INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED
31 DECEMBER 2020

Directors	Mr John Shackleton Mr Peter Cunningham Mr Peter Venn Mr Varuna Mallawarachchi
Company secretary	Ms Kelly Moore
Registered office	Unit 2, 2 Centro Avenue, Subiaco WA 6008
Principal place of business	34 Bushland Ridge, Bibra Lake WA 6163
Auditor	BDO Audit (WA) Pty Ltd 38 Station Street, Subiaco WA 6008
Solicitors	Steinepreis Paganin Level 4, The Read Buildings,16 Milligan Street, Perth WA 6000
Bankers	Westpac Banking Group Limited Westpac Bank Centre, 109 St Georges Terrace, Perth WA 6000
Share Registry	Automic Group Level 2, 267 St Georges Terrace, Perth WA 6000
Legal Form of Entity	Public Company
Website	www.margosagraphite.com

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Margosa Graphite Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2020.

Directors

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

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

Principal activities

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

Review of operations

Company Strategy

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

Exploration and Development Activities

<u>Technical Feasibility Study:</u>

During the half year, the Company completed its Technical Feasibility Study for the Ridgee Ganga Project located at Pathakada.

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

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

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

During the half year, infill drilling was commenced to reclassify and further upgrade the MRE and possible mining inventory.

The Board are pleased with the results of the Feasibility Study on Ridee Ganga and excited to further develop the Project in 2021.

Approval of Advanced Exploration and Restoration Plan

During the half year, the Company announced that it had been awarded the Advanced Exploration and Restoration Plan ('AERP') approval from the Geological Survey and Mining Bureau ('GSMB') for the refurbishment and development of a shaft at the Ridee Ganga Graphite Project, Pathakada, Sri Lanka.

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

Perth-based, Wilshaw Engineering have completed the design and engineering of the shaft equipment and fit out, including a 12m Headframe, ancillary mining equipment, electric hydraulic hoist and man-riding attachments. The equipment is refurbished and is awaiting shipment to the Ridee Ganga site.

The approval of the AERP means the Company may proceed with dewatering and shaft development. The primary objectives of the shaft development will include:
- confirming lithostructural information and vein geometry;
- mining bulk samples of graphite ore for finalisation of metallurgy and advance marketing and off-take negotiations;
- confirming mine plan assumptions and assessments such as geotechnical properties, extraction and vein recovery factors, hydrological conditions, and material handling aspects; and
- providing ventilation, services and emergency egress for future mine development.

Kumbuk Investment (Private) Limited ("Kumbuk") Investment

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

Corporate Activities

During the half-year, the Company has raised $40,500 through the issue of shares and $1,394,792 through the issue of convertible notes.

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

Financial Review

The loss for the Group after providing for income tax amounted to $951,556 (31 December 2019: $628,141). The net assets of the Group as at 31 December 2020 were $8,028,157 (30 June 2020: $8,846,644).

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial half-year

The Group has raised $870,000 from private share placement at $0.50 per share between 1 January 2021 and the date of this report.

All of the convertible notes were converted to shares on 22 February 2021 at a conversion price of $0.50 per share.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Auditor's independence declaration

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

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

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John Shackleton
Chairman

24 March 2021

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

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

As lead auditor for the review of Margosa Graphite Limited for the half-year ended 31 December 2020, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Margosa Graphite Limited and the entities it controlled during the period.

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 24 March 2021

	Consolidated	
	31 Dec 2020	**31 Dec 2019**
	$	**$**
Revenue		
Other income	1,850	538
Expenses		
Consulting fees	(232,857)	(238,643)
Directors fees	(82,772)	(83,784)
Legal fees	(7,280)	(24,420)
Other operating expenses	(166,459)	(188,659)
Finance expenses	(9,049)	(31,073)
Lease payments	(40,773)	(10,418)
Acquisition of Kumbuk Investments	(108,768)	-
Depreciation and amortisation expense	(29,003)	(7,867)
Foreign exchange loss	(276,445)	(15,523)
Share based payments	-	(28,292)
Loss before income tax expense	(951,556)	(628,141)
Income tax expense	-	-
Loss after income tax expense for the half-year	(951,556)	(628,141)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation	(97,207)	(19,390)
Other comprehensive income for the half-year, net of tax	(97,207)	(19,390)
Total comprehensive income for the half-year	(1,048,763)	(647,531)
Loss for the half-year is attributable to:		
Non-controlling interest	(44)	-
Owners of Margosa Graphite Limited	(951,512)	(628,141)
	(951,556)	(628,141)
Total comprehensive income for the half-year is attributable to:		
Non-controlling interest	(47)	-
Owners of Margosa Graphite Limited	(1,048,716)	(647,531)
	(1,048,763)	(647,531)
	Cents	**Cents**
Earnings per share for loss attributable to the owners of Margosa Graphite Limited		
Basic earnings per share	(1.23)	(1.02)
Diluted earnings per share	(1.23)	(1.02)

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

Margosa Graphite Limited
Statement of financial position
As at 31 December 2020

	Note	Consolidated 31 Dec 2020 $	Consolidated 30 Jun 2020 $
Assets			
Current assets			
Cash and cash equivalents		1,297,550	2,070,989
Trade and other receivables		53,553	70,744
Inventories		55,598	61,987
Other assets		17,389	199,808
Total current assets		1,424,090	2,403,528
Non-current assets			
Exploration and evaluation	5	6,807,447	5,813,596
Property, plant and equipment	6	1,491,962	1,095,218
Right-of-use assets		312,932	320,575
Other assets		27,225	153,257
Total non-current assets		8,639,566	7,382,646
Total assets		10,063,656	9,786,174
Liabilities			
Current liabilities			
Trade and other payables		280,152	587,400
Borrowings	7	1,399,407	-
Lease liabilities		28,965	28,965
Total current liabilities		1,708,524	616,365
Non-current liabilities			
Lease liabilities		326,975	323,165
Total non-current liabilities		326,975	323,165
Total liabilities		2,035,499	939,530
Net assets		8,028,157	8,846,644
Equity			
Issued capital	8	15,527,350	15,405,878
Reserves		47,546	144,753
Accumulated losses		(7,655,499)	(6,703,987)
Equity attributable to the owners of Margosa Graphite Limited		7,919,397	8,846,644
Non-controlling interest		108,760	-
Total equity		8,028,157	8,846,644

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

Margosa Graphite Limited
Statement of changes in equity
For the half-year ended 31 December 2020

Consolidated	Share capital $	Share based payment Reserves $	Foreign currency translation reserve $	Accumulated losses $	Non-controlling interest $	Total equity $
Balance at 1 July 2019	9,291,551	255,000	64,356	(5,348,549)	-	4,262,358
Loss after income tax expense for the half-year	-	-	-	(628,141)	-	(628,141)
Other comprehensive income for the half-year, net of tax	-	-	(19,390)	-	-	(19,390)
Total comprehensive income for the half-year	-	-	(19,390)	(628,141)	-	(647,531)
Transactions with owners in their capacity as owners:						
Contributions of equity, net of transaction costs	3,313,815	-	-	-	-	3,313,815
Performance share vested	-	28,292	-	-	-	28,292
Performance share allotted	270,750	(270,750)	-	-	-	-
Share issue on convertible note	512,274	-	-	-	-	512,274
Unissued shares	241,857	-	-	-	-	241,857
Share issue costs	(96,250)	-	-	-	-	(96,250)
Balance at 31 December 2019	13,533,997	12,542	44,966	(5,976,690)	-	7,614,815

Consolidated	Share capital $	Share based payment reserves $	Foreign currency translation reserves $	Accumulated losses $	Non-controlling interest $	Total equity $
Balance at 1 July 2020	15,405,878	-	144,753	(6,703,987)	-	8,846,644
Loss after income tax expense for the half-year	-	-	-	(951,512)	(44)	(951,556)
Other comprehensive income for the half-year, net of tax	-	-	(97,207)	-	-	(97,207)
Total comprehensive income for the half-year	-	-	(97,207)	(951,512)	(44)	(1,048,763)
Transactions with owners in their capacity as owners:						
Share-based payments (note 11)	80,972	-	-	-	-	80,972
Issue of ordinary shares	40,500	-	-	-	-	40,500
Acquisition of Kumbuk Investments	-	-	-	-	108,804	108,804
Balance at 31 December 2020	15,527,350	-	47,546	(7,655,499)	108,760	8,028,157

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

	Note	Consolidated 31 Dec 2020 $	Consolidated 31 Dec 2019 $
Cash flows from operating activities			
Payments to suppliers and employees		(693,482)	(697,893)
Payment for acquisition of 49% interest in Kumbuk Investments net of cash acquired		(216,430)	-
		(909,912)	(697,893)
Interest received		1,841	483
Net cash used in operating activities		(908,071)	(697,410)
Cash flows from investing activities			
Payments for property, plant and equipment		(192,670)	(8,413)
Payments for exploration and evaluation		(1,101,852)	(1,143,506)
Net cash used in investing activities		(1,294,522)	(1,151,919)
Cash flows from financing activities			
Proceeds from issue of shares	8	40,500	4,059,123
Proceeds from borrowings		1,394,792	-
Share issue transaction costs		-	(96,250)
Repayment of lease liabilities		(6,841)	(5,424)
Net cash from financing activities		1,428,451	3,957,449
Net increase/(decrease) in cash and cash equivalents		(774,142)	2,108,120
Cash and cash equivalents at the beginning of the financial half-year		2,070,989	286,975
Effects of exchange rate changes on cash and cash equivalents		703	17,871
Cash and cash equivalents at the end of the financial half-year		1,297,550	2,412,966

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

Note 1. General information

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

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

Registered office	Principal place of business
Unit 2, 2 Centro Avenue, Subiaco WA 6008	34 Bushland Ridge, Bibra Lake WA 6163

A description of the nature of the Group's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 24 March 2021.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2020 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2020.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Asset Acquisition

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

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

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

For the half year ended 31 December 2020, the Group recorded a loss of $951,556 (31 December 2019: $628,141), and experienced net cash outflows from operating and investing activities of $2,202,593 (31 December 2019: $1,849,329). At 31 December 2020, the Group had a working capital deficiency of $284,434 (30 June 2020: net current assets $1,787,163). At 31 December 2020, the cash balance was $1,297,550 (30 June 2020: $2,070,989).

The ability of the Group to continue as a going concern is dependent on securing additional equity funding to continue to fund its operational and exploration activities. These conditions indicate a material uncertainty that may cast a significant doubt about the Group's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Note 2. Significant accounting policies (continued)

The Directors believe there are sufficient funds to meet the entity's working capital requirements and as at the date of this report. The financial report has been prepared on the basis that the Group is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- the Directors have assessed the likely cash flow for a period to December 2022 and its impact on the Group and believe there will be sufficient funds to meet the entity's working capital requirements as at the date of this report. The achievement of the forecast is dependent on further fund raising
- the Group has historically demonstrated its ability to raise funds to satisfy its immediate cash requirements, including raising $870,000 from private share placement between 1 January 2021 and the date of this report.

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

Note 3. Critical accounting judgements, estimates and assumptions

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

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

Fair value measurement hierarchy
The Group is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

On initial recognition, the fair value of the convertible loans was calculated based on the proceeds received. At the reporting date, the fair value of the conversion option within the convertible loan has been assessed to be nil given the credit risk has not changed from inception of the loan.

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

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

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

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

Note 4. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into one operating segment being the graphite exploration in Sri Lanka. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The information reported to the CODM is on a monthly basis.

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2020.

Note 5. Exploration and evaluation

	Consolidated	
	31 Dec 2020	**30 Jun 2020**
	$	**$**
Non-current assets		
Exploration and evaluation	6,807,447	5,813,596

Note 5. Exploration and evaluation (continued)

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

Consolidated	Exploration $
Balance at 1 July 2020	5,813,596
Additions	1,167,790
Exchange differences	(173,939)
Balance at 31 December 2020	6,807,447

For the period ended 31 December 2020, the recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

Note 6. Property, plant and equipment

	Consolidated	
	31 Dec 2020 $	30 Jun 2020 $
Non-current assets		
Land - at cost	201,838	-
Plant and equipment - at cost	1,576,309	1,272,973
Less: Accumulated depreciation	(307,072)	(199,742)
	1,269,237	1,073,231
Office furniture & fixtures - at cost	2,654	-
Less: Accumulated depreciation	-	-
	2,654	-
Motor vehicles - at cost	19,146	21,346
Less: Accumulated depreciation	(9,400)	(8,328)
	9,746	13,018
Computer equipment - at cost	12,217	12,110
Less: Accumulated depreciation	(3,730)	(3,141)
	8,487	8,969
	1,491,962	1,095,218

Note 6. Property, plant and equipment (continued)

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

Consolidated	Land $	Plant & equipment $	Office furniture & fixtures $	Computer equipment $	Motor Vehicles $	Total $
Balance at 1 July 2020	-	1,073,231	-	8,969	13,018	1,095,218
Additions	216,430	417,607	2,654	1,381	-	638,072
Exchange differences	(14,592)	(95,460)	-	(884)	(1,202)	(112,138)
Depreciation expense	-	(126,141)	-	(979)	(2,070)	(129,190)
Balance at 31 December 2020	201,838	1,269,237	2,654	8,487	9,746	1,491,962

Note 7. Borrowings

	Consolidated	
	31 Dec 2020 $	30 Jun 2020 $
Current liabilities		
Convertible notes payable	1,399,407	-

During the half-year, the Company raised $1,394,792 in cash under a convertible note agreement with sophisticated investors, with interest at 7% per annum. Interest recognised for the half-year totals $4,615. The notes are to be converted as part of the next capital raise undertaken by the Company, with the conversion price being equal to the price per share of the next capital raise.

Accounting policy for borrowings and other financial liabilities

Borrowings and other financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. Borrowings and other financial liabilities are initially recognised at the fair value of the consideration received, net of transaction costs. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted. They are subsequently measured at amortised cost using the effective interest method.

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.

Note 8. Issued capital

	Consolidated			
	31 Dec 2020 Shares	30 Jun 2020 Shares	31 Dec 2020 $	30 Jun 2020 $
Ordinary shares - fully paid	77,133,734	76,772,385	15,527,350	15,405,878

(1) The Company has issued convertible notes with an interest rate of 7% per annum and a repayment date of 12 months from issue. The convertible notes were converted to shares after period end on 22 February 2021 at a conversion price of 50 cents per share.

Note 8. Issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2020	76,772,385		15,405,878
Share placement for unissued shares		14,285	$0.00	-
Share placement at $0.35		115,715	$0.35	40,500
Share based payment (refer to note 11)		231,349	$0.35	80,972
Balance	31 December 2020	77,133,734		15,527,350

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

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

Note 9. Related party transactions

Parent entity
Margosa Graphite Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 12.

Key management personnel
Disclosures relating to key management personnel are set out in note 10.

Note 10. Key management personnel disclosures

Compensation
There have been no material changes to related party transactions in the Group since the last annual reporting date.

Note 11. Share-based payments

Shares payment in lieu of cash
During the half year, the Company has issued shares in lieu of cash payments as follows:
- On 11 August 2020, 231,349 shares at $0.35 in lieu of cash payments to Alton Drilling Ltd as part payment for the purchase of a drill rig.

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

Note 11. Share-based payments (continued)

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

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

At 31 December 2020, the Directors have noted the vesting conditions for Class A Performance Rights and Class B Performance Rights will not be met given the deadlines for the respective rights have passed. The Feasibility study is currently ongoing and no offer of unconditional finance has been accepted. On this basis, Class A Performance Rights and Class B Performance Rights have expired. The Directors have continued to assess the possibility of vesting conditions of Class D Performance Rights and Class C Performance Rights and have determined that the vesting conditions are unlikely to be met, therefore no performance rights have been expensed as share-based payments for the half-year. No performance rights have been expensed as share based payments for the half year.

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

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

Note 11. Share-based payments (continued)

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

As at 31 December 2020, the Directors noted the vesting conditions for Class D Performance Right will not be met given the deadline has passed. The application for IML has been submitted and is currently pending. The Directors were continuing to assess the possibility of vesting conditions for Class E Performance Rights being met. The Company has been unable to complete further drilling during the half year due to Covid-19 access restrictions. No performance rights has been expensed during the half year.

Note 12. Interests in subsidiaries

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

		Ownership interest	
		31 Dec 2020	30 Jun 2020
Name	**Place of incorporation and operation**	**%**	**%**
Margosa Holdings (Australia) Pty Ltd	Australia	100.00%	100.00%
Margosa Investments Pvt Ltd	Sri Lanka	100.00%	100.00%
Lankan Resources & Mining Pvt Ltd	Sri Lanka	100.00%	100.00%
Kumbuk Investments (Private) Limited (1)	Sri Lanka	49.00%	-

(1) During the half year, the Group has acquired 49% shares in Kumbuk and has determined that they have control. On this basis, the consolidated financial statements incorporate Kumbuk's assets, liabilities and results with non-controlling interest.

Upon acquisition, an expense of $108,768 was recognised to take account of the 51% minority interests.

Note 13. Commitments

There are no material commitments of the Group at the reporting date.

Note 14. Events after the reporting period

The Group has raised $870,000 from private share placement at $0.50 per share between 1 January 2021 and the date of this report.

All of the convertible notes were converted to shares on 22 February 2021 at a conversion price of $0.50 per share.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

____
John Shackleton
Chairman

24 March 2021

Tel: +61 8 6382 4600
Fax: +61 8 6382 4601
www.bdo.com.au

38 Station Street
Subiaco, WA 6008
PO Box 700 West Perth WA 6872
Australia

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Margosa Graphite Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Margosa Graphite Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a summary of statement of accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 31 December 2020 and of its financial performance for the half-year ended on that date; and

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Material uncertainty relating to going concern

We draw attention to Note 2 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our conclusion is not modified in respect of this matter.

Responsibility of the directors for the financial report

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

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2020 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

BDO Audit (WA) Pty Ltd

BDO

Dean Just

Director

Perth, 24 March 2021