

**TNG** LIMITED

**HALF-YEAR  
FINANCIAL REPORT**

**31 December 2016**

ABN 12 000 817 023

# TNG Limited and its controlled entities

## Half Year Financial Report

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### CORPORATE INFORMATION

#### Directors

Paul Burton	(Managing Director)
Geoffrey Crow	(Non-Executive Director)
Rex Turkington	(Non-Executive Director)
John Davidson	(Non-Executive Director)

#### Company Secretary

Simon L Robertson

#### Registered Office

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Subiaco WA 6008  
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Email: [corporate@tngltd.com.au](mailto:corporate@tngltd.com.au)

#### Auditor

KPMG  
235 St Georges Tce  
Perth WA 6000

#### Share Registry

Computershare Investor Services Pty Limited  
Level 11  
172 St George's Terrace  
Perth WA 6000  
Telephone: (08) 9323 2000  
Facsimile: (08) 9323 2033

#### Stock Exchanges

Australian Stock Exchange Limited: (Code:TNG)  
Stock Exchange Berlin, Germany: (Code:HJI)

## TNG Limited and its controlled entities Directors' Report

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The directors of TNG Limited (the "Company") present their report together with the consolidated financial statements for the six months ended 31 December 2016 and the review report thereon.

### Directors

The directors of the Company at any time during or since the end of the interim period are:

Paul Burton	(Managing Director)
Geoffrey Crow	(Non-Executive Director)
Rex Turkington	(Non-Executive Director)
John Davidson	(Non-Executive Director) appointed 3 <sup>rd</sup> February 2017

### REVIEW OF OPERATIONS

#### TNG Operations



### SUMMARY

During the first half of the 2017 Financial Year, TNG continued to focus on advancing its cornerstone asset, the 100%-owned Mount Peake Vanadium-Titanium-Iron Project in the Northern Territory. The Mount Peake Definitive Feasibility Study, completed in July 2015, delivered robust financial and technical results, outlining a world-class project capable of generating outstanding returns for shareholders.

The Company achieved a number of key pre-development, marketing and permitting milestones at Mount Peake during the reporting period, as well as initiating an important corporate restructure with the demerger of the Company's Northern Territory base metal assets via its subsidiary Todd River Resources, which is on track to complete an IPO and list on the Australian Securities Exchange by the end of March 2017.

Key milestones achieved during the reporting period are summarised below:

#### **Mount Peake – Project evaluation and development**

- A Memorandum of Understanding was signed with leading global titanium trader, Wogen Pacific, for the long-term sales and marketing of titanium dioxide products from Mount Peake. The MoU covers the third and final product suite from the Mount Peake Project, and follows the signing of binding off-take agreements for vanadium and iron ore products in 2015 and 2016 respectively.
- An innovative re-design of the vanadium extraction circuit for the TIVAN<sup>®</sup> refinery by TNG's strategic partner, SMS group, delivered significant improvements in processing plant operating cost and consumption figures. Results showed an estimated A\$50 million per annum reduction in operating costs for the TIVAN<sup>®</sup> refinery with the potential for a significant reduction in capital costs and total operating costs for the overall project.

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- In addition, vanadium recovery using this method improved to 98% with the option of producing both high-purity vanadium pentoxide and ferro-vanadium, increasing the number of products to be delivered by Mount Peake. This opens up the potential for further improvement in overall process economics identified for both CAPEX and OPEX, and offers the potential for TNG to become one of the lowest cost producers in the strategic metals sector globally.
- The successful production of commercial-grade vanadium electrolyte from Mount Peake vanadium pentoxide marked a key milestone for TNG, allowing full vertical integration of the Company's vanadium production pipeline. The ability to produce commercial-grade vanadium electrolyte opens up an exciting new growth area for the Company, positioning it to supply the fast-growing Vanadium Redox Flow Battery (VRF) industry.
- The final phase of permitting for the Mount Peake Project continues to progress well, with all field work required for the submission of a Supplement to the Environmental Impact Statement (EIS) completed, and the Supplement expected to be submitted late in the March 2017 Quarter. All required approvals from the Traditional Owner Group for the Mount Peake Project are also now in place.
- Leading financial advisory group, Gresham Partners, was appointed as Corporate Financial Advisor to assist with the funding strategy and implementation, evaluation of debt and equity funding options and introductions to potential funders and investors.

### Corporate

- The proposed demerger of TNG's base metal assets in the Northern Territory via its subsidiary Todd River Resources Limited is progressing on schedule, with a prospectus for the Initial Public Offer of Todd River Resources (allocated ASX Code: TRT) lodged on 31 January 2017 and a supplementary prospectus lodged on 13 February 2017, ahead of a planned listing on the ASX in late March 2017. The proposed spin-off would see TNG emerge with an approximate 10.8 per cent cornerstone stake in the new company, with TNG shareholders to hold approximately 43 per cent of the shares via an in-specie distribution.
- Completion of a fully-subscribed Share Purchase Plan (SPP), which raised A\$7 million (before costs). The funds will be used to support the development of the Mount Peake Project and to provide working capital.
- A strategic Memorandum of Understanding was signed with Japan's Sumitomo Electric Industries (SEI) and Perth-based Energy Made Clean (EMC) to jointly develop the Vanadium Redox Flow Battery (VRF) market in Australia.

### MOUNT PEAKE PROJECT: TNG 100%

*The Mount Peake Project is a world-scale strategic metals project located 235km north-west of Alice Springs in the Northern Territory close to existing key power and transport infrastructure including the Alice Springs-Darwin Railway and the Stuart Highway. With a JORC Measured, Indicated and Inferred Resource totalling 160Mt (118Mt Measured, 20Mt Indicated, 22Mt Inferred), grading 0.28% V<sub>2</sub>O<sub>5</sub>, 5.3% TiO<sub>2</sub> and 23% Fe, Mount Peake is one of the largest undeveloped vanadium-titanium-iron projects in the world.*

*The area under licence covers a highly prospective, but poorly explored part of the Western Arunta geological province which offers significant exploration upside for TNG within an extensive 100%-owned ground-holding. TNG completed a Feasibility Study on the Mount Peake Project in July 2015, paving the way for project financing and development to proceed.*

### MOU for titanium off-take with Wogen Pacific

During the reporting period, TNG signed a key Memorandum of Understanding ("MoU") with leading global titanium, mineral sands and other metals and minerals trader, Wogen Pacific Ltd, for the sale and marketing of titanium dioxide (TiO<sub>2</sub>) products from the Mount Peake Project.

The MoU, which has been signed at a time of improving market conditions for the titanium dioxide sector, covers key aspects of a proposed life-of-mine Sales and Marketing Agreement and also provides for potential pre-financing of TiO<sub>2</sub> products from Mount Peake.

The agreement supports TNG's strategic plan to become a major player in the global TiO<sub>2</sub> supply chain, securing a long-term partnership with one of the world's leading traders in the sector.

The Wogen Group of companies have for several decades been proud participants in the global titanium and mineral sands supply chains, handling on a pan-global scale raw materials like ilmenite and rutile, intermediates and finished products in the pigment, welding, FeTi and titanium metal sectors. Wogen Titanium was twice the recipient of a Queen's Award – once in 1990 for Export Achievement, and once in 2006 for International Trade.

This MoU with Wogen follows the signing of binding off-take agreements for a minimum of 60 per cent of the Mount Peake Project's projected vanadium output with major Korean ferro-vanadium group, WOOJIN (see ASX Announcement – 7 September 2015), and its iron products with global commodity trader, Gunvor (Singapore) (see ASX Announcement – 23 March 2016).

### Operating Cost Savings at Mount Peake

During the reporting period, TNG, in conjunction with its strategic partner, leading global engineering group SMS group GmbH, identified potentially transformational capital and operating cost savings for the Mount Peake Project. Further refinement of the TIVAN® process has resulted in the

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introduction of a simplified and significantly more cost-effective method of vanadium extraction, leading to a reduction in both operating costs and capital costs.

Testwork performed by SMS has repeatedly demonstrated a substantial reduction in utility and energy consumption while maintaining product recoveries and qualities at a very high level. The breakthrough savings were identified as a result of detailed plant engineering programs carried out by SMS as part of opportunities identified in the 2015 Feasibility Study.

Based on the energy and utility cost assumptions underlying the Definitive Feasibility Study (DFS) financial model completed in 2015, the resulting savings are estimated to be a minimum of A\$57/tonne of concentrate processed, compared to the DFS figures. On the basis of the DFS assumptions, this should result in an overall operating cost (OPEX) saving of more than A\$50 million per annum for Phase 1 of the project (at a 3Mt per annum mining rate).

In the optimised process now being adopted, SMS has introduced an oxidative precipitation step following the production of magnetite concentrate and the TIVAN® leach phase. This replaces the solvent extraction circuits and precipitates a vanadium compound by atmospheric oxidation, from which TNG has the option to produce both very high-purity vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>) or ferro-vanadium (FeV), therefore increasing the number of potential products from Mount Peake's planned production.

### *Additional benefits*

This new method – combined with parallel refinements in other areas of the processing plant stemming from the ongoing engineering activities – results in significantly improved recovery of vanadium of up to 98% compared to the expected 90% used in the DFS, providing further upside to TNG in the overall amount of vanadium production and a corresponding expected increase in project revenue. As the redesigned vanadium extraction circuit requires less complex equipment, a comparable reduction in plant CAPEX could also be expected.

### *Further refinements*

Locking these improvements into the design of the overall process flowsheet has also opened up the potential for further refinements, which SMS and TNG have agreed to pursue. One of these key areas is the potential, subject to current and proposed confirmatory work, to produce a feedstock which is tailored for an industry standard fluidised bed chlorinator, allowing TNG to use an existing industry standard pigment plant design for its titanium dioxide pigment production, providing the potential for additional savings in capital expenditure while potentially producing highest purity pigment.

As a result of the outstanding success of this work, TNG and SMS have agreed to undertake further optimisation of the titanium dioxide feedstock characteristics. Related testwork will be carried out in Perth and Vienna.

TNG expects these enhancements to have a further material effect on the economics of the Mount Peake Project. After all improvements have been locked into the process flowsheet, a revised Financial Model may be prepared by Snowden incorporating the revised OPEX and CAPEX and production figures and the results will be reported.

### **Environmental Impact Statement (EIS)**

All field-related activities required for the completion of additional studies to be included in the submission of the Supplement for the Environmental Impact Statement (EIS) for the Mount Peake Project were completed during the reporting period.

A number of field and office based activities were completed in order to address questions raised during the government and public review of the Draft EIS in 2016. TNG submitted the EIS in late 2015 with the EIS being released for public comment in February 2016 (refer ASX Release, 11 February 2016). The EIS can be accessed through the TNG website:

[http://www.tngltd.com.au/sustainable\\_development/environmental\\_impact\\_assessment.phtml](http://www.tngltd.com.au/sustainable_development/environmental_impact_assessment.phtml)

Following the review, supplemental studies were requested on required flora, fauna, and ecological surveys, water aquifer and acid-mine drainage (AMD) risk. All work associated with these studies has now been completed, and no issues have been noted in the results of any of the work.

### *Flora, Fauna and Ecological Surveys*

The field, water and ecological work was completed by TNG's Environmental consultants, GHD, with the assistance of several local Aboriginal Rangers sourced from Ti-Tree township through the Central Land Council (CLC).

A number of new matters were addressed during this work, namely:

- Targeted searches for specific rare/endangered/vulnerable species in areas of planned ground disturbance; and
- Vegetation surveys along the transport corridor and within the bore-field area.

### *Water Aquifer and Flooding Risk*

Additional water bore drilling and pump testing has also been completed to provide greater certainty in the calculation of sustainable yield from the aquifer to provide water to the mine and associated infrastructure at Mount Peake. Data is being collated and GHD will provide a reworked model of the aquifer system. GHD will then refine the design of the production holes in the bore-field and pipeline to the mine.

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TNG now has three 8" steel-cased production bores at Mount Peake and has conducted extended pump tests. Each bore is capable of sustainably providing several litres per second of good quality (ca. 4000-5000 ppm TDS) water.

The last hole (16MPWB017) yielded an impressive 18 L/s over the 11-day Constant Rate test with only a five metre draw-down – much higher than noted in the Feasibility Study. A final aquifer study and water supply and design report will be provided to TNG by GHD in early 2017.

### *Surface Water Study*

An additional surface water study was completed in September 2016 which utilised newly acquired high-resolution topographic data (Worldview3 satellite imagery and 0.5m contour data). This work modelled the 10, 20, 50, and 100-year Average Recurrence Interval (ARI) 72-hour storm events for both the Murray Creek (near the mine site) and Hanson River (crossing required on the access road from the Stuart Highway).

The 100-year ARI rainfall event could result in flooding into the pit, but this can/will be mitigated by a low levee bank constructed along a section of the eastern side of the pit. The recommendations of this work have been incorporated in mining construction and design plans.

### *Acid Mine Drainage Risk*

Significant testwork has also been conducted during 2016 to address Acid Mine Drainage (AMD) questions raised from the Draft EIS. A total of 409 ore, waste and tailings samples have now been analysed for metals content and a number of static and kinetic AMD related factors and results have been assessed by GHD consultants.

This report, completed in November, concluded that there is a general lack of sulphide material in the ore and waste rock, and the risk of acid leachate generation is very low.

All NAPP (Net Acid Producing Potential) results were negative, indicating that the material is either acid-consuming or non-acid forming. Kinetic Net Acid Generation and Acid Buffering Characterisation Curve testwork results, on selected higher sulphide samples, indicate that all materials have adequate acid neutralising capacity.

### *Heritage Clearance*

All site-related heritage clearances have also been received by TNG, following the CLC arranged clearance surveys during the year and the Traditional Owner meeting on site in October (see below).

GHD will now collate all this work into the Supplement to the EIS. The Supplement will address all key points raised by both public and NT Government bodies during the Draft EIS public review period (see ASX Release 11 February 2016). The Supplement to the EIS will be submitted by GHD in early 2017. No issues have been identified in the EIS or in the work done to feed into the Supplement.

### **Traditional Owner Approvals**

All Traditional Owner approvals are now in place for the development of Mount Peake Project, with the Mount Peake Traditional Owners providing TNG with approval for the construction of causeways to provide haul road access to the site across two creeks.

A meeting with the Traditional Owners was arranged in October through the Central Land Council (CLC), the Alice Springs-based legal representatives of the Traditional Owner Group (TOG) for the proposed Mount Peake Project area. In attendance at this landmark meeting were CLC representatives and over 200 traditional owners who had gathered together from the Wilora, Anmatjere, Ti-Tree and Willowra Aboriginal communities which make up the TOG.

Over the last 18 months the CLC has been intimately involved with the TOG in obtaining Sacred Site Clearances for the planned Mount Peake mining operation. Clearance was obtained in July 2015 for the mine area, camp, rail siding, and the transport corridor (see ASX Announcement – 24 August 2015). Clearance over the bore field and water pipeline route was obtained in January 2016 (Sacred Site Clearance Certificate 2015-169).

Further consultation and approval was required specifically for the creek crossing areas (designated Restricted Work Areas), as a condition of the Sacred Site Clearance for the transport corridor obtained in mid-2015. A result of the meeting was that the TOG had no objections to the proposed creek-crossing causeway designs outlined and were in full favour of TNG proceeding with construction.

TNG is now well advanced in negotiating a Mining Agreement with the TOG through the CLC, after which the Mining Licence can be issued by the Northern Territory Minister for Mines. The clearances obtained to date are an essential part of this agreement.

### **Production of Commercial-Grade Vanadium Electrolyte**

During the reporting period, TNG successfully produced high-purity vanadium electrolyte for the first time using vanadium pentoxide from Mount Peake, demonstrating the viability of the processing chain from the mine to the final product and adding a significant new dimension to its growth plans.

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The electrolyte was produced as part of the company's continuing strategy to maximise value from the Mount Peake project and was carried out under TNG's instruction at the SMS group (SMS) laboratories in Vienna, where the final engineering design of the Company's 100%-owned TIVAN™ technology is being undertaken.

The vanadium electrolyte (VE) is produced by dissolving and mixing vanadium pentoxide (V<sub>2</sub>O<sub>5</sub>). Vanadium Redox Batteries (VRB's) require a high-purity VE, which therefore benefits from starting with a high purity V<sub>2</sub>O<sub>5</sub> product. TNG's testwork and optimisation work indicates it will be able to produce V<sub>2</sub>O<sub>5</sub> at minimum 99.5% purity, which is currently among the highest globally.

The technology process to produce the high purity VE was carried out at SMS' Vienna laboratories under a confidentiality agreement and instruction from TNG, using V<sub>2</sub>O<sub>5</sub> product from TNG's vanadium deposit, delivered during the Pilot Plant trials.

SMS ranks the applied chemical processing method used as best-in-class, not only in terms of CAPEX and OPEX but also in terms of scalability and operational flexibility, demonstrating that the commercial production of this high-value material is a viable option for the TNG.

TNG considers the ability to produce commercial grade vanadium electrolyte from its own vanadium pentoxide as a very positive development, allowing full vertical integration of its production pipeline as well as the ability to enter the fast-growing Vanadium Redox Battery (VRB) alternative energy sector. When combined with its existing capability to produce Ferro-Vanadium from the technology provided by its off-taker partner WOJIN, TNG is now well placed to supply every vanadium market.

TNG estimates the current global market size for Vanadium Redox Batteries to be an annually sold storage capacity of 300 to 400MWh, with the market growing at a high double digits' number every year. The largest single VRB installations rank at capacities of approximately 60MWh. The storage of 1MWh requires approximately 80 cubic meters of electrolyte, which contains the equivalent of approximately 15 tonnes of V<sub>2</sub>O<sub>5</sub>.

TNG is in discussions with a number of potential Vanadium Redox Battery producers and will update the market on the progress of these discussions and the potential development of a VE plant in the near future.

TNG and SMS will now evaluate the feasibility of the construction of a VE production facility integrated with the TIVAN™ plant. This would allow TNG entry into the local growing Australian and nearby SE-Asian VRB sector as a regional electrolyte supplier.

### **Gresham Partners Appointed Corporate Advisor for Funding Mount Peake Project**

TNG has appointed leading independent advisory house Gresham Advisory Partners Limited as corporate advisor to assist with the funding and development of the Mount Peake Project. Gresham's role includes assisting TNG in:

- Developing the appropriate funding strategy for Mount Peake with a view to optimising the funding mix and maximising value to TNG's shareholders;
- Preparing financial models in order to develop a robust internal valuation and cash flow assessment (including debt capacity) of the Project;
- The identification of debt and equity funding sources;
- The negotiation of equity and debt terms;
- The negotiation of further off-take agreements to the extent that this supports the proposed funding of Mount Peake; and
- All other necessary aspects of the negotiation, execution and completion of the funding of the project.

Gresham is a leading independent Australian investment and advisory house with offices in Sydney, Melbourne and Perth.

## **CORPORATE**

### **Completion of fully-subscribed Share Purchase Plan**

TNG raised \$6.985 million (before costs) during the reporting period via a fully subscribed Share Purchase Plan (SPP). Under the terms of the SPP, eligible shareholders were offered the opportunity to subscribe for up to \$15,000 worth of fully-paid ordinary TNG shares at an issue price of 13.5c per share, including a free attaching listed option on a 1-for-2 basis. The options will have an exercise price of 20c per share and an expiry date of 15 June 2018.

The Company had initially sought to raise up to \$4 million, however following an exceptionally strong response from shareholders, the Board resolved to increase the SPP cap to \$7 million.

The offer was strongly supported and applications were received for more than the increased SPP cap of \$7 million, which is an outstanding result for TNG and reflects the positive outlook for its Mount Peake vanadium-iron-titanium project in the Northern Territory, its TIVAN™ technology and proposed demerger of other assets.

Following the exclusion of a number of applications that did not comply with the provisions of the ASIC Class Order or the terms of the SPP Offer, a total of \$6,985,107.57 (before costs) was raised, resulting in the issue of 51,741,501 Shares and 25,870,437 attaching Options.

Following completion of the SPP, the Company had 803,514,214 ordinary shares on issue; 25,870,437 listed options on issue (exercisable at 20 cents and expiring 15 June 2018); and 17,500,000 unlisted options on issue (various exercise prices and expiry dates).

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### Strategic Agreement to Jointly Develop Vanadium Redox Flow Battery Market in Australia

TNG has signed a key Memorandum of Understanding with Sumitomo Electric Industries ("SEI") and Energy Made Clean ("EMC"), a subsidiary of Carnegie Clean Energy (ASX: CCE), to collaborate on the promotion, development and growth of Australia's Vanadium Redox Flow Battery ("VRF") market.

The MoU follows TNG's announcement that it had successfully produced high-purity, commercial grade vanadium electrolyte using vanadium pentoxide from its flagship 100%-owned Mount Peake Vanadium-Titanium-Iron Project in the NT (see ASX Announcement – 10 October 2016). The ability to produce commercial grade vanadium electrolyte opens up an exciting new growth area for TNG, positioning it to supply the fast-growing Vanadium Redox Flow Battery (VRF) industry.

Under the MoU, TNG will work together with SEI and EMC to review all of the potential applications of VRF in Australia with a view to subsequently co-operating on the marketing and sales of VRF. In addition, the parties have agreed to jointly establish a demonstration VRF of commercial size in Australia to showcase SEI's technology.

TNG will also assess the feasibility and implementation of a Vanadium Electrolyte production facility in either Perth or Darwin.

Sumitomo Electric Industries is a global leader in the manufacture and sale of automotive, electronics, info-communications, industrial materials, and environment and energy products. Established in 1897 with over 240,000 employees worldwide and a turnover exceeding A\$32 billion in 2016, SEI has been leading the VRF market since 1996 and installed the world's largest VRF with 60MWh power in Hokkaido, Japan; for more information: <http://global-sei.com/>

EMC is wholly-owned by ASX-listed company Carnegie Wave Energy (ASX: CWE); for more information: <https://carnegiwave.com/>. Energy Made Clean is a leading Perth-based renewable energy company providing off-grid power and utility scale solutions. TNG signed an MoU with EMC last year (see ASX Announcement – 19 June 2015) to establish the feasibility of Vanadium Redox batteries. EMC has a very broad experience with and extensive project portfolio of off-grid applications and is ideally placed to support the development of VRF in Australia; for more information: <http://www.energymadeclean.com/>.

### De-merger of Base Metals Assets

During the reporting period, TNG held an Extraordinary General Meeting to enable shareholders to vote on the proposed demerger of its non-core portfolio of zinc, copper and base metal assets in the Northern Territory.

The resolution was successfully passed on a show of hands, and the Company now intends, subject to the satisfaction of certain conditions being met, to proceed with the in-specie distribution in the first quarter of 2017 in conjunction with the proposed initial public offer of Todd River Resources Limited.

A prospectus was lodged by Todd River Resources Limited with the Australian Securities & Investments Commission (ASIC) on 31 January 2017 and a Supplementary Prospectus lodged on 13 February 2017 for its initial public offer.

### R&D Rebate

TNG received the full amount of its Research & Development refund claim during the Quarter, totalling \$962,600 before costs. The claim covers eligible test work for the 2015/16 financial year under the Federal Government's R&D tax incentive scheme.

Under the R&D tax incentive scheme, companies with a turnover of less than \$20 million which undertake research & development activities are entitled to a cash refund of 45 cents per dollar spent on eligible research and development in Australia. This incentive provides direct assistance for companies like TNG to continue their research and development activities with a view to potentially building further value for shareholders.

TNG's research relates to the commercial extraction of high purity vanadium, titanium and iron from vanadiferous-titanomagnetite using its TIVAN™ hydrometallurgical process (patent pending). The TIVAN™ process forms a key part of the Company's development plans for the Mount Peake Project, and its strategy to become a significant producer of strategic metals.

The receipt of the R&D rebate further strengthened the Company's financial position as it moves into development planning and financing of the Mount Peake Project.

### Cash

TNG had total cash reserves of \$10.4 million as at 31 December 2016.

### Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 10 and forms part of the directors' report for the half-year ended 31 December 2016.

Signed in accordance with a resolution of the Directors



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### **Rounding off**

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the condensed consolidated interim financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.



Paul E Burton  
**Managing Director**

13 March 2017



***Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001***

To: the directors of TNG Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

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

*KPMG.*

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta', with a horizontal line extending to the right.

R Gambitta  
*Partner*

Perth

13 March 2017

**Condensed Consolidated Interim Statement of Profit or Loss and other Comprehensive Income**  
**For the six months ended 31 December 2016**

	31 December 2016	31 December 2015
Note	\$'000	\$'000
Net gain on sale on property plant and equipment	12	-
<b>Total income</b>	<b>12</b>	
Occupancy expenses	(75)	(79)
Administrative expenses	(110)	(103)
Employment expense	(345)	(355)
Corporate expenses	(1,254)	(1,326)
Depreciation and amortisation expense	(36)	(54)
Share based payment expense	(702)	(363)
Other expenses	(10)	(393)
Impairment loss on exploration and evaluation expenditure	(437)	(843)
<b>Results from operating activities</b>	<b>(2,957)</b>	<b>(3,516)</b>
Financial income	50	67
Financial expenses	-	-
<b>Net financing income/(Expense)</b>	<b>50</b>	<b>67</b>
<b>Loss before income tax</b>	<b>(2,907)</b>	<b>(3,449)</b>
Income tax benefit/(expense)	-	-
<b>Loss for the period</b>	<b>(2,907)</b>	<b>(3,449)</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Net change in the fair value of available-for-sale financial assets	7	20
<b>Other comprehensive loss for the period</b>	<b>7</b>	<b>20</b>
<b>Total comprehensive loss for the period</b>	<b>(2,900)</b>	<b>(3,429)</b>
<b>Earnings/(loss) per share (cents per share)</b>		
Basic and diluted earnings/(loss) per share (cents per share)	(0.39)	(0.48)

The condensed consolidated interim statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of Financial Position**  
**As at 31 December 2016**

	Note	31 December 2016	30 June 2016
		\$'000	\$'000
<b>Current Assets</b>			
Cash and cash equivalents		10,395	7,167
Other receivables		225	222
Prepayments		98	77
Other investments		53	46
<b>Total current assets</b>		<b>10,771</b>	<b>7,512</b>
<b>Non-Current Assets</b>			
Plant and equipment		126	119
Exploration and evaluation expenditure	6	26,662	24,684
<b>Total non-current assets</b>		<b>26,788</b>	<b>24,804</b>
<b>Total assets</b>		<b>37,559</b>	<b>32,315</b>
<b>Current Liabilities</b>			
Trade and other payables		1,150	761
Provisions		368	309
<b>Total current liabilities</b>		<b>1,518</b>	<b>1,070</b>
<b>Non-Current Liabilities</b>			
Other payables		260	260
<b>Total current liabilities</b>		<b>260</b>	<b>260</b>
<b>Total liabilities</b>		<b>1,778</b>	<b>1,330</b>
<b>Net assets</b>		<b>35,781</b>	<b>30,985</b>
<b>Equity</b>			
Issued capital	7	71,939	64,944
Reserves		51	44
Accumulated loss		(36,209)	(34,003)
<b>Total equity</b>		<b>35,781</b>	<b>30,985</b>

The condensed consolidated interim statement of financial position is to be read in conjunction with the notes to the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Cash Flow Statement**  
**For the six months ended 31 December 2016**

	31 December 2016 \$'000	31 December 2015 \$'000
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	-	66
Cash paid to suppliers and employees	(1,396)	(1,844)
Interest received	54	64
<b>Net cash (used in) operating activities</b>	<b>(1,342)</b>	<b>(1,714)</b>
<b>Cash flows from investing activities</b>		
Payments for exploration and evaluation	(3,395)	(3,432)
Research and Development tax offset claim	963	1,889
Proceeds from plant and equipment	12	-
Payments for plant and equipment	(43)	(84)
Proceeds from refund of security bonds	38	-
<b>Net cash used in investing activities</b>	<b>(2,425)</b>	<b>(1,627)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	7,025	169
Net proceeds on exercise of options	-	4,243
Cost of shares issued	(30)	(3)
<b>Net cash received from financing activities</b>	<b>6,995</b>	<b>(4,409)</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,228</b>	<b>1,067</b>
Cash and cash equivalents at 1 July	7,167	5,157
<b>Cash and cash equivalents at 31 December</b>	<b>10,395</b>	<b>6,224</b>

This condensed consolidated statement of cash flows is to be read in conjunction with the notes to the condensed consolidated interim financial statements.

**Condensed Consolidated Interim Statement of  
Changes in Equity  
For the six months ended 31 December 2016**

	Issued Capital \$'000	Accumulated loss \$'000	Fair Value Reserve \$'000	Total Equity \$'000
<b>Balance at 1 July 2015</b>	56,147	(27,348)	79	28,879
Net loss for the period	-	(3,449)	-	(3,449)
Other comprehensive income	-	-	20	20
Total comprehensive income for the period	-	(3,449)	20	(3,429)
<b>Transactions with owners, recorded directly in equity</b>				
Options exercised	4,243	-	-	4,243
Loan funded share plan – loan repayment	169	-	-	169
Cost of share issue	(2)	-	-	(2)
Share based payment expense	-	363	-	363
<b>Balance at 31 December 2015</b>	<b>60,557</b>	<b>(30,434)</b>	<b>99</b>	<b>30,222</b>
<b>Balance at 1 July 2016</b>	64,944	(34,003)	44	30,985
Other comprehensive income	-	-	7	7
Net loss for the period	-	(2,907)	-	(2,907)
Total comprehensive income for the period	-	(2,907)	7	(2,900)
<b>Transactions with owners, recorded directly in equity</b>				
Options exercised	-	-	-	-
Share placement	6,985	-	-	6,985
Loan funded share plan – loan repayment	40	-	-	40
Cost of share issue	(30)	-	-	(30)
Share based payment expense	-	701	-	701
<b>Balance at 31 December 2016</b>	<b>71,939</b>	<b>(36,209)</b>	<b>51</b>	<b>35,781</b>

The amounts recognised directly in equity are disclosed net of tax.

The condensed consolidated interim statement of changes in equity is to be read in conjunction with the notes to the condensed consolidated interim financial statements.

## **Notes to the condensed consolidated interim financial statements**

### **1. Reporting entity**

TNG Limited (the "Company") is a for-profit company domiciled in Australia. The condensed consolidated interim financial report of the Company for the six months ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2016 is available upon request from the Company's registered office at 1/282 Rokeby Rd Subiaco 6008 or at [www.tngltd.com.au](http://www.tngltd.com.au)

### **2. Statement of compliance**

The condensed consolidated interim financial statements have been prepared in accordance with AASB 134 *Interim Financial Reporting*, and the Corporation Act 2001.

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated financial report of the Group as at and for the year ended 30 June 2016.

The consolidated interim financial report was approved by the Board of Directors on 13 March 2017.

### **3. Significant accounting policies**

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2016.

There has been no new and revised standards and interpretation applicable for the current half year which have resulted in changes to the Group's presentation of, or disclosure in, its interim financial statements.

### **4. Estimates**

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report as at and for the year ended 30 June 2016.

### **5. Segment information**

The Board has determined that the Group has one reportable segment, being mineral exploration in Australia. As the Group is focused on mineral exploration, the Board monitors the Group based on actual versus budgeted consolidated results. This internal reporting framework is the most relevant to assist the Board in making decisions regarding the Group and its on-going exploration activities, while also taking into consideration the results of exploration work that has been performed to date.

**Notes to the condensed consolidated interim financial statement**

**6. Exploration and evaluation expenditure**

Cost	31 December 2016 6 months \$,000	30 June 2016 12 months \$,000
Balance at the beginning of the period	24,684	24,020
Exploration and evaluation expenditure	3,378	5,665
Impairment	(437)	(3,112)
Research and development rebate	(963)	(1,889)
Balance at the end of the period	26,662	24,684

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas. At balance date the carrying amount of exploration and evaluation expenditure was \$26,661,603 of which \$4,181,208 is attributable to the entity's Manbarrum project, \$19,557,682 attributable to the Mount Peake project and the balance relating to Cawse Extended and other current exploration programs.

**NT Base Metal Assets - Impairment**

Management has announced that it intends to demerge and Initial Public offer ("IPO") TNG's Non-Core Base and Precious Metal tenements in the Northern Territory collectively known as the "NT Base Metal Assets". As a result the Directors reassessed the carrying value of the NT Base Metal Assets at 31 December 2016 by reference to the anticipated value of the IPO together with a valuation report provided by independent consultants, resulting in the impairment of the NT Base Metal Assets by \$436,980 to \$7,000,000 (refer to Note 9).

**7. Capital**

Issued and paid-up share capital	31 December 2016 \$,000	30 June 2016 \$,000
803,154,214 (June 2016: 751,772,713) ordinary shares, fully paid	71,939	64,944

  

Movements in shares on issue	Number	\$'000
Balance as at 1 July 2016	751,772,713	64,944
Share purchase plan	51,741,501	6,985
Loan funded share loan - proceeds		40
Share issue cost		(30)
Balance as at 31 December 2016	803,514,241	71,939



**Notes to the condensed consolidated interim financial statement**

**8. Employee Benefits**

**Share-based payments**

During the half year ended 31 December 2016 the following options were granted:

<b>Issue</b>	<b>Grant date/ participant entitled</b>	<b>Number</b>	<b>Vesting conditions</b>	<b>Contractual life of option</b>
1	Options granted to consultants on 7 September 2016	1,500,000	-	3.0 years
2	Options granted to directors on 29 November 2016	6,000,000	-	3.0 years
3	Options granted to Employees and consultants on 12 Dec 2016	4,500,000	-	3.0 years

The fair value of equity share options granted is estimated at the grant dates using the Binomial model, taking into account the terms and conditions upon which the options are granted .

**Instruments issued during the period**

**Options issued under TNG Director, Non-Executive and Consultant Option Plan**

12,000,000 options were issued subject to the terms of the TNG option Plans which was approved by shareholders on 29 November 2016.

The following inputs were used in the measurement of the fair values at grant date of options:

	<b>Issue 1</b>	<b>Issue 2</b>	<b>Issue 3</b>
Dividend yield	0.00%	0.00%	0.00%
Share price at date of grant	\$0.110	\$0.155	\$0.135
Exercise price	\$0.20	\$0.27	\$0.27
Volatility	85%	85%	85%
Risk free rate	1.45%	1.91%	1.95%
Expiration date	07 Sep 2019	13 Dec 2019	13 Dec 2019
Binomial valuation	\$0.045	\$0.066	\$0.053

**Notes to the condensed consolidated interim financial statement**

**9. Subsequent events**

Todd River Resources Prospectus lodged

Following a strategic review by TNG Limited ("TNG") of its assets, TNG decided to demerge its NT Base Metal assets situated in the Northern Territory by transferring (or arranging for the transfer by various of its subsidiaries of) 100% ownership of the NT Base Metal Assets to TNG's wholly owned subsidiary Todd River Resources Limited ("TRT") (refer to Note 6).

On 1 February 2017 TRT lodged an IPO prospectus and on 13 February lodged a supplementary prospectus for the listing of TRT seeking to raise a minimum of \$5,000,000 and up to \$6,000,000 through an issue of up to 30,000,000 shares at a price of \$0.20 per share. The offer includes a priority offer to existing TNG Shareholders.

Subsequent to 31 December 2016, TNG transferred the NT Base Metal Assets to TRT in consideration for being issued 35,000,000 Shares @ 0.20 cents in TRR. 28,000,100 of the 35,000,000 shares issued to TNG will, subject to the satisfaction of certain conditions, be transferred and distributed in-specie to TNG shareholders on a pro rata basis shortly after the date upon which TRT issues the shares subject to the IPO. TNG will retain a holding of 7,000,000 shares in TRT.

Director Appointment

On 3 February 2017 TNG Limited appointed Mr. John Davidson as a Non-executive Director. TNG agreed that in addition to directors' fees it will issue Mr. Davidson 1,000,000 options under its Non-executive Director and Consultant Option Plan exercisable at \$0.27 on or before 13 December 2019.

## TNG Limited and Controlled Entities Half-Year Financial Report

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### Directors' Declaration

In the opinion of the directors of TNG Limited ("the Company"):

- 1 the condensed consolidated financial statements and notes set out on pages 11 to 18, are in accordance with the Corporations Act 2001, including:
  - (a) giving a true and fair view of the financial position of the Group as at 31 December 2016 and of its performance, for the six months ended on that date; and
  - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- 2 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 the Directors.



Paul E Burton  
**Managing Director**

13 March 2017