



Magnum Mining and Exploration Limited

A.B.N. 70 003 170 376

Report

Half year ended 30 June 2019

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Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of Magnum Mining and Exploration Limited (referred to hereafter as the "Company") and the entities it controlled at the end of, or during the half year ended 30 June 2019.

Directors

The following persons were directors of the Company during the whole of the half year and up to the date of this report:

H Dawson	Non-Executive Chairman
G M Button	Chief Executive Officer
F Cannavo	Non-Executive Director

Operating Results

The consolidated loss of the Group for the half year after income tax was \$1,290,984 (2018: half year loss of \$730,001).

Review of Operations

Gravelotte Project, South Africa

Magnum's 74%-owned Gravelotte Project (BEE has the balance) is located in the Limpopo Province of South Africa.

Emeralds were discovered in the province in 1927 and, since then, several companies have explored for and mined from Gravelotte and the broader region for emeralds.

From 1929 to 1982 the total recorded emerald production from the Gravelotte Project, as well as the area surrounding the nearby Gravelotte town ship, was nearly 113 million carats.

It is reported that during the 1960's the Gravelotte Project itself was the largest emerald mine of its type in the world, employing over 400 sorters.

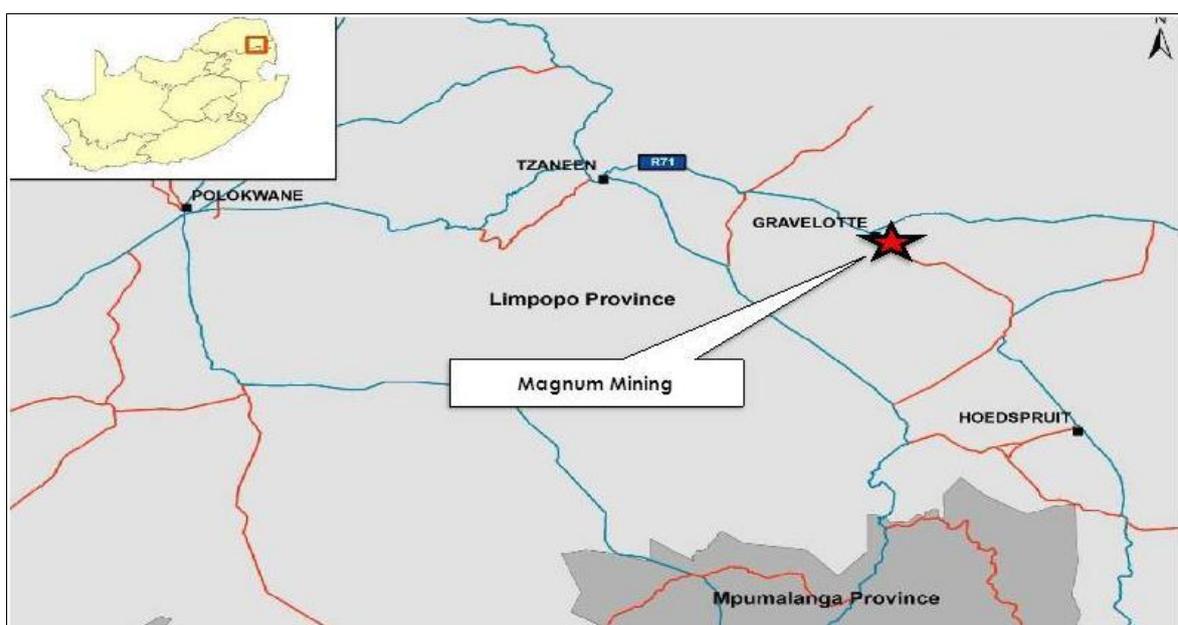


Figure 1: Gravelotte Location Map

Review of Operations (continued)**Gravelotte Project, South Africa (continued)*****Why is Magnum at Gravelotte?***

The Gravelotte project provides Magnum with a medium term production opportunity in the niche commodity of emeralds where demand is growing.

The project offers established infrastructure, existing and accessible open cuts together with extensive low grade dumps, a large (albeit incomplete) historic data base, a nearby and available work force, local on-site technical expertise and a nearby township that can serve as a supply centre.

The Company has maintained and refurbished much of the extensive mine site infrastructure at Gravelotte including offices, laboratory, workshops, garages, management accommodation complex and a mine hostel to accommodate mine workers.

The mine site is well situated with utilities and logistics being serviced by ESKOM grid power, has a sealed road to the mine gate and has a working airstrip.

Trial Mining and Processing

The trial mining of hard rock from the Cobra and Discovery historic pits commenced in March 2019 and around 7,800 tonnes was mined and stockpiled from three benches within the Cobra pits.

The mining and stockpiling of an estimated 2,000 tonnes of emerald bearing rock will also be sourced from the Discovery Pit and this is currently scheduled for the December 2019 quarter. It is however a low priority as sufficient rock for the trial processing programme is available from the Cobra pits stockpiles.

Crushing Plant

The 2,000 tonne per month trial crushing and washing plant was commissioned early in May 2019 and is performing above throughput design capacity and at the same time providing a very efficient crush of rock in the designated sort fractions of +3mm-10mm and +10mm-30mm.

These sort fractions have been determined from the crush testing carried out in late 2018 and represent the optimal fractions that preserve the integrity of the emeralds (avoid fracturing) and allow for efficient processing times.

The -3mm fraction has been determined as the “waste” cut as it is considered that emeralds below this size will have minimal commercial value.

The crushing and washing plant has achieved steady state rates nearly 40% higher than design capacity and indicates that our bench scale testing of the crushing characteristics of the emerald bearing rock was overly conservative. This augers well for a reduction in the size (and cost) for the crushing and washing circuit for any potential future commercial operations at Gravelotte.

The processed Cobra mined rock is initially stockpiled before undergoing secondary processing by XRF sorting. Utilising this XRF secondary processing, the waste rock is removed from the emerald bearing rock.

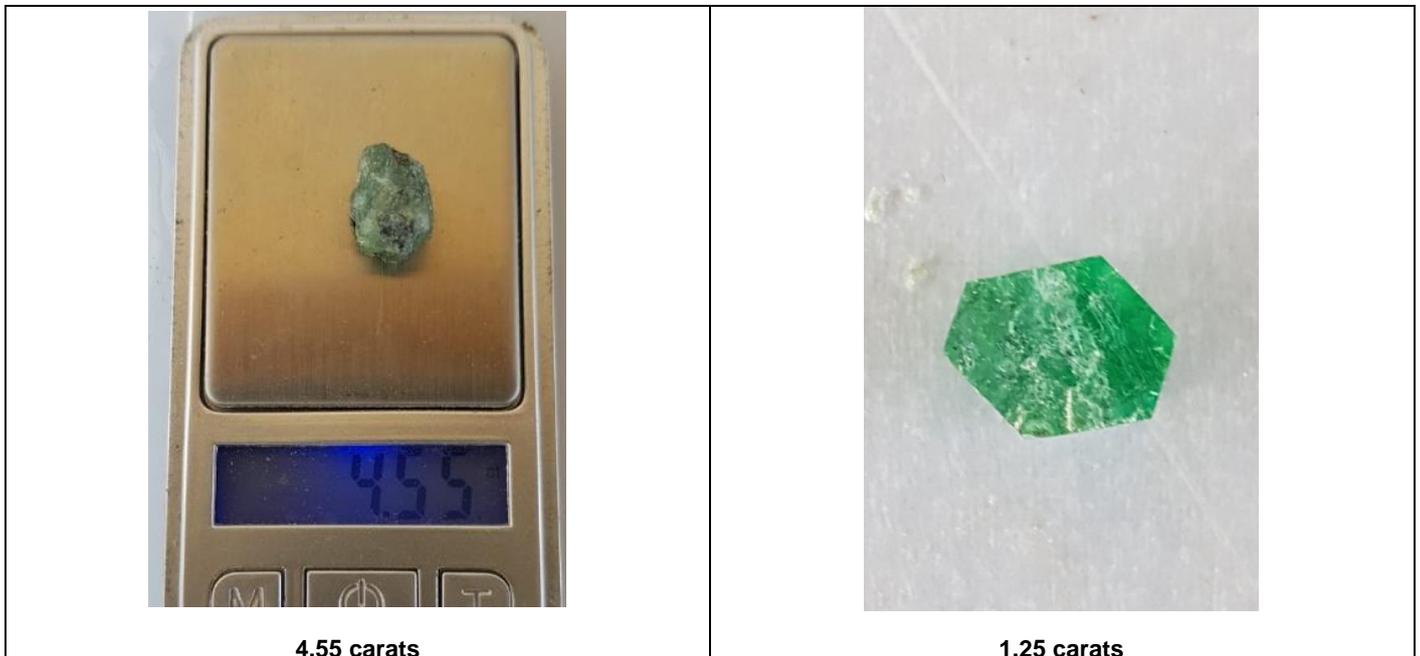
XRF Sorter

The XRF unit arrived on site late in May 2019 and calibration commenced almost immediately prior to the commencement of the processing of +3mm-10mm and +10mm-30mm fractions.

The processing of these fractions commenced as scheduled in early June 2019.

Review of Operations (continued)**Gravelotte Project, South Africa (continued)**

The initial processing by the XRF is a multi-faceted test as the throughput rate, crush size, moisture content and type of rock (biotite schist, talc schist etc) are all variables that need to be considered to achieve a calibration that provides optimal accuracy and efficiency.



**Photos 1 and 2: Samples of emeralds recovered from XRF processing of material from 930 bench
Coordinates 7347 000mN, 260 230mE (refer Figure 2)**

To date the operators have achieved near design throughput rate with the +10mm-30mm fraction and are undertaking detailed testing with the +3mm-10mm fraction to achieve design throughput rates.

A critical aspect of the XRF sorter is to not reject any emeralds but also to reject as much of the non-emerald bearing rock as possible.

Review of Operations (continued)

Gravelotte Project, South Africa (continued)

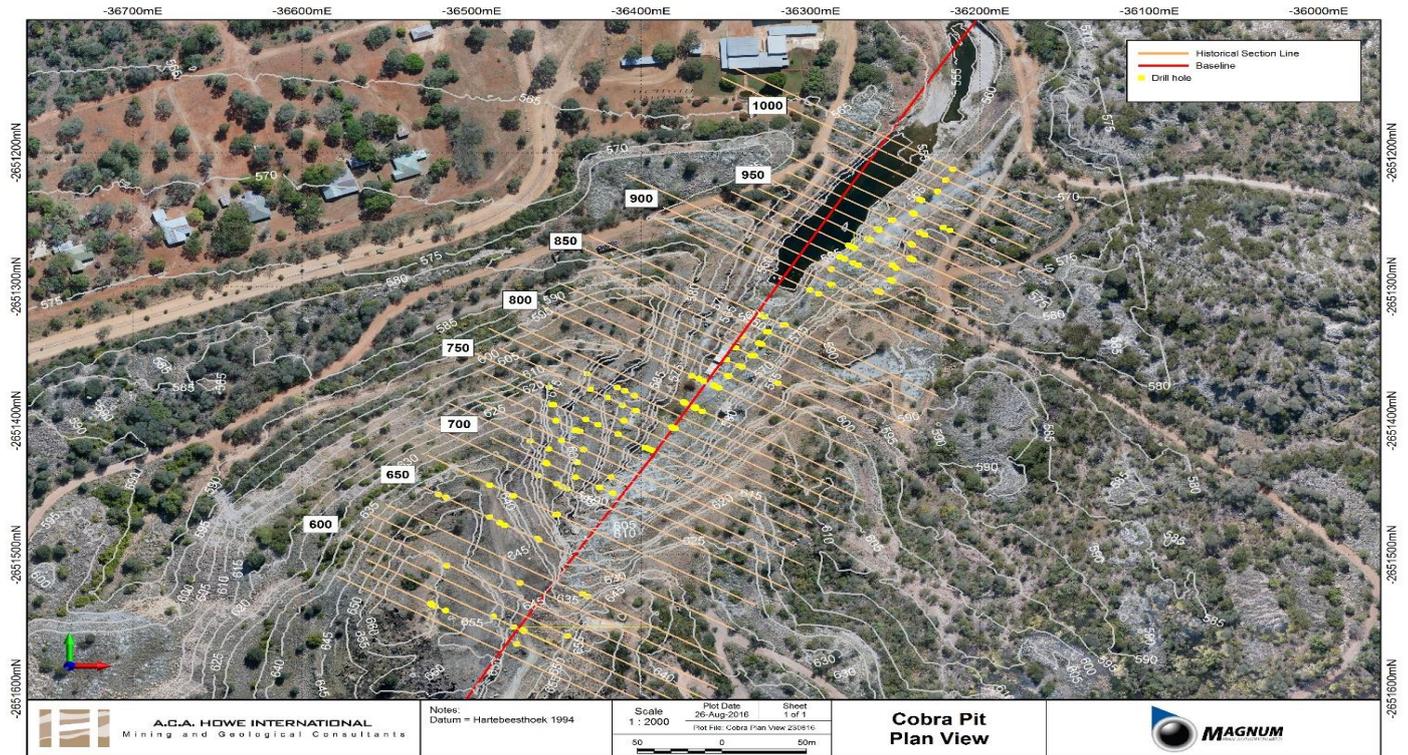


Figure 2: Cobra Pit Plans

As part of the testing process, each parcel is weighed before and after processing and the discarded material (“rejects”) then visually examined for emeralds.

Whilst testing is still at an early stage the XRF unit appears to be operating with exceptional accuracy with no emeralds noted in any of the visually examined rejects.

In terms of efficiency, initial visual examination of the retained fraction indicated minimal reject material is being retained by the XRF sorter although continued testing is required as this could vary across throughput rates.

Most pleasing is that the parcels of retained material that have been examined to date are all emerald bearing with calculated grades to date ranging from 36 carats per tonne to a high of 247 carats per tonne.

This compares with the estimated historic average grade of 30 carats per tonne for Gravelotte.

Sorted test sample size	Calculated emerald grade	Notes
300kgs	147 carats/tonne	XRF sorted
750kgs	57 carats/tonne	XRF sorted
426kgs	125 carats/tonne	XRF sorted and hand sorted checked
365kgs	247 carats/tonne	XRF sorted and hand sorted checked
280 kgs	84 carats/tonne	XRF sorted and hand sorted checked

Table 1: Cobra 990 bench 7347 860mN, 260 260mE 7 +3mm-10mm fraction sorted grades - refer Figure 2

Review of Operations (continued)**Gravelotte Project, South Africa (continued)**

Please note that the grade is a measure of the emerald content but is not a measure of the quality of the emeralds – this can only be determined after full cleaning, examination by Magnum’s contract gemmologist and ultimately the sale price received.

What is the next step after the processing of the mined material?

The current processing of the mined material has been designed to recover a parcel of emeralds from Gravelotte of a sufficient size to allow a commercial assessment of pricing for the emeralds through a sales process. The process of identifying potential buyers for the emeralds is well advanced and will be expedited as a critical mass of emerald material is recovered.



Photo 3: Gravelotte Project showing existing infrastructure and mining stockpiles

There has been a significant increase in demand for emeralds reported since 2000 so this will provide vital data for assessing the current demand and consequent pricing for emerald product from Gravelotte.

This in turn will allow the financial modelling for a potential future commercial mining operation to be completed.

It is anticipated that the definitive financial modelling will commence in the December 2019 quarter.

Tanami West Project, Northern Territory, Australia

During the June 2019 half year, the Company terminated the Agreement for the Exploration of EL 30256 and earn in of equity in Ferdies Find Pty Ltd.

Review of Operations (continued)**Menzies Project, Western Australia, Australia**

The Menzies Project consists of exploration license E29/1052 which is located approximately 100km north northwest of the Kalgoorlie Golden Mile, Western Australia.

On 7 January 2019 in accordance with the terms and conditions of a binding term sheet, Magnum sold its beneficial interest in the tenement to Dampier Gold Ltd. The consideration paid by Dampier Gold Ltd was an issue of 3,125,000 shares in Dampier Gold Ltd and a cash payment of \$10,000. The shares will be held in voluntary escrow for a period of 24 months.

Events Occurring After the Balance Date

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations and activities of the Group, the results of those operations, or the state of affairs of the Group in future financial periods, other than those detailed below:

Non-renounceable Pro-rata Entitlement Offer

On 12 August 2019, the Company announced a non-renounceable pro-rata entitlement offer to each eligible shareholder, who held registered shares at record date.

The key terms of the non-renounceable offer are as follows:

- a) one new option for every three shares held at an issue price of \$0.01 per new option.
- b) the option is exercisable at \$0.05, with an expiry date of 30 September 2022.

The offer will raise up to \$1,015,263 (before costs). The proceeds will be used to:

- a) complete the hard rock trial mining and processing phase of the current test work being carried out at the Company's Gravelotte emerald project.
- b) undertake additional technical work.
- c) pay the costs of the offer.
- d) for general working capital.

Issue of Shares on Conversion of Convertible Notes

On 26 August 2019, the Company announced the conversion of 990 unsecured redeemable convertible notes to shares in the Company, at the conversion price of \$0.05 per share (20,000 shares per convertible notes, pursuant to the note deed). As a result, the Company has issued 19,800,000 Ordinary Fully Paid shares in the Company, which will rank equally with existing shares on issue. They will also have the opportunity to participate in the Non-renounceable Pro-rata Entitlement Offer, noted above.

On 29 August 2019, the Company announced the conversion of 250 unsecured redeemable convertible notes to shares in the Company, at the conversion price of \$0.05 per share (20,000 shares per convertible notes, pursuant to the note deed). As a result, the Company has issued 5,000,000 Ordinary Fully Paid shares in the Company, which will rank equally with existing shares on issue. They do not have the opportunity to participate in the Non-renounceable Pro-rata Entitlement Offer.

There will be a balance of 10 convertible notes on issue, redeemable or convertible by 2 November 2019.

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half year financial report. This Independence Declaration is set out on page 8 and forms part of this Directors' Report for the half year ended 30 June 2019.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306 (3) of the Corporations Act 2001.

A handwritten signature in black ink that reads "G. Button". The signature is written in a cursive style with a large, sweeping initial "G".

Grant M Button
Chief Executive Officer
Perth, Australia
12 September 2019

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Magnum Mining and Exploration Limited for the half-year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia
12 September 2019



D I Buckley
Partner

hl**b.com.au**

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

T: +61 (0)8 9227 7500 **E:** mailbox@h**l**bwa.com.au

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

**Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the half year ended 30 June 2019**

	Note	2019 \$	2018 \$
Revenue	13	125,958	19,080
Depreciation expense		(6,571)	(1,325)
Exploration expensed as incurred		(561,259)	(411,284)
Finance costs		(281,317)	-
Changes in fair value of derivative liability		(292,203)	-
Share based payments		-	(95,347)
Other expenses		(275,592)	(241,125)
Loss before income tax expense		(1,290,984)	(730,001)
Income tax expense		-	-
Loss for the period		(1,290,984)	(730,001)
Other comprehensive income/ (loss)			
<i>Items that may be reclassified to profit or loss:</i>			
Changes in fair value of equity investments designated at FVOCI		(37,500)	-
Exchange differences on translation of foreign operations		4,238	2,436
Other comprehensive income/ (loss) for the period		(33,262)	2,436
Total comprehensive loss for the period		(1,324,246)	(727,565)
Loss attributable to:			
Equity holders of the parent		(1,148,789)	(643,980)
Non-controlling interests		(142,195)	(86,021)
Net loss for the period		(1,290,984)	(730,001)
Total comprehensive loss attributable to:			
Equity holders of the parent		(1,182,051)	(641,544)
Non-controlling interests		(142,195)	(86,021)
Total comprehensive loss for the period		(1,324,246)	(727,565)
Basic loss per share (cents)	11	(0.41)	(0.23)

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

Condensed Consolidated Statement of Financial Position
as at 30 June 2019

	Note	30 June 2019 \$	31 December 2018 \$
Assets			
Current assets			
Cash and cash equivalents		322,936	900,808
Trade and other receivables		111,732	136,423
Total current assets		<u>434,668</u>	<u>1,037,231</u>
Non-current assets			
Plant and equipment		172,717	105,323
Other financial assets	13	78,125	-
Exploration and evaluation expenditure		2,060,834	2,060,834
Rehabilitation guarantee		36,902	50,074
Total non-current assets		<u>2,348,578</u>	<u>2,216,231</u>
Total assets		<u>2,783,246</u>	<u>3,253,462</u>
Liabilities			
Current liabilities			
Trade and other payables		330,383	187,078
Convertible notes – host	4	1,067,051	848,529
Convertible notes – derivative liability	4	778,858	486,655
Borrowings	12	200,000	-
Total current liabilities		<u>2,376,292</u>	<u>1,522,262</u>
Total liabilities		<u>2,376,292</u>	<u>1,522,262</u>
Net assets		<u>406,954</u>	<u>1,731,200</u>
Equity			
Issued capital	5	22,937,628	22,937,628
Reserves		(291,591)	(258,329)
Accumulated losses		(22,083,713)	(20,934,924)
Equity attributable to owners of the parent		<u>562,324</u>	<u>1,744,375</u>
Non-controlling interests		(155,370)	(13,175)
Total equity		<u>406,954</u>	<u>1,731,200</u>

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

**Condensed Consolidated Statement of Changes in Equity
for the half year ended 30 June 2019**

	Issued capital \$	Accumulated losses \$	Reserves \$	Non- controlling interests \$	Total \$
2019					
Balance as at 1 January					
2019	22,937,628	(20,934,924)	(258,329)	(13,175)	1,731,200
Loss for the period	-	(1,148,789)	-	(142,195)	(1,290,984)
Other comprehensive income:					
Changes in fair value of equity investments designated at FVOCI	-	-	(37,500)	-	(37,500)
Currency translation differences	-	-	4,238	-	4,238
Total comprehensive loss	-	(1,148,789)	(33,262)	(142,195)	(1,324,246)
Balance as at 30 June 2019	22,937,628	(22,083,713)	(291,591)	(155,370)	406,954
2018					
Balance as at 1 January					
2018	21,911,047	(19,594,486)	107,550	141,786	2,565,897
Employees share plan shares sold	1,028,331	-	(448,136)	-	580,195
Share issue costs	(1,750)	-	-	-	(1,750)
Options issued	-	-	95,347	-	95,347
Loss for the period	-	(643,980)	-	(86,021)	(730,001)
Other comprehensive income:					
Currency translation differences	-	-	2,436	-	2,436
Total comprehensive income/ (loss)	-	(643,980)	2,436	(86,021)	(727,565)
Balance as at 30 June 2018	22,937,628	(20,238,466)	(242,803)	55,765	2,512,124

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

**Condensed Consolidated Statement of Cash Flows
for the half year ended 30 June 2019**

Note	2019 \$	2018 \$
Cash flows from operating activities		
Receipts from customers	80	35,854
Interest received	253	215
Payments for exploration and evaluation	(489,907)	(341,521)
Payments to suppliers and employees	(210,027)	(219,081)
Net cash (outflow) from operating activities	(699,601)	(524,533)
Cash flows from investing activities		
Proceeds from sale of tenement	10,000	-
Payments for purchases of plant and equipment	(79,954)	(2,802)
Net cash (outflow) from investing activities	(69,954)	(2,802)
Cash flows from financing activities		
Proceeds from borrowings	200,000	-
Proceeds from sale of employee share plan shares	-	580,195
Payment for share issue costs	-	(1,750)
Net cash inflow from financing activities	200,000	578,445
Net increase/ (decrease) in cash and cash equivalents	(569,555)	51,110
Cash and cash equivalents at the beginning of the half year	900,808	502,026
Effects of exchange rate changes on cash and cash equivalents	(8,317)	2,436
Cash and cash equivalents at the end of the half year	322,936	555,572

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**FOR THE HALF YEAR ENDED 30 JUNE 2019****1. Statement of Significant Accounting Policies**

These half year consolidated financial statements are general purpose financial statements prepared in accordance with the requirements of the *Corporations Act 2001* and applicable accounting standards including AASB 134 'Interim Financial Reporting', Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

This condensed half year financial report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 31 December 2018 and any public announcements made by the Company and its subsidiaries during the half year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001* and the ASX Listing Rules.

Basis of preparation

The half year financial report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair value of the consideration given in exchange for assets. The Company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted. The Company is a for-profit entity.

For the purpose of preparing the half year financial report, the half year has been treated as a discrete reporting period.

Statement of compliance

The half year financial report was authorised for issue in accordance with a resolution of the Directors on 12 September 2019.

The half year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report comprising the half year financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

Significant accounting judgments and key estimates

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

In preparing this half year financial report, the significant judgments 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 for the year ended 31 December 2018, except as noted below:

Inventory

Emeralds are traditionally sold in parcels to buyers and these parcels contain a mixture of sizes and grades of emeralds. This is the way to maximize the value achieved per carat. The emeralds recovered from the dumps are as expected smaller in size and not of the highest quality as would be expected across emeralds recovered from fresh rock. Hence, it would be difficult to sell this parcel for any meaningful value.

However when these emeralds can be parceled up with the emeralds to be recovered from the hard rock mining program, the value of these emeralds will be elevated and they will be saleable as they are sold as part of a parcel which includes better quality stones.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**FOR THE HALF YEAR ENDED 30 JUNE 2019****Significant accounting judgments and key estimates (continued)**

The small size of the parcel and the nature of the emeralds recovered to balance date place doubt as to actual ability to effect a sale.

Therefore, the Directors believe that given the various factors noted above, it would be irresponsible and imprudent for them to provide an estimate of net realisable value of the emeralds, which in trial mining phase would be lower than cost, for inclusion as inventory at 30 June 2019 and accordingly the carrying value of the emeralds should be nil.

New, revised or amended Accounting Standards and Interpretations

In the half year ended 30 June 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current reporting period.

The following Standards and Interpretations have been adopted from 1 January 2019.

AASB 16 Leases

AASB 16 replaces AASB 117 Leases and related interpretations.

AASB 16 removes the classification of leases as either operating leases or finance leases, effectively treating all leases as finance leases. Most leases will be capitalised on the statement of financial position by recognising a lease liability for the present value obligation and a right of use of the asset. The right of use of the asset is calculated based on the lease liability plus initial direct costs, prepaid lease payments and estimated restoration costs less lease incentives received. This will result in an increase in the recognised assets and liabilities in the statement of financial position as well as a change in the expense recognition with interest and depreciation replacing an operating lease expense. There are exemptions for short-term leases and leases of low-value items.

The Group has applied AASB 16 retrospectively, with the initial application date of 1 January 2019. The Group does not have any leases that are greater than 12 months, hence the Directors considered the impact to be insignificant.

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant on the Group's operations and effective for the current annual reporting period.

As a result of this review, the Directors have determined that the following Standard and Interpretation will not have a material effect on Group accounting policies in future financial periods.

Going concern

The Group has a cash balance at 30 June 2019 of \$322,936 and cash outflows from operating and investing activities of \$769,555 (2018: \$527,335) for the half year. The Group has undertaken a number of initiatives to reduce the cost of operations and seek further funding. The Directors are of the opinion that the Group is a going concern due to the following:

- (i) The Company has entered into unsecured loan agreements for a total of \$500,000 with entities associated with Mr Howard Dawson, Mr Grant Button and an external third party, of which \$200,000 has been drawn down as at 30 June 2019.
- (ii) Subsequent to period end, the Company announced a Non-renounceable Pro-rata Entitlement Offer to raise up to \$1,015,263 (before costs).
- (iii) Subsequent to period end, the Company announced the conversion of 1,240 unsecured redeemable convertible notes to shares in the Company, at the conversion price of \$0.05 per share, reducing the Company's liabilities.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**FOR THE HALF YEAR ENDED 30 JUNE 2019****Going concern (continued)**

Whilst the Directors are confident that the above initiative will generate sufficient funds to enable the Group to continue as a going concern for at least the period of 12 months from the date of signing this financial report, should that be unsuccessful, there exists a material uncertainty that may cast significant doubt on the ability of the Group to continue as a going concern and, therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

2. Segment information

For management purposes the chief operating decision maker, being the Board of Directors of Magnum Mining and Exploration Limited, reports its results per geographical segment.

The following table presents the financial information regarding these segments provided to the Board of Directors for the half year ended 30 June 2019 and 30 June 2018.

	Australia \$	South Africa \$	Consolidated \$
30 June 2019			
Segment revenue and other income	125,705	-	125,705
Interest	253	-	253
Segment result	(727,164)	(563,820)	(1,290,984)
Unallocated			-
Results from operating activities			(1,290,984)
Segment assets	380,480	2,402,766	2,783,246
Segment liabilities	2,201,174	175,118	2,376,292
Included within segment results:			
Depreciation	490	6,081	6,571
Bad Debt	11,083	-	11,083
30 June 2018			
Segment revenue and other income	18,865	-	18,865
Interest	215	-	215
Segment result	(381,908)	(348,093)	(730,001)
Unallocated			-
Results from operating activities			(730,001)
Segment assets	605,203	2,125,346	2,730,549
Segment liabilities	80,404	138,021	218,425
Included within segment results:			
Depreciation	872	453	1,325

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 JUNE 2019

3. Interest in subsidiaries

Name	Country of Incorporation	Percentage of equity interest held by consolidated entity	
		30 June 2019	31 December 2018
GEM Venus Holdings (Pty) Ltd	South Africa	100%	100%
Venus Emeralds (Pty) Ltd	South Africa	74%	74%
Adit Mining Consultants & Trading (Pty) Ltd	South Africa	74%	74%

4. Convertible notes

	Consolidated	
	30 June 2019	31 December 2018
	\$	\$
Host contract at amortised cost		
Borrowings	1,067,051	848,529
	1,067,051	848,529
	6 months to 30 June 2019	Year to 31 December 2018
	\$	\$
Derivative liability at fair value		
Balance at the beginning of the year	486,655	-
Conversion feature on recognition	-	414,530
Movement in fair value through profit or loss	292,203	72,125
Balance at reporting date	778,858	486,655

On 2 November 2018, the Company issued 1,250 unsecured redeemable convertible notes which raised \$1,250,000 before costs. The notes have a maturity date of 2 November 2019 with an interest rate of 10% per annum on maturity. The notes are unsecured and redeemable on the occurrence of a Material Corporate Event or on maturity date. A Material Corporate Event means either (1) the Company enters into any agreement for a merger with, or acquisition of, another entity or (2) a substantial proportion of the Gravelotte assets (by value) held by the Company are sold. The notes can be converted into shares at the minimum price of either the lower of \$0.05 or 80% of the market price determined by the VWAP for the 10 trading days prior to the conversion notice.

The effective interest rate on the host contract is 46%. During the period, interest of \$218,522 has been recognised on the host contract.

Valuation technique

Convertible notes are classified as level 2 fair values in the fair value hierarchy due to the use of observable inputs for the valuation of the liability.

The value of the convertible notes were determined as the sum of debt and option components using standard debt valuation techniques. The conversion feature is valued using Geometric Brownian Motion as used in the Black Scholes model, the Monte Carlo Simulation and binomial algorithms (an open form model) respectively. The host contract at recognition is calculated by subtracting the derivative liability fair value from the gross proceeds, net of transaction costs from the notes.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 30 JUNE 2019

4. Convertible notes (continued)

Key inputs to the valuation of the conversion feature include:

- A debt yield of 10%
- Share price at 30 June 2019 of \$0.082
- Volatility of 46%
- Risk free rate of 1.5%

Fair value movement

During this financial year, a fair value loss was recorded of \$292,203 based on a valuation of the notes at 30 June 2019.

Sensitivity to valuation inputs

Sensitivity of unobservable inputs are as follows:

- Volatility
 - A 25% increase in volatility would increase the fair value by \$64,992
 - A 25% decrease in volatility would decrease the fair value by \$35,524

5. Issued capital

Share capital

		Consolidated		Consolidated	
		30 June 2019 Shares	31 December 2018 Shares	30 June 2019 \$	31 December 2018 \$
(a) Share Capital					
Ordinary shares					
Ordinary shares fully paid	(a)	279,578,818	279,578,818	22,937,628	22,937,628
At reporting date		279,578,818	279,578,818	22,937,628	22,937,628

(a) Ordinary shares issued

	Consolidated 6 months to		Consolidated Year to	
	30 June 2019 Shares	30 June 2019 \$	31 December 2018 Shares	31 December 2018 \$
Movements in ordinary share capital				
Balance at the beginning of the reporting period	279,578,818	22,937,628	279,578,818	21,911,047
Employee share plan shares sold (cash received)	-	-	-	580,195
Employee share plan shares sold (transfer from reserve)	-	-	-	448,136
Less: Share issue costs	-	-	-	(1,750)
Balance at reporting date	279,578,818	22,937,628	279,578,818	22,937,628

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**FOR THE HALF YEAR ENDED 30 JUNE 2019****6. Unlisted options**

30 June 2019 No. of Options	31 December 2018 No. of Options
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Options

At the end of the reporting period the following options were on issue:

- 14 December 2017 options exercisable at \$0.075 per share expiring 31 December 2019	2,000,000	2,000,000
- 13 June 2018 options exercisable at \$0.075 per share expiring 31 December 2019 ¹	7,000,000	7,000,000
	9,000,000	9,000,000

¹Issued to Directors after receiving shareholder approval on 30 May 2018.**Movements in unlisted options**

	6 months to 30 June 2019 No. of Options	Year to 31 December 2018 No. of Options
Balance at the beginning of the year	9,000,000	2,000,000
Options issued during the period	-	7,000,000
Balance at reporting date	9,000,000	9,000,000

7. Contingencies

There were no contingencies of the Group at 30 June 2019. (31 December 2018: \$Nil)

8. Events occurring after the balance date

There has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations and activities of the Group, the results of those operations, or the state of affairs of the Group in future financial periods, other than those detailed below:

Non-renounceable Pro-rata Entitlement Offer

On 12 August 2019, the Company announced a non-renounceable pro-rata entitlement offer to each eligible shareholder, who held registered shares at record date

The key terms of the non-renounceable offer are as follows:

- a) one new option for every three shares held at an issue price of \$0.01 per new option.
- b) the option is exercisable at \$0.05, with an expiry date of 30 September 2022.

The offer will raise up to \$1,015,263 (before costs). The proceeds will be used to:

- a) complete the hard rock trial mining and processing phase of the current test work being carried out at the Company's Gravelotte emerald project.
- b) undertake additional technical work.
- c) pay the costs of the offer.
- d) for general working capital.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**FOR THE HALF YEAR ENDED 30 JUNE 2019****8. Events occurring after the balance date (continued)**Issue of Shares on Conversion of Convertible Notes

On 26 August 2019, the Company announced the conversion of 990 unsecured redeemable convertible notes to shares in the Company, at the conversion price of \$0.05 per share (20,000 shares per convertible notes, pursuant to the note deed). As a result, the Company has issued 19,800,000 Ordinary Fully Paid shares in the Company, which will rank equally with existing shares on issue. They will also have the opportunity to participate in the Non-renounceable Pro-rata Entitlement Offer, noted above.

On 29 August 2019, the Company announced the conversion of 250 unsecured redeemable convertible notes to shares in the Company, at the conversion price of \$0.05 per share (20,000 shares per convertible notes, pursuant to the note deed). As a result, the Company has issued 5,000,000 Ordinary Fully Paid shares in the Company, which will rank equally with existing shares on issue. They do not have the opportunity to participate in the Non-renounceable Pro-rata Entitlement Offer.

There will be a balance of 10 convertible notes on issue, redeemable or convertible by 2 November 2019.

9. Tenements on hand

Location	Project	Tenement Type	Number	Interest	Status
Limpopo Province South Africa	Gravelotte	Mining Right	MPT 85/2013	74%	Granted
Limpopo Province South Africa	Gravelotte	Prospecting Right	LP 204 PR	74%	Granted

10. Financial instruments

The methods and valuation techniques used for measuring fair value are unchanged compared to the previous reporting period.

The Directors considered the carrying amounts of the financial assets and liabilities to be a reasonable approximation of their fair value where financial assets and liabilities are not measured at fair value.

11. Earnings/ (loss) per share

	2019 Cents	2018 Cents
Basic earnings / (loss) per share	(0.41)	(0.23)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings/ (loss) per share	279,578,818	279,578,818
	\$	\$
Loss attributable to ordinary equity holders of the Group used in calculating basic earnings / (loss) per share	(1,148,789)	(643,980)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS**FOR THE HALF YEAR ENDED 30 JUNE 2019****12. Borrowings**

	Consolidated	
	30 June 2019	31 December 2018
	\$	\$
Wilberforce Trust (i)	125,000	-
Discovery Capital Ltd (ii)	75,000	-
	200,000	-

Related Party loans

(i) Mr G Button, an Executive director, is the trustee of Wilberforce Trust.

(ii) Mr H Dawson, a Non-Executive Chairman, is the director of Discovery Capital Ltd.

The Company has entered into loan agreements to draw up to \$500,000, which includes entities associated with the Directors of Magnum. The loans were undertaken in order to provide short term funding for the completion of the current trial mining and processing programme at Gravelotte.

A non-related party has lent the remaining \$300,000, which has not been drawn on as at 30 June 2019.

These loans are unsecured with interest payable calculated at 10% per annum on the daily aggregate amount outstanding and compounded monthly.

These loans were provided at arm-length.

Material terms of the loans are as follows:

Term: Twelve months from the Commencement Date, or such other period as the Parties may agree from time to time.

Interest rate: 10% per annum.

Repayment: The borrower:

- (a) must make the Repayment at the completion of the Term;
- (b) must make the Repayment within 14 days following receipt by the Borrower of a minimum \$500,000 from the sale of emeralds from Gravelotte.
- (c) Must make the Repayment immediately if the Borrower provides a charge over the Borrowers assets.

13. Sale of tenements

On 7 January 2019 in accordance with the terms and conditions of a binding term sheet, Magnum sold its beneficial interest in the Menzies Project, which consists of exploration license E29/1052 to Dampier Gold Ltd. The consideration paid by Dampier Gold Ltd was an issue of 3,125,000 shares in Dampier Gold Ltd and a cash payment of \$10,000. The shares will be held in voluntary escrow for a period of 24 months.

The shares in Dampier Gold Ltd are listed and therefore represent a level 1 financial instrument.

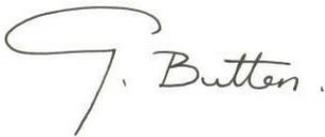
The Company made an irrevocable election to carry the investment at fair value through other comprehensive income.

Directors' Declaration

In the opinion of the Directors of Magnum Mining and Exploration Limited ('the Company'):

1. The attached financial statements and notes thereto are in accordance with the Corporations Act 2001 including:
 - a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - b. giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the half year then ended.
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.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303 (5) of the Corporations Act 2001.

A handwritten signature in black ink, appearing to read 'G. Button', with a stylized flourish above the first name.

Grant M Button
Chief Executive Officer
Perth, Australia
12 September 2019

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Magnum Mining and Exploration Limited

Report on the Condensed Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Magnum Mining and Exploration Limited ("the group") which comprises the condensed consolidated statement of financial position as at 30 June 2019, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the Group comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magnum Mining and Exploration Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 1 in the half-year financial report, which indicates the existence of a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

The directors of the group 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

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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HLB Mann Judd (WA Partnership) ABN 22 193 232 714

Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849

T: +61 (0)8 9227 7500 **E:** mailbox@hbw.com.au

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

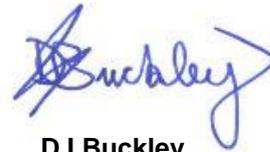
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



HLB Mann Judd
Chartered Accountants

Perth, Western Australia
12 September 2019



D I Buckley
Partner