US dollar amounts required for repayments. The US dollar denominated borrowings were to be repaid with receipt of the R&D Tax Incentive Offset which is receipted in Australian dollars.

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

This facility was repaid in full and extinguished in the 2019 financial year.

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

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

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

	2020	2019
	\$	\$
Cash and cash equivalents - USD	168,601	992
Trade receivables - USD	407,335	-
	<u>575,936</u>	<u>992</u>

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

	Impact on post tax profit/(loss) 2020 \$	Impact on post tax profit/(loss) 2019 \$
US / \$ exchange rate – increase 10%	(52,358)	(99)
US / \$ exchange rate – decrease 10%	57,594	99

Amounts recognised in the statement of profit or loss

During the year the following foreign exchange-related amounts were recognised in the statement of profit or loss:

	2020 \$	2019 \$
Net foreign exchange gain included in other income	-	-
Foreign exchange loss in administration expenses	(31,292)	(30,666)
Net foreign exchange gain/(loss)	(31,292)	(30,666)
Net gain/(loss) on foreign currency derivatives not qualifying as hedges included in finance costs	-	90,182

Cash flow and fair value interest rate risk

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

	Weighted average interest rate %	Floating Interest Rate \$	Fixed Interest \$	Non-Interest Bearing \$	Total \$
30 June 2020					
Financial Assets					
Cash and cash equivalents	0.14%	6,370,318	-	290,250	6,660,568
Trade and other receivables	-	-	-	21,134,166	21,134,166
Other financial assets	1.55%	-	60,523	-	60,523
Total financial assets		6,370,318	60,523	21,424,416	27,855,257
Financial Liabilities					
Trade and other payables	-	-	-	7,662,553	7,662,553
Interest bearing liabilities	7.20%	-	5,853,678	-	5,853,678
Total financial liabilities		-	5,853,678	7,662,553	13,516,231

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

	Weighted average interest rate %	Floating Interest Rate \$	Fixed Interest \$	Non-Interest Bearing \$	Total \$
30 June 2019					
Financial Assets					
Cash and cash equivalents	0.00%	547	-	8,139,875	8,140,422
Trade and other receivables	-	-	-	511,077	511,077
Other financial assets	2.62%	-	89,272	-	89,272
Total financial assets		547	89,272	8,650,952	8,740,771
Financial Liabilities					
Trade and other payables	-	-	-	14,565,188	14,565,188
Interest bearing liabilities	8.03%	13,898,882	12,009,189	-	25,908,071
Total financial liabilities		13,898,882	12,009,189	14,565,188	40,473,259

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

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

b) Credit Risk

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

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

c) Liquidity Risk

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

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

The Company:

- currently has short term funding in place (refer Note 8). The Company continuously monitors forecasts and actual cash flows and the maturity profiles of financial assets and liabilities to manage its liquidity risk;

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

- manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are invested in short-term bank deposits.

Financing arrangements

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

Fixed rate	2020	2019
	\$	\$
- Expiring within one year	-	-
- Expiring beyond one year	-	-
	-	-

Maturities of financial liabilities

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

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

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$		\$
As at 30 June 2020						
<i>Non-derivatives</i>						
Trade payables	7,662,553	-	-	-	7,662,553	7,662,553
Interest bearing liabilities (excluding finance leases)	5,319,726	1,200,000	-	-	6,519,726	5,685,329
Lease liabilities	78,798	73,880	25,485	-	178,163	168,350
Total non-derivatives	13,061,077	1,273,880	25,485	-	14,360,442	13,516,232
<i>Derivatives</i>						
Other financial liabilities	-	-	-	-	-	-
Gross settled forward exchange contracts	-	-	-	-	-	-
-(Inflow)	-	-	-	-	-	-
-Outflow	-	-	-	-	-	-
Total derivatives	-	-	-	-	-	-

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

9. Financial Risk Management (continued)

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$		\$
As at 30 June 2019						
<i>Non-derivatives</i>						
Trade payables	5,918,561	4,377,374	4,269,253	-	14,565,188	14,565,188
Interest bearing liabilities (excluding finance leases)	8,071,738	11,176,284	7,296,314	-	26,544,336	25,592,875
Lease liabilities	78,798	78,798	155,122	18,291	331,009	315,196
Total non-derivatives	14,069,097	15,632,456	11,720,689	18,291	41,440,533	40,473,259
<i>Derivatives</i>						
Other financial liabilities	-	-	-	-	-	-
Gross settled forward exchange contracts	-	-	-	-	-	-
-(Inflow)	-	-	-	-	-	-
-(Outflow)	-	-	-	-	-	-
Total derivatives	-	-	-	-	-	-

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Non-financial Assets and Liabilities

(a) Property, plant and equipment

	Assets under construction	Plant and Equipment	Bulk earthworks	Browns Range Buildings	Total
2020					
	\$	\$	\$	\$	\$
Cost					
At beginning of the financial year	290,264	64,462,597	5,634,400	3,561,145	73,948,406
Additions	8,256,009	565,837	54,732	270,058	9,146,636
Capitalised Interest	-	-	-	-	-
Transfers	(4,606,828)	2,644,867	1,714,504	247,457	-
Disposals	-	(12,921)	-	-	(12,921)
Impairment loss	-	(61,905,568)	(5,294,663)	-	(67,200,231)
At the end of the financial year	3,939,445	5,754,812	2,108,973	4,078,660	15,881,890
Accumulated Depreciation					
At beginning of year	-	20,379,886	2,700,112	361,457	23,441,455
Depreciation charge for the year	-	22,202,367	1,973,835	254,517	24,430,719
Disposals	-	(4,100)	-	-	(4,100)
Impairment loss	-	(38,917,462)	(3,519,725)	-	(42,437,187)
Accumulated depreciation at end of year	-	3,660,691	1,154,222	615,974	5,430,887
Carrying amount at end of the year	3,939,445	2,094,121	954,751	3,462,686	10,451,003
2019					
Cost					
At beginning of the financial year	50,116,533	4,999,158	4,991,608	3,492,247	63,599,546
Additions	8,536,255	48,797	-	-	8,585,052
Capitalised Interest	1,763,810	-	-	-	1,763,810
Transfers	(60,126,332)	59,414,642	642,792	68,898	-
At the end of the financial year	290,266	64,462,597	5,634,400	3,561,145	73,948,408
Accumulated Depreciation					
At beginning of year	-	2,639,660	1,245,951	140,688	4,026,299
Depreciation charge for the year	-	17,740,227	1,454,161	220,769	19,415,157
Accumulated depreciation at end of year	-	20,379,887	2,700,112	361,457	23,441,456
Carrying amount at end of the year	290,266	44,082,710	2,934,288	3,199,688	50,506,952

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Non-financial Assets and Liabilities (continued)

Property, plant and equipment

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

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

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

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

Depreciation and amortisation

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

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

Office Equipment – 3 years

Fixtures and Fittings – 4 years

Exploration Equipment – 3 years

Vehicles – 4 years

Leasehold Improvements – 3-10 years

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

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

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

Beneficiation Plant – 3 years based on life of pilot plant

Hydrometallurgical Plant – 3 years based on life of pilot plant depending on commencement as available for use.

Assets under construction

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

Non-current assets pledged as security

Refer to Note 8 (e) for information on non-current assets pledged as security by the Group.

Impairment Losses

The impairment loss relates to the write down of assets associated with the Browns Range Pilot Plant after it was determined that due to changes at the operation a clear indication of impairment existed at year end. A subsequent assessment of the recoverable amount determined that this would not exceed \$nil and the decision was made to write down the carrying value of these assets to \$nil.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Non-financial Assets and Liabilities (continued)

Leases

The Company has purchased a number of items of plant and equipment under hire purchase lease agreements. These are presented as part of property, plant and equipment in the statement of financial position.

	2020	2019
	\$	\$
Plant and equipment – hire purchase	472,820	472,820
Less: Accumulated depreciation	(160,797)	(89,469)
	321,023	383,351

Lease liability

	2020	2019
	\$	\$
Current lease liability	142,835	138,855
Non-current lease liability	25,485	176,341
	168,320	315,196

Interest charged on hire purchase lease liabilities during the year was \$10,295. The average interest rate charged is 4.13%.

The Company leases offices in West Perth, Western Australia, under a non-cancellable lease which expired on 31 March 2020. The Company subsequently entered into another lease agreement with a term of 6 months.

As the original office lease was due to expire within 12 months of the first date of application of AASB 16, the Company has relied on the practical expedients outlined in AASB 16 as follows:

- Leases with a remaining term of 12 months or less from the date of application have been accounted for as short-term leases and have therefore not been recognised on the balance sheet.

The office leases have been recognised as an expense in the statement of profit or loss on a straight-line basis over the lease term in accordance with AASB 16.

During the year ended 30 June 2020, a total of \$216,469 was recognised as an expense in relation to the office leases.

Income of \$125,941 has been recognised for sub-leasing of the office premises.

Lease Commitments

	2020	2019
	\$	\$
Commitments for minimum lease payments are:		
Within one year	45,302	181,282
Later than one year but less than five years	-	-
Later than five years	-	-
	45,302	181,282

(b) Inventories

	2020	2019
	\$	\$
Current		
Diesel fuel and consumables	992,099	722,015
	992,099	722,015

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10 Non-financial Assets and Liabilities (continued)

(c) Provisions

Current

Employee benefits	1,106,518	971,120
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Non-Current

Rehabilitation	4,977,310	4,716,141
	4,977,310	4,716,141

(i) Movements in provisions

2020	<i>Employee benefits</i>	<i>Rehabilitation</i>	<i>Total</i>
	\$	\$	\$
Balance at the beginning of year	971,120	4,716,141	5,687,261
Amounts expensed for the year	991,734	261,169	1,252,903
Utilisation	(856,336)	-	(856,336)
Balance at the end of year	1,106,518	4,977,310	6,083,828

Employee benefits

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

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

Rehabilitation

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

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

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

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

10. Non-financial Assets and Liabilities (continued)

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

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

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

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

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity

	Number	2020 \$	Number	2019 \$
(a) Ordinary Shares				
Share Capital				
Ordinary Shares	3,987,080,431	243,671,335	2,083,027,096	188,482,276
Movement in Ordinary Share Capital				
Balance at the beginning of year	2,083,027,096	188,482,276	1,114,820,770	143,944,809
Rights issue	95,039,889	4,276,801	-	-
Share placement - \$30 million placement (part)	411,045,556	25,484,824	-	-
Issue of securities – exercise of performance rights	2,859,500	-	-	-
Issue of shares for consultancy	2,419,355	181,500	-	-
Issue of shares to JHY Pty Ltd – extension of convertible note	2,000,000	122,000	-	-
Share placement - \$30 million placement (part)	3,225,806	200,000	-	-
Lind Collateral Shares	60,000,000	2,040,000	-	-
Placement at \$0.02	771,500,000	15,430,000	-	-
Lind – Partial repayment of Convertible Note	52,631,579	1,000,000	-	-
Share Purchase Plan	499,020,000	9,980,400	-	-
Conversion of Performance Rights	1,501,650	-	-	-
Shares issued in lieu of payment of vendor invoices	2,810,000	61,800	-	-
Issue of securities to Lind - Convertible Security repayment – July 2018	-	-	7,440,477	572,917
Placement Issue – July 2018	-	-	38,461,538	3,000,000
Issue of securities to Lind - Convertible Security repayment – October 2018	-	-	17,434,876	1,245,833
Issue of securities to Lind - Convertible Security repayment – November 2018	-	-	9,615,386	625,000
Issue of securities to Lind - Convertible Security repayment – December 2018	-	-	13,020,836	729,167
Shares issued to Sinosteel for Deed of Settlement dated December 2018	-	-	15,000,000	1,095,000
Shares issued to Primero for Deed of Settlement dated December 2018	-	-	10,000,000	620,000
Issue of shares to creditors	-	-	5,900,000	295,000
Issue of securities to Lind - Convertible Security repayment – December 2018	-	-	14,719,205	677,083
NRE Subscription	-	-	11,111,111	1,000,000
Share Placement – February 2019	-	-	50,000,000	3,000,000
Shares issued for consultancy agreement	-	-	10,000,000	470,000
Shares issued to creditors	-	-	2,500,000	120,000
Issue of securities to Lind - Convertible Security repayment – February 2019	-	-	15,746,126	677,083
Share Placement – March 2019	-	-	60,000,000	2,999,487
Shares issued for consultancy agreement	-	-	20,000,000	800,000
Share Placement – April/ May 2019	-	-	400,000,000	20,000,000
Shares issued on exercise of performance rights	-	-	4,100,000	-
Share issue for success fees on placements	-	-	38,000,000	1,900,000
Institutional Rights Issue	-	-	59,156,771	2,662,055
Share issue for success fees on placements	-	-	16,000,000	800,000
Share Placement – May 2019	-	-	150,000,000	7,500,000
	<u>3,987,080,431</u>	<u>247,259,601</u>	<u>2,083,027,096</u>	<u>194,733,434</u>
Less: costs of issue	-	(3,588,266)	-	(6,251,158)
Balance at the end of year	<u>3,987,080,431</u>	<u>243,671,335</u>	<u>2,083,027,096</u>	<u>188,482,276</u>

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

(i) Ordinary shares

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

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

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

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

(b) Share Purchase Plan Shares

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

	2020	2019
	Number	Number
Balance at beginning of year	5,303,400	5,303,400
Shares reverted to company and reissued during the year	(950,000)	-
Balance at end of year	4,353,400	5,303,400

(c) Performance Rights over ordinary shares

	2020	2019
	Number	Number
<i>Performance rights with conditions* with Nil exercise price vesting and exercisable upon a number of conditions (Unquoted)</i>		
Balance at beginning of year	14,000,000	18,000,000
Issued during the year	-	-
Forfeited/lapsed during the year	(2,000,000)	-
Exercised during the year	(1,000,000)	(4,000,000)
Balance at end of year	11,000,000	14,000,000
<i>Performance rights with conditions** with Nil exercise price vesting and exercisable upon a number of conditions (Unquoted)</i>		
Balance at beginning of year	-	2,000,000
Issued during the year	-	-
Forfeited/lapsed during the year	-	(2,000,000)
Exercised during the year	-	-
Balance at end of year	-	-

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

	2020 Number	2019 Number
<i>Performance rights with conditions*** with Nil exercise price vesting and exercisable upon a number of conditions (Unquoted)</i>		
Balance at beginning of year	300,000	400,000
Issued during the year	-	-
Forfeited/lapsed during the year	-	-
Exercised during the year	-	(100,000)
Balance at end of year	300,000	300,000
 <i>Performance rights with conditions**** with Nil exercise price vesting and exercisable upon a number of conditions (Unquoted)</i>		
Balance at beginning of year	9,713,050	-
Issued during the year	914,000	11,714,000
Forfeited/lapsed during the year	(1,086,000)	(2,000,950)
Exercised during the year	(3,361,150)	-
Balance at end of year	6,179,900	9,713,050

* Performance conditions

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

** Performance conditions

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

*** Performance conditions

- 100,000 shares will vest and be exercisable upon the completion of Civil Works (concrete) for the Browns Range Pilot Plant;
- 200,000 shares will vest and be exercisable upon the delivery of project EP portion and LTSC portion within budget, no lost time injury and no reportable environmental incident;
- 300,000 shares will vest and be exercisable upon completion of the Pilot Plant performance test and practical completion by 30 June 2019;
- 50,000 shares will vest and be exercisable upon commencement of mining operations of the Browns Range Pilot Project;
- 300,000 shares will vest and be exercisable upon delivery of the mining scope of work for the Browns Range Pilot Plant on time and within budget. No lost time injury at the site from the commencement to the completion of both the mining and earthworks contracts, and no reportable environmental incidents from the commencement to the completion of both the mining and earthworks contracts;
- 250,000 shares will vest and be exercisable upon completion of the mining and earthworks contracts at the discretion of the CEO;
- 100,000 shares will vest and be exercisable upon commencement of employment with Northern Minerals;
- 200,000 shares will vest and be exercisable upon completion of process plant performance test and practical completion achieved by 30 June 2019, and completion of necessary R&D tests and claim application for 2017/2018 R&D claim, and receipt of R&D refund by the Company;
- 300,000 shares will vest and be exercisable upon completion of necessary R&D tests and claim application for 2018/2019 R&D claim and receipt of refund by the Company.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

**** Performance conditions

-2,858,500 shares will vest and be exercisable subject to vesting conditions that relate to OHS Positive Performance Indicators (PPI) for the financial year ended 30 June 2020;

-2,858,500 shares will vest and be exercisable subject to vesting conditions that relate to Key Production Indicators (KPI) for the financial year ended 30 June 2020;

-2,998,500 shares will vest and be exercisable subject to vesting conditions that relate to OHS Positive Performance Indicators (PPI) for the financial year ended 30 June 2020;

-2,998,500 shares will vest and be exercisable subject to vesting conditions that relate to Key Production Indicators (KPI) for the financial year ended 30 June 2020.

(d) Options over ordinary shares

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

Grant Date	Expiry date	Exercise price	Share options 30 June 2020	Share options 30 June 2019
12 June 2014	12 June 2020	\$0.25	-	1,921,870
12 June 2014	12 June 2020	\$0.25	-	10,890,600
12 April 2017	24 May 2021	\$0.15	3,000,000	3,000,000
14 June 2017	20 June 2020	\$0.2475	-	22,500,000
29 December 2017	31 December 2019	\$0.1175	-	30,000,000
29 December 2017	31 December 2019	\$0.1175	-	5,023,076
30 November 2018	20 December 2021	\$0.1225	10,000,000	10,000,000
17 December 2018	31 December 2019	\$0.0875	-	10,000,000
2 March 2020	2 March 2024	\$0.045	34,000,000	-
Total			47,000,000	93,335,546

Weighted average remaining contractual life of options outstanding at end of period	3.03 years	0.94 years
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The following options expired during the year:

Expiry date	Exercise price	Share options 30 June 2020
12 June 2020	\$0.25	1,921,870
12 June 2020	\$0.25	10,890,600
20 June 2020	\$0.2475	22,500,000
31 December 2019	\$0.1175	30,000,000
31 December 2019	\$0.1175	5,023,076
31 December 2019	\$0.0875	10,000,000

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

(e) Capital management

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

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

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

(f) Dividends

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

(g) Other reserves

	2020 \$	2019 \$
Reserves	12,521,187	12,405,310
Reserves comprise the following:		
<i>Performance Rights and options reserve</i>		
Balance at the beginning of year	9,076,412	8,398,451
Vesting charge on performance rights and options	(110,159)	677,961
Balance at the end of year	8,966,253	9,076,412
<i>Share-based payment reserve</i>		
Balance at the beginning year	2,807,380	4,347,380
Share plan allocation	-	-
Other share-based payments -refer note below	-	(1,540,000)
Balance at the end of year	2,807,380	2,807,380
<i>Other Reserves</i>		
Balance at the beginning year	521,518	1,278,025
Convertible notes issued during the year / (converted in year)	226,036	945,385
Change in value of collateral shares refunded and reissued	-	(1,701,892)
Balance at the end of year	747,554	521,518
Total Reserves	12,521,187	12,405,310

During 2017 a sales agreement with Lianyugang Zeyu New Materials Sales Co Ltd (JFMAG) was entered into. Following execution of the sales agreement Northern Minerals were to issue 14 million ordinary shares to JFMAG or its nominated beneficiary. This agreement has been terminated and the shares will not be issued. This transaction was reversed in the share-based payments reserve in 2019.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

11. Equity (continued)

(h) Nature and purpose of other reserves

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

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

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

12. Cash Flow Information

	2020 \$	2019 \$
(a) Reconciliation of loss after income tax to net cash outflow from operating activities		
Net Loss after tax	(54,328,360)	(63,966,330)
<i>Adjustments</i>		
Depreciation expense	24,430,720	19,415,157
Amortisation of borrowing costs	1,017,578	2,503,415
Loss on disposal of assets	(8,551)	-
Unrealised foreign exchange	-	1,256,376
Share-based payments – (refer Note 17)	(509,889)	2,784,684
Repayment of Research & Development	(4,108,378)	-
Research & Development rebate reversal	-	6,198,937
Impairment of PPE	24,763,044	-
Non-cash fair value adjustments	92,793	1,097,743
<i>Change in assets and liabilities</i>		
(Increase) / decrease in other receivables	(20,787,403)	11,272,368
(Increase) / decrease in inventory	(270,084)	284,254
Increase / (decrease) in trade and other payables	(2,444,351)	(1,254,642)
Increase / (decrease) in provisions	396,567	714,095
Net cash flows used in operating activities	(31,756,314)	(19,693,943)
 (b) Non-cash investing and financing activities		
Acquisition of property, plant and equipment by means of finance leases	-	60,000
Conversion of debt to equity (refer note 17)	1,000,000	4,527,084

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

12. Cash Flow Information (continued)

(c) Reconciliation of liabilities arising from financing activities

	Opening balance 2019 \$	Cash flows *	Non-cash changes			Closing balance 2020 \$
			Foreign exchange movements \$	Conversion of debt to equity \$	Other non-cash movements \$	
Convertible notes	11,054,262	(5,404,406)	-	(1,000,000)	1,035,473	5,685,329
Equipment finance	315,196	(146,846)	-	-	-	168,350
Other loans	639,721	(639,721)	-	-	-	-
Total liabilities from financing activities	12,009,179	(6,190,973)	-	(1,000,000)	1,035,473	5,853,679

*Interest paid on liabilities has been included in the cash flows above, however, is shown as operating cash flows in the Statement of Cash Flows.

13. Subsidiaries

The following are wholly owned subsidiaries of the Company:

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

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

14. Contingent Liabilities

Co-Existence Agreement

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

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

Guarantees

The Group has guarantees in the form of security deposits for rent and performance bonds of \$60,522 (2019: \$89,272).

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

14. Contingent Liabilities (continued)

Government Grants

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

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

15. Commitments

(i) Exploration Expenditure Commitments

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

	2020	2019
	\$	\$
Exploration Tenements		
Within one year	841,400	834,900

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

16. Related Party Transactions

(a) Key management personnel compensation

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

	2020	2019
	\$	\$
Short-term employee benefits	2,563,298	2,503,768
Post-employment benefits	98,358	100,754
Other long-term benefits	10,206	56,659
Share-based payments	(709,349)	119,746
Total compensation	<u>1,962,513</u>	<u>2,780,927</u>

Detailed remuneration disclosures are provided in the Remuneration Report.

(b) Transactions with other related parties

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

Rental Income	<u>125,941</u>	<u>95,294</u>
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The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

Current receivables	<u>20,767</u>	<u>12,452</u>
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NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share-based Payments

	2020	2019
Total expenses arising from share-based payment transactions recognised during the period:	\$	\$
Performance rights and options – refer to (i)	(110,159)	677,961
Share purchase plan shares – refer to (ii)	-	-
Total Options and Performance Rights	(110,159)	677,961
• <i>Included in share-based payments expense</i>	(586,159)	377,790
• <i>Included in prepayments (refer Note 8(b))</i>	476,000	300,171
• <i>Included in capitalised borrowing costs</i>	-	-
	(110,159)	677,961
Share-based payments by issuing shares		
• <i>Repayment of debt (refer Note 12(b))</i>	1,000,000	4,527,084
• <i>Included in share-based payments expense</i>	-	1,746,893
• <i>Included in borrowing costs</i>	-	750,000
• <i>Included in share capital costs</i>	-	3,220,000
• <i>Included in project development costs</i>	41,800	-
• <i>Included in consulting fees</i>	201,500	-
• <i>Included in prepayments (refer Note 8(b))</i>	2,162,000	-
Total shares issued for payment of goods and services	3,405,300	10,243,977
Total share-based payments for the year	3,295,141	10,921,938
Total share-based payments recognised in profit and loss	(202,526)	2,874,684
Total share-based payments recognised in statement of financial position	3,497,667	8,047,254

Equity settled transactions

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

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

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

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

(i) The grant date fair value of the award.

(ii) The expired portion of the vesting period.

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

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

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

The Group expenses equity-settled share-based payments such as share and option issues after ascribing a fair value to the shares and/or options issued. The fair value of option and share plan issues of option and share plan shares are recognised as an expense together with a corresponding increase in the share based payments reserve or the share option reserve in equity over the vesting period. The

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share-based Payments (continued)

proceeds received net of any directly attributable transaction costs are credited to share capital when options are exercised.

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

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

(i) Options and Performance Rights

914,000 performance rights were granted to employees and directors during the year (2019: 11,714,000). 34,000,000 (2019: 20,000,000) options were granted to third parties. Details on the performance rights and options issued are included in Note 11(c) and 11(d). Details on the performance rights issues to key management personnel are included in the Remuneration Report section of the Directors' Report.

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

	2020 Number	Weighted average exercise price	2019 Number	Weighted average exercise price
Outstanding at the beginning of the year	24,013,050	\$0.00	20,400,000	\$0.00
Performance rights expired during the year	-	\$0.00	-	\$0.00
Performance rights issued during the year	914,000	\$0.00	11,714,000	\$0.00
Performance rights forfeited / lapsed during the year	(3,086,000)	\$0.00	(4,000,950)	\$0.00
Performance rights exercised during the year	<u>(4,361,150)</u>	\$0.00	<u>(4,100,000)</u>	\$0.00
Outstanding at the end of the year	<u>17,479,900</u>	\$0.00	<u>24,013,050</u>	\$0.00
Exercisable at the end of the year	<u>4,263,900</u>		<u>4,216,050</u>	

The outstanding balance as at 30 June 2020 is represented by:

- 17,479,900 performance rights with an exercise price of nil, with numerous performance conditions – see Note 11(c) for details.

The weighted average remaining contractual life for the performance rights outstanding as at 30 June 2020 is 0.98 years (2019: 1.83 years).

(ii) Share Plan Shares

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

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

The Directors considered the Plan an appropriate method to:

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share-based Payments (continued)

The Plan is used as part of the remuneration planning for senior Employees. ASX corporate governance guidelines recommend that executive remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the Company's circumstances and goals.

The Plan is also to be used as part of the remuneration package for non-executive Directors. Although this is not in accordance with the recommendations contained in the corporate governance guidelines, the Company considers that it is appropriate for non-executive Directors to participate in the Plan from time to time, given the size of the Company.

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

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

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

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

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

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

- a) Loans must be made solely to the Participant or their nominee and in the name of either the Participant or their nominee as the case may be.
- b) The principal amount outstanding under a Loan will be interest free.
- c) Any loan made available to a Participant will be applied by the Company directly towards payment of the issue price of the Shares to be acquired under the Plan.
- d) The term of the loan, the time in which repayment of the loan must be made by the Participant and the manner for making such payments shall be determined by the Board or the Committee and set out in the invitation.
- e) The amount repayable on the loan by the Participant will be the lesser of:
 - i) the issue price of the Shares less any cash dividends paid in respect of the Shares and applied by the Company in accordance with paragraph (g) below and any amount of the loan repaid by the Participant; and
 - ii) the last sale price of the Shares on ASX on the date of repayment of the Loan or, if there are no transactions on that day, the last sale price of the Shares prior to that date, or, if the Shares are sold by the Company, the amount realised by the Company from the sale.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share-based Payments (continued)

- f) A Participant may elect to repay the Loan in full prior to expiry of the term of the Loan but may elect to repay the Loan amount in respect of any or all of the Shares (in multiples representing not fewer than 1,000 Shares) at any time prior to expiry of the term of the Loan.
- g) Cash dividends which are paid in respect of Shares the subject of a loan will be applied by the Company on behalf of the Participant to repayment of the amount outstanding under the loan and any surplus of the cash dividend will be paid to the Participant.
- h) Any fees, charges and stamp duty payable in respect of a loan will be payable by the Participant.
- i) The Company shall have a lien over each Share acquired pursuant to the loan until such time as the loan in respect of that Share is repaid. The Company shall be entitled to sell those Shares in accordance with the terms of the Plan.
- j) A Share issued under the Share Plan will not be tradeable by a Participant until the Loan amount in respect of that Share has been repaid and the Company:
 - (i) will retain the Share Certificate in respect of the Loan Shares;
 - (ii) may apply a Holding Lock; and
 - (iii) may refuse to register a transfer of Loan Shares, until the Loan amount has been repaid.

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

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

	2020	2019
	Number	Number
Opening Balance	5,303,400	5,303,400
Issued during the year	-	-
Shares for which loan has been repaid	-	-
Shares reverted back to the Company reissued in accordance with the Share Plan rules	(950,000)	-
Closing Balance	4,353,400	5,303,400

4,353,400 shares have reverted to the Company under the terms of the share plan. The shares are available to be issued by the Company as at 30 June 2020.

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

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

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

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

17. Share-based Payments (continued)

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

The following tables list the inputs to the model used for the years ended 30 June 2020 or 2019.

There were no Share Plan shares issued during the year ended 30 June 2020 or 2019.

The following relates to the unlisted options and performance rights issued during the year ended 30 June 2020:-

Issue Date	Vesting Date	Number Issued	Grant Date	Stock price at Grant Date	Issue Price – at date of issue	Risk Free Rate	Volatility	Value Per Option/Right
02/03/2020	02/03/2020	34,000,000	02/03/2020	\$0.034	\$0.045	0.5%	65%	\$0.014
04/11/2019	Various	914,000	04/11/2019	\$0.051	Nil	Nil	Nil	\$0.051

18. Auditor's Remuneration

	2020	2019
	\$	\$
Nexia Perth Audit Services Pty Ltd		

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

Audit and Other Assurance Services

Audit and review of financial reports under the Corporations Act 2001	132,724	105,134
Other assurance services - audit of government grant final report	1,970	4,500
Total remuneration of auditors	134,694	109,634

19. Earnings per share

	2020	2019
	\$	\$
a) Basic loss per share		
From continuing operations attributable to the ordinary equity holders of the Company	(2.04)	(4.67)
b) Loss used in calculating loss per share		
Loss attributable to ordinary equity holders of the Company for basic and diluted earnings per share	(54,328,360)	(63,966,330)
	Number	Number
c) Weighted average number of shares used as the denominator		

The weighted average number of ordinary shares on issue during the financial year used in the calculation of basic loss per share

	2,667,758,484	1,370,412,599
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NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

19. Earnings per share (continued)

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

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

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

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

20. Parent Entity Information

Summary financial information

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

	2020 \$	2019 \$
Statement of financial position		
Current assets	31,968,270	10,981,013
Total assets	42,479,796	61,577,237
Current liabilities	25,820,487	33,105,662
Total liabilities	30,823,282	50,897,298
Shareholder's equity		
Share capital	243,671,335	188,482,276
Reserves	12,521,187	14,023,856
Accumulated losses	(244,536,008)	(126,241,318)
	11,656,514	10,679,940
Net Loss for the period	(54,328,360)	(63,966,330)
Contingent liabilities	Refer to Note 14	

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

21. Segment Information

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

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

22. Events Occurring After the Reporting Period

On 1 July 2020, the Company made the decision to partially restart operations at the Browns Range Pilot Plant Project. This decision was made following the lifting of Commonwealth biosecurity restrictions applied to the Kimberly region as a part of Covid-19 control measures. The partial return of pilot plant operations at Browns Range resulted in about three quarters of the previous Project workforce being re-mobilised. Initial operations will focus on testwork in the beneficiation circuit followed by tests in the hydrometallurgical circuit along with mechanical construction and installation of the ore sorter.

On 22 July 2020, the Company issued 183,500,000 fully paid ordinary shares upon receipt of \$3.67 million relation to the outstanding tranches of the \$22 million placement announced on the ASX on 20 April 2020. A further 145,000,000 fully paid ordinary shares were issued on 16 September 2020 following the receipt of the final \$2.9 million of the placement.

In August 2020, the Company announced it had reached a settlement agreement with the ATO that settled all matters relating to the FY17 and FY18 R&D tax offset claims. The settlement agreement also documented the agreed refundable R&D offset claim for the FY19 as well as a framework for reviewing the Company's refundable R&D offset claim for FY20. On 14 September 2020, the Company received \$8.64 million from the ATO in relation to the refundable R&D tax offset claims for FY17, FY18 and FY19. The final \$1.3 million relating to these claims was received on 17 September 2020.

On receipt of the first tranche of R&D funding the Company made a repayment of \$2 million of the outstanding \$4 million of convertible notes issued to JHY Investments Pty Ltd. The final balance of \$2 million payable to JHY is due on 31 December 2020.

On 17 July 2020 Lind issued a notice for the conversion of \$0.8 million owing under the convertible note agreement and as a result the Company issued 50,000,000 fully paid ordinary shares.

On 21 August 2020 the Company issued a further 66,666,667 fully paid ordinary shares as a result of the conversion of \$1.2 million of the face value of the convertible note. Following this conversion, there are no amounts outstanding under the convertible note (which has now been redeemed in full). In addition, Lind also elected to reduce its collateral shareholding number (under the original funding agreement) from 60,000,000 shares to zero by paying the Company \$1.08 million in cash.

The impact of the Coronavirus (COVID-19) pandemic is ongoing as at 30 June 2020 and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

23. New Accounting Standards and Interpretations

The Group has where applicable, adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the year ended 30 June 2020 including:

AASB 16: Leases

AASB 16 replaces AASB 117 Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases.

AASB 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 New Accounting Standards and Interpretations (continued)

A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying AASB 107 Statement of Cash Flows.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases.

The Company has relied upon the practical expedients in AASB 16 and has therefore recognised operating leases with less than 12 months remaining at the time of adoption as short term leases (not recognised on balance sheet). Refer to note 10(a) for additional information.

AASB 2018-1: Annual Improvements to IFRS Standards 2015 - 2017 Cycle

The amendments clarify certain requirements in:

- a) AASB 3 Business Combinations and AASB 11 Joint Arrangements - previously held interest in a joint operation;
- b) AASB 112 Income Taxes - relating to the income tax consequences of dividend payments; and
- c) AASB 123 Borrowing Costs - borrowing costs eligible for capitalisation.

Interpretation 23: Uncertainty over Income Tax Treatments

Interpretation 23 clarifies how to apply the recognition and measurement requirements in AASB 112 Income Taxes when there is uncertainty over income tax treatments.

Consequential amendments are made by AASB 2017-4 to AASB 1 First-time Adoption of Australian Accounting Standards as a result of Interpretation 23.

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

As at the date of the authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective and have not been adopted by the Group for the annual reporting year ending 30 June 2020:

Standard	Effective date for annual reporting periods beginning on or after	Application date for the Company
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	1 January 2020	1 July 2020
AASB 2020-3 Annual Improvements to IFRS Standards 2018–2020 and Other Amendments	1 January 2022	30 June 2023
AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current	1 January 2023	30 June 2024

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

NORTHERN MINERALS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

23 New Accounting Standards and Interpretations (continued)

AASB 2018- 7: Amendments to Australian Accounting Standards – Definition of Material

The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and include guidance relating to obscuring information that could be reasonably expected to influence decisions of the primary users of the financial information. The amendments include additional guidance to the definition of material, gives it more prominence, and clarifies the explanation; accompanying the definition of material.

AASB 2020-3 Annual Improvements to IFRS Standards 2018–2020 and Other Amendments

This Standard amends:

- (a) the application of AASB 1 by a subsidiary that becomes a first-time adopter after its parent in relation to the measurement of cumulative translation differences;
- (b) AASB 3 to update references to the Conceptual Framework for Financial Reporting;
- (c) AASB 9 to clarify when the terms of a new or modified financial liability are substantially different from the terms of the original financial liability;
- (d) AASB 116 to require an entity to recognise the sales proceeds from selling items produced while preparing property, plant and equipment for its intended use and the related cost in profit or loss, instead of deducting the amounts received from the cost of the asset;
- (e) AASB 137 to specify the costs that an entity includes when assessing whether a contract will be loss-making; and
- (f) AASB 141 to align the fair value measurement requirements in AASB 141 with those in other Australian Accounting Standards.

AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non- Current

Amends AASB 101 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver, a breach of covenant, or settlement of the liability). The mandatory application date of the amendment has been deferred by 12 months to 1 January 2023.

Management is currently assessing the effects of applying the new standards on the Group's financial statements. The Group will make more detailed assessments over the next 12 months.

NORTHERN MINERALS LIMITED

DIRECTORS' DECLARATION

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

1. In the opinion of the directors
 - (a) The financial statements and notes of Northern Minerals Limited for the financial year ended 30 June 2020 are 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 2020 and of their performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable having regard to the matters disclosed in Note 2(a); and
 - (c) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

On behalf of the Board



Colin McCavana

Director

24 September 2020

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

To the directors of Northern Minerals Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2020 there have been:

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

**Nexia Perth Audit Services Pty Ltd****Muranda Janse Van Nieuwenhuizen
Director**

Perth
24 September 2020

Independent Audit Report to the Members of Northern Minerals Limited

Report on the financial report

Opinion

We have audited the financial report of Northern Minerals Limited ("the Company"), including its subsidiaries ("the Group") which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group 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 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, 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.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Future Funding <i>(Refer to note 2(a) in the financial report)</i></p> <p>The Group has not yet started to generate revenue which is sufficient to cover their operating expenditure and is therefore reliant on the raising of capital or debt funding.</p> <p>The adequacy of funding and liquidity as well as the relevant impact on the going concern assessment is a key audit matter due to the inherent uncertainties associated with the future development of the Group’s projects and the level of funding required to support that development.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> Assessing the financial position of the Group at 30 June 2020 and up to date of sign off; Reviewing receipt of payments post year end; Reviewing repayment of liabilities post year end; and Reviewing managements forecast for the 12 month period to 30 September 2021 and assessing the reliability of the inputs and assumptions used.
<p>Research and development (R&D) tax incentive <i>(Refer to note 5 in the financial report)</i></p> <p>In August 2020, the Group signed a settlement agreement with the ATO in relation to it’s R&D rebates for the financial years ending 30 June 2017, 2018 and 2019. This was treated as an adjusting subsequent event and the Group has recognised income of \$16m for those years, with a further \$4m in deferred revenue.</p> <p>Management engaged external experts to prepare the R&D rebate assessment for the year ending 30 June 2020. Accordingly, the Group has also recognised income of \$6.9m for the year ending 30 June 2020, with a further \$2m in deferred revenue.</p> <p>The settlement with the ATO and lodgement of the 2020 claim is a key audit matter as the amounts are material and significant to the Group and users of the financial statements.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> Obtaining a copy of the ATO settlement agreement and agreeing the amounts recognised in the financial report; Assessing the professional competence, objectivity and experience of management’s external expert; Obtaining a copy of the calculation of the R&D claim prepared for the year ending 30 June 2020 and assessing the inputs and methodology used; Checking the calculation and journal prepared by management to record the R&D tax incentive income; Agreeing that the payments received from the ATO post year end were in line with the settlement agreement; and Auditing the relevant disclosures in the financial statements.
<p>Rehabilitation Provision <i>(Refer to note 10(c) in the financial report)</i></p> <p>As a consequence of its operations the Group has an obligation to rehabilitate and restore the disturbances to the environment arising from the construction of the Pilot Plant.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> Assessing the competency, objectivity and experience of management’s internal expert who valued the rehabilitation provision; Reconciling the expert’s calculations to the basis of the rehabilitation provision in the financial report; Checking a sample of costs used in the Group’s rehabilitation estimates against legislated rates;

<p>The nature of the rehabilitation activities that will be required are governed by local legislative requirements.</p> <p>This matter is a key audit matter because estimating the costs associated with these future rehabilitation activities requires judgement and estimation for factors such as the timing of when the rehabilitation works will take place, the extent of the rehabilitation and restoration activities that will be required and inflation rates and discount rates pertinent to the rehabilitation work.</p>	<ul style="list-style-type: none"> • Agreeing the expected timing of the rehabilitation works in the cash flow model to the expected life of the Pilot Plant; • Testing the mathematical accuracy of management's cash flow model; and • Auditing the relevant disclosures in the financial statements.
<p>Convertible securities issued in the year <i>(refer to note 8(e) of the financial report)</i></p> <p>On 2 March 2020, a Convertible Security Funding Agreement was entered with Lind Global Macro Fund, LP. The security included multiple embedded derivatives.</p> <p>The Group made the accounting policy choice to account for the convertible security at fair value through profit or loss.</p> <p>The convertible security transaction is a key audit matter due to the complexity of the transaction and the judgement required by management in assessing the accounting treatment.</p>	<p>Our audit procedures included, amongst others:</p> <ul style="list-style-type: none"> • Obtaining and reviewing a copy of the Convertible Security Funding Agreement; • Assessing the inputs and assumptions used in managements calculations and vouching these to supporting documentation; • Reviewing the journal entries raised to assess whether they accurately reflected the transaction; • Assessing the accounting treatment in accordance with AASB 9 <i>Financial Instruments</i> and AASB 132 <i>Financial Instruments: Presentation</i>; and • Auditing the relevant disclosures in the financial statements.

Other information

The directors are responsible for the other information. The other information comprises the information in Northern Minerals Limited's annual report for the year ended 30 June 2020, but does not include the consolidated financial report and the auditor's report thereon.

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

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

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

Directors' responsibility for the financial report

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

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

Auditor's responsibility for the audit of the financial report

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 22 of the Directors' Report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Northern Minerals Limited for the year ended 30 June 2020 complies with Section 300A of the Corporations Act 2001.

Responsibilities

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



Nexia Perth Audit Services Pty Ltd



Muranda Janse Van Nieuwenhuizen
Director

Perth
24 September 2020