

TNG LIMITED

**HALF-YEAR
FINANCIAL REPORT**

31 December 2013

ABN 12 000 817 023

TNG Limited and its controlled entities

Half Year Financial Report

Corporate Information

Directors

Michael Evans	(Acting Chairman)
Paul Burton	(Managing Director)
Stuart Crow	(Non-Executive Director)
Rex Turkington	(Non-Executive Director)
Jianrong Xu	(Non-Executive Director)
Wang Zhigang	(Non-Executive Director)

Company Secretary

Simon L Robertson

Registered Office

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Auditor

KPMG
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Perth WA 6000

Share Registry

Computershare Investor Services Pty Limited
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Perth WA 6000
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Stock Exchanges

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

TNG Limited and its controlled entities Directors' Report

Directors' Report

The Directors present their report together with the condensed consolidated interim financial report for the half year ended 31 December 2013 and the independent review report thereon.

Directors

The Directors of the Company at any time during or since the end of the half year are:

Michael Evans	(Acting Chairman)
Paul Burton	(Managing Director)
Stuart Crow	(Non-Executive Director)
Rex Turkington	(Non-Executive Director)
Jianrong Xu	(Non-Executive Director)
Wang Zhigang	(Non-Executive Director)

TNG Operations

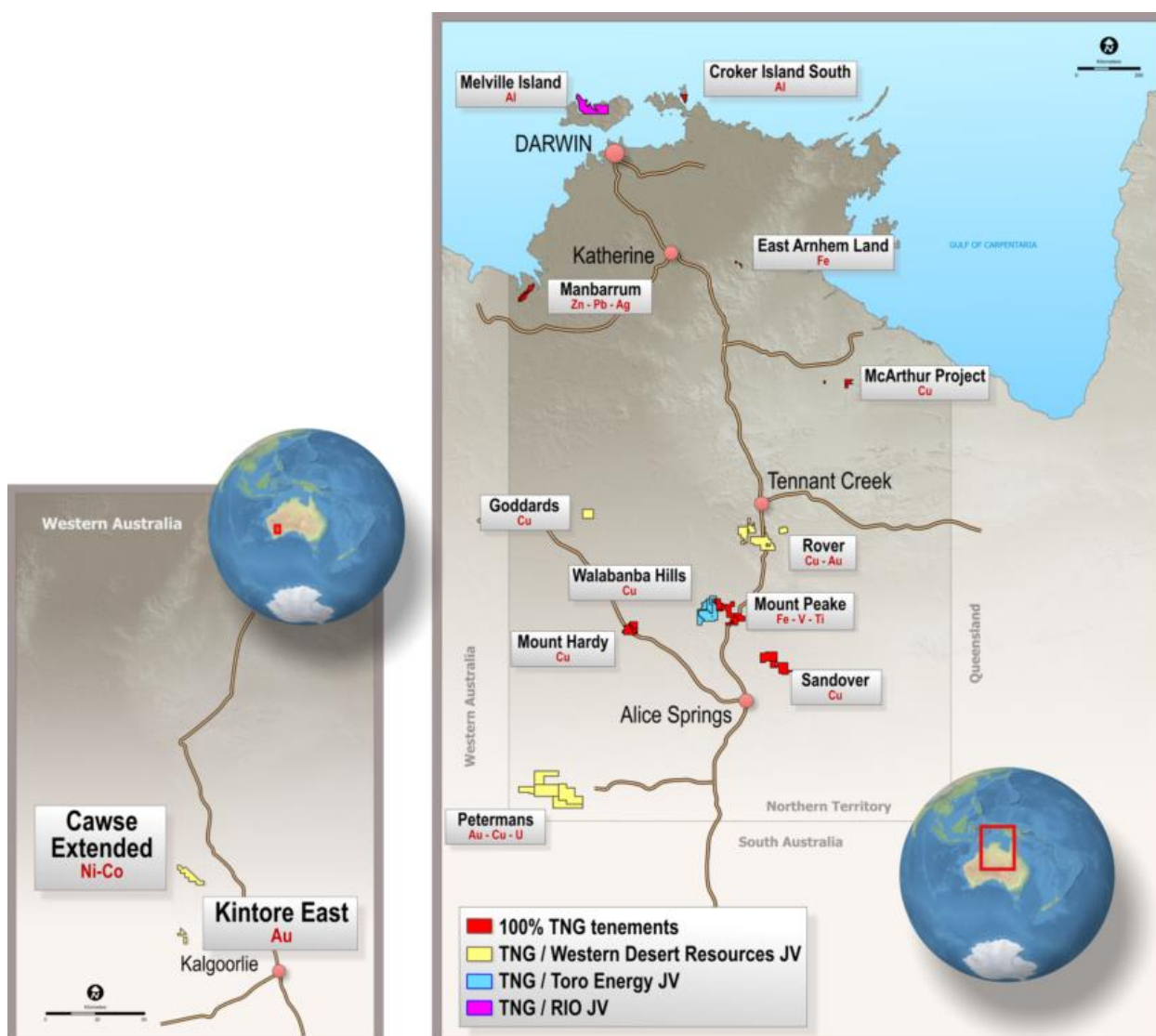


Figure 1: TNG Limited Tenement Map

TNG Limited and its controlled entities

Directors' Report

SUMMARY

During the first half of the 2014 Financial Year, TNG continued to focus on advancing its 100%-owned Mount Peake Vanadium-Titanium-Iron Project in the Northern Territory while at the same time taking a number of important steps to strengthen its financial position.

Work continued on the Mount Peake Definitive Feasibility Study (DFS) under the revised structure and arrangements outlined during the June 2013 Quarter as a result of the decision to transfer management of the DFS in-house. TNG estimates that the new management structure will result in annual cost savings to the Company of \$0.5 million. The DFS is targeted for completion by the end of 2014.

Along with the progression of the DFS, the Company achieved a number of key milestones during the period, including:

- **Submission of a Notice of Intent (NOI) to the Northern Territory Government**, marking a key step in the approvals process. The NOI provides formal notification to the Northern Territory Government and other interested parties of TNG's intention to develop the Mount Peake Project. It also provides an overview of the proposed activities, the environmental and social aspects and the proposed management strategies to be adopted by TNG in developing and operating the Mount Peake Project.
- **Completion of \$3.5 million capital raising**, comprising a Share Purchase Plan, Share Placement and shortfall placement.
- **Receipt of Research & Development refund** claim totalling \$3,195,993 before costs. The claim covers eligible test work for the 2013 financial year under the Federal Government's R&D tax incentive scheme.
- **Acquisition of 100% of TIVAN hydrometallurgical process** for titanomagnetite hosted vanadium ores. The consolidation of 100% ownership of the technology within TNG gives the Company greater flexibility in progressing the commercial development of both the Mount Peake Project and the TIVAN® Process.
- **Award of Major Project Status to the Mount Peake Project by the Northern Territory Government**. The grant of this status provides a "whole of Government" approach to Mount Peake, recognising it as a designated Major Project of significance to the Northern Territory.
- **Progression of key investment and off-take discussions** following participation in a Northern Territory Ministerial investment trade delegation to Asia, during which TNG met with vanadium importers in Japan; steel producers in China, Japan and Korea; and titanium-dioxide importers in Asia. Potential investment discussions are continuing with a major Middle Eastern investment and development company.

PROJECTS

Mount Peake Project: TNG 100%

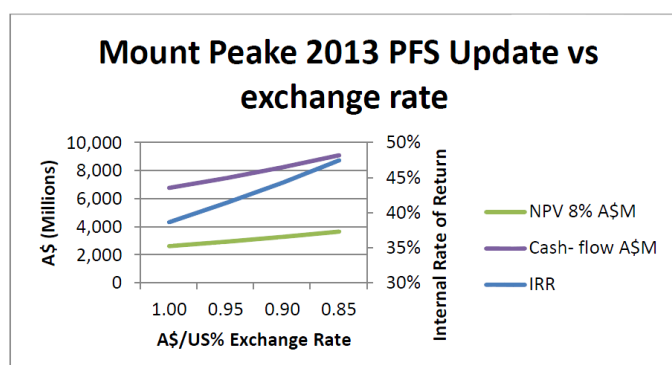
The Mount Peake project is located in the Northern Territory close to existing key power and transport infrastructure. The area under licence covers a highly prospective, but poorly explored area of the Western Arunta geological province.

Lodgement of Notice of Intent

During the period, the Company's consultants GHD submitted the Notice of Intent (NOI) for the Mount Peake Project to the Northern Territory Government on behalf of TNG. The NOI provides formal notification to the Government and other interested parties of TNG's intention to develop the Mount Peake Project.

The NOI provides an overview of the proposed activities, the environmental and social aspects and the proposed management strategies to be adopted by TNG in developing and operating the Mount Peake Project.

Effect of exchange rate on Pre-Feasibility Study (PFS) results



In July 2012 TNG announced the results of the Pre-Feasibility Study (PFS) for its Mount Peake Project, outlining a very robust project capable of generating revenues of A\$12 billion with a pre-tax IRR of 31.8%. (Refer ASX announcement 9 July 2012)

During the period, the Company received the results of an independent technical review of the Mount Peake Project which identified significant improvements to the Project's financial parameters and forecast returns as a result of the fall in the Australian Dollar exchange rate.

The technical review – which was conducted by Snowden Mining Industry Consultants Pty Ltd as part of the ongoing Definitive Feasibility Study (DFS) on the Mount Peake Project – has highlighted the strength and robustness of the Project.

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The improvement in project economics arising from the effect of the exchange rate variance on the 6 February 2013 update to the PFS are detailed below:

Comparison of effect of exchange rate on Mount Peake Project 2013 PFS update				
A\$/US\$ Exchange Rate	1.00	0.95	0.90	0.85
IRR	38.70%	41.40%	44.30%	47.50%
NPV 8% A\$M	2,646	2,955	3,298	3,682
Cash-flow A\$M	6,785	7,483	8,258	9,125

(Refer ASX announcement 9 September 2013)

Definitive Feasibility Study

The work completed to date has delivered encouraging results at a number of levels, including the potential for material reductions in both capital and operating costs. These savings, which should enhance project economics, will be further quantified and announced to the market in the coming months. The work completed to date, and scheduled, is summarised below:

Metallurgical Test Work

The Company remains of the view that completion of the detailed metallurgical pilot test work programme is critical before the completion of mining plans, engineering and environmental impact studies.

There are six areas of metallurgical test work currently underway or scheduled that form part of the Project's critical path, as follows:

1. Final optimisation of the HPGR (high pressure grinding rolls) circuit design.
2. Final optimisation of magnetic separation test work.
3. Final continuous crushing, grinding and magnetic separation at ALS Metallurgy of the bulk sample for the CSIRO pilot plant.
4. Final optimisation of bench leach and SX (solvent-extraction) work at ALS Metallurgy.
5. On completion of 1 to 4, a continuous bulk leaching and solvent extraction (CSIRO) run.
6. On completion of 5, a continuous bulk acid regeneration pilot plant run in Europe.

The Company is pleased to report that Stages 1 and 2 have been completed and Stage 3 is nearing completion.

The results from Stages 1 and 2 have provided better-than-expected parameters, which will lead to a reduction in grinding power requirements and equipment size, and are expected to lead to reductions in both capital costs (CAPEX) and operating costs (OPEX).

Optimisation Work

Final optimisation test work has been completed on crushing, grinding, and magnetic separation of the 15 tonnes of material from the Mount Peake deposit, prior to processing the final bulk sample Master Composite. This has included roll speed and pressure selection and recycling tests using industrial-scale HPGR at ALS Metallurgy, Perth. Further test work was then performed on the optimum magnetic separation parameters (grind size and magnetic flux).

Once the optimum HPGR grind and fine grind size and magnetic separation parameters were reviewed and determined, production of the bulk sample Master Composite for the leach/solvent extraction pilot plant at CSIRO commenced. This is currently nearing completion.

The HPGR tests carried out on the material from Mount Peake confirmed that it performs very well in high pressure comminution conditions. The specific material response was:

- A high specific pressing force of 3,500 kN/m² proved to be most suitable for this ore;
- A high specific throughput at moderate energy consumption was recorded; and
- A high production of fines and excellent reduction ratio was also measured.

Once the bulk sample has been completely processed and the data captured, this will enable delivery of a final mass balance and process & engineering design criteria document, which will allow the engineering for the Mount Peake Beneficiation Plant to commence.

Detailed Plant Equipment and Design

The data captured from the bulk sample work will also allow correct sizing for the full-scale crushing, grinding and magnetic separation equipment, and will allow the mine tailings characterisation work to commence on the non-magnetic tailings stream for the tailings storage facility design and incorporation in the environmental impact assessment statement (EIS).

Definitive Pilot Plant Test Work (CSIRO)

The Company's metallurgical consultants, METS Pty Ltd, have advised that the magnetic concentrate from the bulk sample is scheduled for

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Directors' Report

delivery to the CSIRO by end of the First Quarter of 2014, for the final downstream Leaching and Solvent Extraction (SX) pilot test work required to complete commercialisation of TNG's 100%-owned TIVAN[®] process.

Final leaching, solvent extraction and reduction parameters will be optimised and confirmed prior to commencement of the pilot plant run at CSIRO. Previous test work undertaken as part of the Company's Pre-Feasibility Study (PFS) pilot plant work confirmed that the TIVAN[®] SX process was successful, and now detailed "definitive" conditions for a full-scale industrial flow sheet will be met through the CSIRO test work.

These conditions will include final optimum reduction kinetics, extraction and stripping kinetics, solvent extraction strip and extraction isotherms varying reagent concentration, titanium removal, and TiO₂ upgrade test work – all of which may have significant bearing on the final process product and consequently on the Project's future cash flow.

For example, if the TiO₂ can be upgraded to +55% a significant additional premium can be expected in its sale price. With industry forecasts showing a significant increase in demand for TiO₂, the Company recognises that this is an important step to complete.

The data captured from the continuous pilot run will also allow correct sizing of the full industrial-scale leach and solvent extraction equipment.

Acid Regeneration/Recycling Test Work (Europe)

The work carried out by the Company's European supplier has been focused on three important sections of the proposed plant for the TIVAN[®] process. The acid regeneration plant is an integral part of the TIVAN[®] process. The outcomes from this work are summarised below:

- **Heat and Power:** The energy requirements for heating are lower than expectations;
- **Mass Balance:** The mass and energy balance for this section of the plant were originally defined using the magnetic concentrate sample provided to the European manufacturer in Q3 2013 from the PFS pilot plant. This study effectively confirms the overall mass balance; and
- **Oxygen Consumption:** Consumption has been confirmed to be at anticipated levels.

The next stage of work for this supplier is to determine the final CAPEX for their acid regeneration plant, to be incorporated into the overall DFS.

Scheduled Work Summary

Continuous Bulk Leaching and Solvent Extraction at CSIRO

Following the processing of the bulk sample Master Composite to generate a magnetite concentrate, the CSIRO pilot plant test run will commence.

Once the CSIRO pilot plant run is complete, the results obtained will deliver final mass & energy balance and engineering & process design criteria information which will allow the final engineering design for the TIVAN[®] Hydrometallurgical Process Plant to commence.

The data captured from the continuous pilot run will also facilitate the tailings characterisation work on the TiO₂ plant residue stream for Titanium Tailings Storage Facility (TSF) design and lead into the environmental impact assessment (EIS) study.

Continuous Bulk Acid Regeneration (Europe)

Once the CSIRO pilot plant trial is completed, the solvent extraction liquor samples can be sent to the leading European engineering firm for their continuous pilot plant completion and to produce the Iron Oxide (Fe₂O₃) component. At the end of this campaign, a final CAPEX of ±15% and OPEX ±10% for the Acid Regeneration Plant can be determined for inclusion in the DFS.

Once the CAPEX and OPEX data has been compiled, it will be provided to the Feasibility Study managers to incorporate into the Definitive Feasibility Study to allow it to be completed by December 2014. The completion of the DFS within this timeline remains subject to factors beyond TNG's control including availability of third-party equipment, resources and personnel which have had a determinative effect on progress to date.

TIVAN[®] Plant Location and Engineering

Once the definitive flow sheets for the front end Beneficiation and the TIVAN[®] Hydrometallurgical Plants are confirmed, the Company will be in a position to define and confirm a suitable location for the processing plant as the final key inputs of power and water will be known. At that time, the Company will re-tender for the DFS engineering contractor.

The company is evaluating all options for the TIVAN[®] plant location.

Environmental Impact Study (EIS)

An extensive amount of work has been completed to date as part of the EIS process by the Company's environmental consultants, GHD, including:

TNG Limited and its controlled entities Directors' Report

- Baseline flora and fauna surveys of the Mount Peake Project Area from the mine site to the proposed Adnera Loadout Facility on the Alice Springs to Darwin rail line;
- Initial appraisal of surface water in the Project Area;
- Review of existing groundwater information in the Project Area and scoping of an investigation program for water supply;
- Preparation and submission of a Notice of Intent to the NT Department of Mines and Energy to advise the NT Government of the Mount Peake Project;
- Preparation and submission of a referral to the Commonwealth Department of the Environment to advise them of the Project and seek a determination whether the Project is a controlled action under the *Environment Protection and Biodiversity Conservation Act 1999*;
- Confirmation from the NT Environment Protection Authority that the Project requires assessment under the NT *Environmental Assessment Act 1982* at the level of Environmental Impact Statement; and
- Preparation of draft Terms of Reference for the preparation of an Environmental Impact Statement by the NT Environment Protection Authority.

Environmental work currently being undertaken by GHD includes:

- Flora and fauna baseline survey reporting;
- Groundwater investigations (including drilling) of the Mount Peake deposit to determine aquifer properties and the likely volume and quality of groundwater encountered;
- Pump testing of bores to indicate availability of water supply for the project; and
- Finalisation of the Terms of Reference from the NOI.

Future work scheduled to run in parallel with finalising the DFS:

- Completion of studies and impact assessment covering flora and fauna, heritage, groundwater, surface water, air quality, noise, traffic, social impacts and economics;
- Implementation of a community consultation program to advise stakeholders of the Project and to seek their input; and
- Preparation and submission of the draft Environmental Impact Statement (EIS).

Mining, Geology and Geotechnical Studies

Proposals have been obtained to conduct the mining, geology and geotechnical studies required to complete CAPEX and OPEX for the DFS. The Company expects that this work will commence in March 2014 and be completed by September 2014. Financial modelling is scheduled to take place over the last month of the DFS once the CAPEX estimate is completed.

Tailings Storage Facility (TSF) Design

Proposals have been obtained to conduct the Tailings Storage Facility (TSF) design and to complete CAPEX and OPEX estimated for the TSF as part of the DFS process.

The tailings characterisation work is divided into two components and will initially start once a representative sample of the non-magnetic tailings stream is generated from the ALS pilot campaign in February and when representative samples of leach and salt residues are generated from the CSIRO pilot campaign.

Aquifer Search

Proposals have been obtained to search for an aquifer capable of supporting Life-of-Mine activities, as well as to carry out bore field and pipeline design and determine mine dewatering requirements and the associated CAPEX and OPEX for all of these components as part of the DFS.

A comprehensive desktop study has been completed which has highlighted a number of high probability targets in close proximity to the Mount Peake mine site. These have been included in the forthcoming drilling campaign at Mount Peake.

Power Requirements

A significant factor in the location of the TIVAN[®] processing and beneficiation plant will be availability of sufficient gas. This will ultimately determine the location of the plant and the Company therefore considers completion of the metallurgical test work critical before appointing a DFS engineering contractor for completion of the DFS.

Project Finance

The Company remains of the view that the most suitable development path for Mount Peake is to engage a major partner, company or corporate conglomerate to provide development finance, engineering, procurement, design and construction in exchange for Project equity and/or off-take agreements.

As previously advised, the Company is in discussions with a number of parties in this regard and continues to evaluate all opportunities.

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During the reporting period, TNG participated in a Northern Territory Ministerial investment trade delegation to Asia, during which the Company met with vanadium importers in Japan; steel producers in China, Japan and Korea; and titanium-dioxide importers in Asia. As a result of these meetings, TNG can confirm that at the end of the reporting period:

- Discussions were in progress with a major steel conglomerate for a magnetite concentrate off-take agreement;
- Discussions were in progress with a major end-user for a titanium dioxide off-take agreement; and
- Investment and licencing agreements were in progress with a major overseas mining company regarding the TIVAN® Process and the completion of a Definitive Feasibility Study.

In addition, potential investment discussions were also ongoing with a major Middle Eastern investment and development company.

Mount Peake Exploration

New High-Grade Vanadium-Iron-Titanium Discovery

During the period, TNG discovered extensive new zones of outcropping magnetite-bearing gabbro with highly anomalous high-grade vanadium and titanium at Mount Peake. The discovery, from mapping and surface rock and lag sampling over regional magnetic targets, has opened up a significant new exploration opportunity surrounding the Mount Peake deposit itself (see ASX Announcement – 6th December 2013).

Five areas of significant magnetic highs have been identified within a broad zone extending over approximately 25km by 15km surrounding the Mount Peake V-Ti-Fe resource. Each of the five areas were mapped and sampled during November by the TNG exploration team, with a new area of outcropping gabbro discovered at the Eastern Target, located 5-8km east of the current Mount Peake resource.

Other areas had no exposure and transported cover masking any effective geochemistry. These aeromagnetic highs remain strong drill targets, particularly the two western zones.

At the Eastern Target, two areas of outcrop are separated by a thin colluvial sheet, indicating an intrusive similar to Mount Peake under thin transported cover (<5m). Using a highly anomalous threshold of 3,000ppm V, the total Eastern Target geochemical anomaly extends for 4km striking NW/SE, is up to 1km across, and is centred on and extends both along strike and to the west of the outcropping gabbro.

Mapping and sampling was analysed by portable XRF (Niton) to provide initial guidance and 76 samples were submitted for XRF analysis at ALS Perth. Geochemical results (see ASX Announcement – 6th December 2013) from these 76 samples included values of up to 0.634% V₂O₅, 24.6% TiO₂, and 48.0% Fe in magnetic lag. These results confirm field analysis (227 samples) by portable XRF (Niton). Rock chip samples of weathered gabbro obtained maximum values of 0.134% V₂O₅ and 6.77% TiO₂, above the grade cut-off for the resource at Mount Peake.

TIVAN® Hydrometallurgical Process

On 1 October, TNG signed a binding agreement with process engineering group Mineral Engineering Technical Services Pty Ltd ("METS") to acquire 100% of the revolutionary TIVAN™ hydrometallurgical process for titano-magnetite hosted vanadium ores, in exchange for METS to share in any future licence and royalty agreements.

This acquisition process was completed in November following the execution of formal agreements with METS, including an Assignment of the Patent Deed.

TIVAN™ was developed as a cost-effective alternative to conventional pyro-metallurgical processes for vanadium ores, and forms a central plank of TNG's development plan for the Mount Peake Project. The process is designed to produce high purity vanadium-pentoxide, iron-oxide and titanium-dioxide products.

The consolidation of 100 per cent ownership of the TIVAN™ Process within TNG represents an important milestone for the Company, putting TNG in a strong position to move forward to complete the final commercialisation of the TIVAN™ Process as part of the Mount Peake Definitive Feasibility Study while also providing a potential new business strategy for the Company and its shareholders.

Mount Hardy Copper Project: TNG 100%

Mount Hardy – EL 29219, EL 27892, EL 28694

The Mount Hardy Copper Project is located within the Mount Hardy Copper Field, approximately 300km north-west of Alice Springs. The project area is situated on the Mount Doreen (SF52-12) and Mount Theo (SF52-08) 1:250,000-scale sheets. Access to the Mount Hardy tenement is via the Tanami Highway. The Project contains extensive areas of surface copper with anomalous gold, silver and lead, with surface sampling returning rock chip grades of up to 35% Cu, 18% Pb, 10% Zn, 7g/t Au and 400g/t Ag. (Refer ASX announcement 10 October 2012)

During the period a diamond drilling programme was completed over the main target areas at the Mount Hardy and Browns prospect areas, with several holes targeting major geophysical and geochemical anomalies within the Mount Hardy Project area including significant Electro-Magnetic (EM) conductors interpreted from down-hole electromagnetic (DHEM) geophysical surveys completed in 2013.

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The results were encouraging and confirmed the presence of copper grades below the supergene oxide material, while DHEM surveys have outlined several targets warranting further drill testing.

TNG remains extremely enthusiastic about the potential of the Mount Hardy Copper Project and will consider other potential avenues to progress the Project to the next level, including the possibility of securing external funding via farm-in joint venture. Discussions commenced during the December 2013 Quarter with a number of parties.

Walabanba Hills JV: Copper

TNG earning 51% with potential to increase to 80% (all minerals except uranium)

The Walabanba Joint Venture area lies immediately west of TNG's flagship Mount Peake Strategic Metals Project in the Northern Territory, and is considered highly prospective for copper and nickel mineralisation based on previous exploration results.

Further assessment and exploration planning was carried out during the reporting period to refine on-ground anomalies. Several zones have been highlighted for further exploration work which is anticipated to be carried out during the March 2014 Quarter.

McArthur River Project: Copper

TNG 100%

McArthur – EL 27711 and ELA 30085

The McArthur River tenements, which are located approximately 50km south of McArthur township along the Tablelands Highway, covers part of the prospective McArthur Basin geology, 65km south-west of the McArthur Zinc mine.

Work completed by TNG during 2013 has outlined three large geochemically anomalous Zn-Cu-Pb zones (following a review of historical exploration data) associated with the Wollogorang Formation (see ASX Announcement – 16th September 2013). ELA 30085 was applied for during 2013 to secure the full 17km of strike extent of prospective stratigraphy. The central anomaly is 3,000m long and up to 450m wide with values up to 1,400ppm Zn and 670ppm Pb in soil samples. The other zones have results of up to 1,150ppm Cu and 800ppm Zn.

The potential of the Wollogorang Formation carbonaceous shales to host stratiform base metal accumulations has been confirmed by a program of field mapping and sampling by TNG geologists, together with re-logging of drill core from the tenement area (accessed in the NTGS Core Library) during the period.

This large (approximately 125km²) area warrants a program of geophysical surveying to define drilling targets, and this is planned for the 2014 dry season.

Yah Yah – EL 28509

The Yah Yah tenement, located approximately 50km south-west of the McArthur township, contains the historical Yah Yah copper mine, which produced some 40 tonnes of hand-picked, high-grade copper (20-30% Cu) ore prior to 1912. A grab sample collected from a Yah Yah waste dump by CRA Exploration assayed 30.4% Cu. In addition, BHP completed a soil survey which returned best results of up to 562ppm Cu from a 300m wide zone over the old structure.

No work was undertaken during the reporting period.

Sandover Project: Copper: TNG 100%

ELA 29252, ELA 29253 and ELA 29254

The Sandover Copper Project tenements are located approximately 100km north-east of Alice Springs just north of the Plenty Highway. The project area is situated on the Alcoota (SF53-10) 1:250,000 scale map sheet. The two tenements (EL's 29252 and 29253) were granted in late 2012 and cover 894km² (283 blocks) in the highly prospective Aileron and Irindina Provinces, some 120-180km to the north-east of Alice Springs. Access to conduct field programs over these tenements is subject to agreement with the CLC managed Alcoota Pastoral Leaseholders.

No work was undertaken during the reporting period.

JOINT VENTURE PROJECTS

Manbarrum Project Joint Venture: TNG 100%

(SHJV earning 51% with scope to earn up to 80%)

Located 82 kilometres north east of the township of Kununurra in the Northern Territory, The Manbarrum Project comprises three Exploration Licenses and two Authority to Prospect licenses (under section 178) covering a combined area of 407 square kilometres. The Project comprises a series of Mississippi-Valley-style lead-zinc-silver deposits which TNG discovered in 2007. Two deposits totalling more than 35Mt of combined zinc-lead-silver mineralisation have been discovered to date, with a number of untested targets.

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In August 2013, TNG signed a binding Term Sheet with Legacy Iron Ore (ASX: LCY) to sell the Manbarrum Project for \$5 million. However, Legacy Iron did not meet the terms of the agreement and the proposed sale of the Manbarrum Project did not proceed.

TNG now retains 100% ownership of the Manbarrum Project, which contains a substantial inventory of base metals and silver, together with a significant hematite prospect.

Manbarrum is a significant non-core asset for TNG, and the Company will continue to progress other options to realise value from it (and other non-core projects within its portfolio) while maintaining its focus on the flagship Mount Peake Vanadium-Iron-Titanium Project.

Western Desert Resources Ltd (WDR) Joint Venture (TNG: 20%, WDR: 80%)

The Rover Project covers three granted exploration licences in the lucrative Tennant Creek goldfields, two of which (EL24471 and EL25581) are in joint venture with TNG Ltd and one (EL28128) is 100% held by WDR.

During the period WDR completed their requirements to earn 80% of the Project.

McTavish Project Joint Venture: TNG 2% Royalty, Barminto 70%

No work was undertaken during the reporting period.

Kintore East Joint Venture: TNG 20%, La Mancha 80%

TNG retains a 2% gold royalty in these prospective tenements. No work was reported by La Mancha.

NICKEL

MINING PROJECTS: Nickel Cawse Extended Joint Venture: TNG 20%, Norilsk 80%

The Cawse laterite nickel operation has been placed on indefinite care and maintenance by Norilsk Nickel Australia.

BAUXITE

Melville Island Licence

In October 2012 TNG formally signed the farm-in and joint venture agreement on its 100% owned Melville Island licence ELA 28617 in the Northern Territory with Rio Tinto Exploration Pty Ltd (RTX). TNG will receive an initial cash payment of \$50,000, and RTX will progress negotiations and grant of the licence application for bauxite exploration.

Following the grant of the licence, RTX must spend \$5 million within 4 years to earn 80% equity in the project with TNG retaining 20% equity at which point TNG may elect to contribute, sell or convert its equity to a 2% Net Smelter Royalty (NSR). The Melville Island Exploration licence application has been a strategic licence for TNG being located in a prospective area for bauxite and other minerals. The licence area covers approximately 1,400km². RTX is progressing negotiations and grant of the licence application for bauxite exploration.

CORPORATE

Capital raising

During the period, TNG raised \$1.2 million before costs through a successful Securities 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 \$0.045 per share including a free attaching listed option on a 1-for-2 basis. The options will have an exercise price of \$0.08 per share and an expiry date of 31 July 2015.

As outlined in the prospectus for the SPP, any shares not subscribed for by eligible shareholders under the SPP would comprise the shortfall and may be offered to institutional and/or sophisticated investors as a separate placement, at the discretion of the Directors. The Company received applications for the full amount of the shortfall and completed a Shortfall Placement of 51,822,284 shares at \$0.045 per share, plus a free attaching option on the same terms and conditions as the SPP, to raise a further \$2.3 million bringing the total amount raised to approximately \$3.5 million.

In addition, TNG received commitments for a further \$500,000 worth of shares subject to renewal of the Company's 15% placement capacity at the Company's Annual General Meeting in November 2013. This placement was completed subsequent to the end of the reporting period.

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Research & Development Rebate

During the reporting period, the Company received the full amount of its Research & Development refund claim totalling \$3,195,993 before costs. The claim covers eligible test work for the 2013 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 and 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 its flagship Mount Peake Vanadium-Iron-Titanium Project in the Northern Territory and its strategy to become a significant producer of strategic metals.

Davis Samuel

Commonwealth and Davis Samuel

The Commonwealth of Australia (the Commonwealth) in proceedings in the Supreme Court of the Australian Capital Territory has claimed that it is entitled to a constructive trust over certain shares and options held by TNG in Kanowna Lights Limited (the Kanowna Securities) as a result of circumstances arising in the late 1990s when management control of TNG was held by interests associated with Davis Samuel Pty Ltd (Davis Samuel). The Commonwealth has obtained an injunction preventing TNG from selling or otherwise disposing of the Kanowna Securities.

The Commonwealth has claimed that as constructive trustee, TNG is liable to account for the market value of the shares at the time they were acquired. The Commonwealth gave an undertaking as to damages.

In December 1998, TNG entered into a settlement agreement with Davis Samuel and its directors which provided for the repayment of the funds expended by TNG, in exchange for the transfer of the Kanowna Securities to Davis Samuel. Subsequently, in September 1999, Davis Samuel purported to rescind the December 1998 settlement agreement.

TNG, as a party to the proceedings instituted by the Commonwealth, issued cross-claims against Davis Samuel and several other parties including Messrs Allan Endresz, Peter Cain, William Forge, David Muir and Peter Clark. TNG vigorously defended the Commonwealth claims. The court hearing commenced in June 2008 and concluded in the last quarter of 2008. The court reserved its decision, which was handed down on 1 August 2013.

The decision handed down on 1 August 2013 gave judgment for the Commonwealth on its claims, including the claim against TNG in relation to the Kanowna Securities, but has given leave to both TNG and the Commonwealth to make further submissions on how the Commonwealth's election to recover funds from Mark Endresz impacts on the remedies available to the Commonwealth as against TNG. Subject to this, TNG may be required to deliver up the Kanowna Securities to the Commonwealth, or an amount equal to their assessed value (possibly plus interest).

The Court also gave judgment for TNG on its counterclaim against ten of the defendants and on TNG's third party notice to Peter John Clark for damages to be assessed and to indemnify it against the Commonwealth's claim. In addition, the Court confirmed that TNG has an interest in funds and real property as a result of TNG paying over amounts as a consequence of various entities breaching fiduciary duties owed to TNG or assisting in those breaches. The recoverability of the full amount of any judgment in TNG's favour will depend on the ability to pay of those parties who are liable.

The above decision required further hearings and determinations to take place before final orders are made. As a result, any cost to TNG and or recoverable by it on its counter claims cannot be reliably measured at this point in time. These further hearings took place in November and December 2013, but the decisions have been reserved.

If the outcome of this matter is not favourable to TNG, TNG will be liable to deliver the Kanowna Securities (or their value, possibly with interest) to the Commonwealth, and may also be liable for costs of the proceedings if awarded against it.

Financial Position

The group recognised a net loss after tax for the half-year of \$(1,965,431) (half-year ended 31 December 2012: loss of \$1,950,484). At 31 December 2013 TNG had cash reserves of \$4,446,910 (31 December 2012: \$7,247,755). The cash reserve figure does not include \$1,000,000 held in 120 day term deposits classified as other receivables.

AGM

The Annual General Meeting of the Company was held on 27 November 2013. All resolutions were passed on a show of hands.

TNG Limited and its controlled entities Directors' Report

Subsequent events

TNG Signs Agreement for Legune Iron Prospect

On 22 January 2014, TNG announced that it had reached agreement with privately owned Chinese resource company Teng Fei Mining Ltd ("Teng Fei") to enter into a new venture covering the Legune high-grade hematite prospect, located on TNG's 100%-owned Manbarrum Zinc-Silver Project in the Northern Territory.

In 2009, TNG sold 100% of the mineral rights for the Legune hematite prospect to Teng Fei for \$1.4 million (*see ASX Release – 25 November 2009*). Teng Fei is a Darwin-based company backed by a private consortium of Chinese investors with operations in the mining and chemicals industry of China.

Under the new agreement, TNG has secured an immediate 100% interest in the prospect for no consideration, but Teng Fei will retain a 3% royalty on any future production from the tenement.

TNG expands iron ore portfolio with Roper River acquisition

On 28 January 2014, TNG announced that it had secured two new highly prospective Exploration Licences in the Roper River Iron Province of the Northern Territory, located 450km south-east of Darwin. The project, known as the Black Range Project, comprises 209km² and adjoins TNG's existing ELs 28218 and 28219, giving a total Project area of 259km².

The new tenements contain significant exposures of the Sherwin Formation, which is the host to all mineralisation seen in the Roper Iron Province. Both Sherwin Iron Limited (ASX: SHD) and Western Desert Resources (ASX: WDR) have significant resources and mining operations in the area. BHP outlined 27 iron ore deposits between 1955 and 1961 hosted by the Sherwin Iron Formation over 80km of strike. Subsequent exploration has outlined extensions to the Sherwin Formation of over 150km, which is significantly more widespread than previously mapped.

The Black Range Project lies within the western portion of the McArthur Proterozoic Sedimentary Basin where it occurs in the upper part of the prospective Roper Group, a sequence of fluvial to marginal marine mudstones and sandstones. The Sherwin Iron Formation is up to 100m thick and comprises inter-bedded sandstone, siltstone and mudstone, with locally developed oolitic and pisolitic ironstone beds deposited in a fluvial to marginal marine environment. The ironstone beds are typically 2-8m thick and are often exposed along breakaways where they can often be traced for tens of kilometres.

Historic drilling and sampling by BHP in the 1950s and 1960s returned grades from 43% to 63% Fe. Within the TNG tenements the mapped Sherwin Formation has had little previous exploration targeting its iron potential. TNG's exploration program will commence in the 2014 dry season utilising low cost geological mapping/sampling, to be followed by trenching and drill testing of the highest priority targets.

Change of Chairman

On 27 February 2014 TNG advised that Mr Jianrong Xu had resigned as Chairman with Mr Michael Evans having been appointed as acting Chairman of the Company. Mr Xu remains as a non-executive Director.

Capital Raising

On 6 March 2014, the Company announced it had completed a placement raising \$738,225 on the same terms as its earlier Share Purchase Plan (\$0.045 cents per share with one free attaching option exercisable at \$0.08 by 31 July 2015 for every 2 shares issued). The company issued 16,404,998 shares and 8,202,491 options under the terms of the placement.

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

The lead auditor's independence declaration is set out on page 14 and forms part of the directors' report for the half-year ended 31 December 2013.

Signed in accordance with a resolution of the Directors



Paul E Burton
Managing Director

13 March 2014

Mount Peake

Competent Person Statement

The information in this report that relates to the Exploration results is extracted from the report entitled "New High grade discovery at Mount Peake" released to ASX on 6th December 2013 which is available to view on the ASX website www.asx.com.au or at the TNG website at www.tngltd.com.au. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

Mount Hardy

Competent Person Statement

The information in this report that relates to the Exploration results is extracted from the report entitled "High Grade Laboratory Results Mount Hardy Project" released to ASX on 10th October 2012 which is available to view on the ASX website www.asx.com.au or at the TNG website at www.tngltd.com.au. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.



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 2013 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 black ink, appearing to be 'TH', written over a faint, larger 'KPMG' watermark.

Trevor Hart
Partner

Perth

13 March 2014

Condensed Consolidated Interim Statement of Profit and loss and Comprehensive Income
For the six months ended 31 December 2013

	31 December 2013	Restated ⁽ⁱ⁾ 31 December 2012
	\$	\$
Other income	35,525	50,000
Total income	35,525	50,000
Occupancy expenses	(71,656)	(146,680)
Administrative expenses	(56,053)	(40,608)
Employment expense	(223,048)	(426,604)
Corporate expenses	(697,056)	(1,267,743)
Depreciation and amortisation expense	(54,956)	(46,128)
Share based payment expense for consultants/employees	(776,957)	(209,886)
Other expenses	-	(49,499)
Loss on sale of investments held for trading	(9,551)	-
Impairment loss on tenements	(151,627)	-
Results from operating activities	(2,005,379)	(2,137,148)
Financial income	48,948	186,664
Net financing income/(Expense)	48,948	186,664
Loss before income tax	(1,956,431)	(1,950,484)
Income tax benefit/(expense)	-	-
Profit/(Loss) for the period	(1,956,431)	(1,950,484)
Other comprehensive income		
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Net change in the fair value of available-for-sale financial	(9,000)	-
Other comprehensive income/(loss) for the period	(9,000)	-
Total comprehensive income/(loss) for the period	(1,965,431)	(1,950,484)
Earnings/(loss) per share (cents per share)		
Basic and diluted earnings/(loss) per share (cents per share)	(0.40)	(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 consolidated interim financial statements.

⁽ⁱ⁾ Refer Note 6

Condensed Consolidated Interim Statement of Financial Position
As at 31 December 2013

	Note	31 December 2013	Restated ⁽ⁱ⁾ 30 June 2013
		\$	\$
Current Assets			
Cash and cash equivalents		4,446,910	2,594,530
Other receivables	7	1,304,446	3,650,382
Prepayments		136,876	123,441
Other investments		63,600	97,600
Total current assets		5,951,832	6,465,953
Non-Current Assets			
Plant and equipment		199,530	254,486
Exploration and evaluation expenditure	8	17,964,737	16,802,009
Total non-current assets		18,164,267	17,056,495
Total assets		24,116,099	23,522,448
Current Liabilities			
Trade and other payables		634,278	2,209,131
Provisions		78,729	82,826
Total current liabilities		713,007	2,291,957
Total liabilities		713,007	2,291,957
Net assets		23,403,092	21,230,491
Equity			
Issued capital	9	45,218,669	41,857,594
Reserves		(11,400)	(2,400)
Accumulated loss		(21,804,177)	(20,624,703)
Total equity		23,403,092	21,230,491

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

⁽ⁱ⁾ Refer Note 6

Condensed Consolidated Interim Cash Flow Statement
For the six months ended 31 December 2013

	31 December 2013 \$	Restated ⁽ⁱ⁾ 31 December 2012 \$
Cash flows from operating activities		
Cash receipts in the course of operations	118,260	38,818
Cash paid to suppliers and employees	(1,441,188)	(2,373,064)
Interest received	50,366	205,593
Net cash (used in)/from operating activities	(1,272,562)	(2,128,653)
Cash flows from investing activities		
Payments for exploration and evaluation	(2,432,211)	(2,736,603)
Research and Development tax offset claim	3,195,993	2,120,585
Payments for purchase of tenements	-	(245,000)
Payments for plant and equipment	-	(104,877)
Payments for issue of security bonds	(15,364)	(12,971)
Payments for term deposits over 90 days	(1,000,000)	-
Proceeds from sale of tenements	-	50,000
Proceeds from sale of investments	15,449	-
Net cash used in investing activities	(236,133)	(928,866)
Cash flows from financing activities		
Proceeds from issue of shares	3,500,002	-
Net proceeds on exercise of options	-	75,000
Cost of shares issued	(138,927)	-
Net cash received from financing activities	3,361,075	75,000
Net increase/(decrease) in cash and cash equivalents	1,852,380	(2,982,519)
Cash and cash equivalents at 1 July	2,594,530	10,230,274
Cash and cash equivalents at 31 December	4,446,910	7,247,755

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

⁽ⁱ⁾ Refer Note 6

**Condensed Consolidated Interim Statement of
Changes in Equity
For the six months ended 31 December 2013**

	Issued Capital	Accumulated loss Restated ⁽ⁱ⁾	Fair Value Reserve	Total Equity Restated ⁽ⁱ⁾
	\$	\$	\$	\$
Balance at 1 July 2012	40,434,578	(17,320,235)	-	23,114,343
Net profit for the period	-	(1,950,484)	-	(1,950,484)
Total comprehensive income for the period	-	(1,950,484)	-	(1,950,484)
Transactions with owners, recorded directly in equity				
Options exercised	75,000	-	-	75,000
Share based payment expense	-	209,886	-	209,886
Balance at 31 December 2012	40,509,578	(19,060,833)	-	21,448,745

Balance at 1 July 2013	41,857,594	(20,624,703)	(2,400)	21,230,491
Net change in fair value of available-for-sale-investments reclassified to profit and loss	-	-	(9,000)	(9,000)
Net loss for the period	-	(1,956,431)	-	(1,956,431)
Total comprehensive income for the period	-	(1,956,431)	(9,000)	(1,965,431)
Transactions with owners, recorded directly in equity				
Share placement	2,332,002	-	-	2,332,002
Share purchase plan	1,168,000	-	-	1,168,000
Cost of share issue	(138,927)	-	-	(138,927)
Share based payment expense	-	776,957	-	776,957
Balance at 31 December 2013	45,218,669	(21,804,177)	(11,400)	23,403,092

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 consolidated interim financial statements.

⁽ⁱ⁾ Refer Note 6

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 2013 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 2013 is available upon request from the Company's registered office at 1/282 Rokeby Rd Subiaco 6008 or at 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 2013.

The consolidated interim financial report was approved by the Board of Directors on 13 March 2014.

3. Significant accounting policies

Other than the accounting policy in relation to government grants below, 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 2013.

Government grants

The Group recognises the refundable research and development tax incentive (received under the tax legislation passed in 2011) as a government grant. This incentive is refundable to the Group regardless of whether the Group is in a tax payable position and is presented as other income in profit and loss where the qualifying costs have been expensed or reduced from the carrying value of the asset resulting from costs capitalised. Government grants are recognised when there is reasonable assurance that (a) the Group will comply with the conditions attaching to them; and (b) the grants will be received.

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.

Except as described below, 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 2013.

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.

6. Restatement

Previously the Company classified Research and Development tax offset claim as Other Income in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. However, as the nature of the item is akin to a government grant, and relates to expenditure capitalised as exploration and evaluation expenditure, the claim should have been deducted against the related asset. Accordingly, the following restatements have been made:

The six months ended 31 December 2012 total income and accumulated losses included \$2,120,585 income of Research and Development tax offset claim. In the 31 December 2012 Restated Consolidated Statement of Profit or Loss and Other Comprehensive Income and Restated Consolidated Statement of Changes in Equity, the other income and related accounts have been reduced by this amount.

TNG Limited and Controlled Entities

Half-Year Financial Report

6. Restatement (continued)

The six months ended 31 December 2012 net cash used in operating activities included the receipt of \$2,120,585 from the Research and Development offset claim. In the 31 December 2012 Restated Consolidated Interim Cash flow Statement net cash used in operating activities has been increased by this amount to net cash used of \$2,128,653 and net cash used in investing activities has been reduced by this amount to net cash used of \$928,866.

The total Research and Development tax offset claim for the year ended 30 June 2013 was \$5,316,578 and therefore the 30 June 2013 Restated Consolidated Statement of Financial Position exploration and evaluation expenditure assets and related accounts have been reduced by this amount. This restatement has no impact to the opening balances as at 1 July 2012.

The impact of the reclassification on the prior period is shown in the table below:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	6 months ended 31 December 2012	
	Before reclassification \$	After reclassification \$
Other income	2,170,585	50,000
Total income	2,170,585	50,000
Loss from operating activities	(16,563)	(2,137,148)
Loss before income tax	170,101	(1,950,484)
Profit/(loss) for the period	170,101	(1,950,484)
Total comprehensive income/(loss) for the period	170,101	(1,950,484)
Basic and diluted earnings/(loss) per share	0.042	(0.48)

Consolidated Interim Cash Flow Statement

	6 months ended 31 December 2012	
	Before reclassification \$	After reclassification \$
Net cash(used in)/from operating activities	(8,068)	(2,128,653)
Net cash used in investing activities	(3,049,451)	(928,866)

Consolidated Statement of Financial Position

	As at 30 June 2013	
	Before reclassification \$	After reclassification \$
Exploration and evaluation expenditure	22,118,587	16,802,009
Total non-current assets	22,373,073	17,056,495
Total assets	28,839,026	23,552,448
Net assets	26,547,069	21,230,491
Accumulated losses	(15,308,125)	(20,624,703)
Total equity	26,547,069	21,230,491

Consolidated Statement of Changes in Equity

	6 months ended 31 December 2012			
	Before reclassification	After reclassification	Before reclassification	After reclassification
	Accumulated loss	Accumulated loss	Total Equity	Total Equity
Net profit/(loss) for the period	170,101	(1,950,484)	170,101	(1,950,484)
Total comprehensive income for the period	170,101	(1,950,484)	170,101	(1,950,484)
Balance at 31 December 2012	(16,940,248)	(19,060,833)	23,569,330	21,448,745

Notes to the condensed consolidated interim financial statement

7. Other receivables

	31 December 2013 \$	30 June 2013 \$
Term deposits over 90 days	1,000,000	-
Research and Development refund	-	3,195,993
Other	304,446	454,389
	1,304,446	3,650,382

8. Exploration and evaluation expenditure

Cost	31 December 2013 6 months \$	Restated ⁽ⁱ⁾ 30 June 2013 12 months \$
Balance at the beginning of the period	16,802,009	13,396,389
Exploration and evaluation expenditure	1,314,355	8,477,198
Impairment	(151,627)	-
Research and development rebate	-	(5,316,578)
Purchase of tenements	-	245,000
Balance at the end of the period	17,964,737	16,802,009

⁽ⁱ⁾ Refer Note 6

9. Capital

	31 December 2013 \$	30 June 2013 \$
Issued and paid-up share capital		
537,049,205 (June 2013: 447,421,428) ordinary shares, fully paid	45,218,669	41,857,594
Movements in shares on issue	Number	\$
Balance as at 1 July 2013	447,421,428	41,857,594
Share issue – Directors, employees and consultants ⁽ⁱ⁾	11,850,000	-
Share purchase plan	25,955,494	1,168,000
Share placement	51,822,283	2,332,002
Share issue cost	-	(138,927)
Balance as at 31 December 2013	537,049,205	45,218,669

⁽ⁱ⁾ Granted in the form of limited recourse loans (refer Note 11)

Notes to the condensed consolidated interim financial statements

10. Contingent liabilities

Davis Samuel

Commonwealth and Davis Samuel

The Commonwealth of Australia (the Commonwealth) in proceedings in the Supreme Court of the Australian Capital Territory has claimed that it is entitled to a constructive trust over certain shares and options held by TNG in Kanowna Lights Limited (the Kanowna Securities) as a result of circumstances arising in the late 1990s when management control of TNG was held by interests associated with Davis Samuel Pty Ltd (Davis Samuel). The Commonwealth has obtained an injunction preventing TNG from selling or otherwise disposing of the Kanowna Securities.

The Commonwealth has claimed that as constructive trustee, TNG is liable to account for the market value of the shares at the time they were acquired. The Commonwealth gave an undertaking as to damages.

In December 1998, TNG entered into a settlement agreement with Davis Samuel and its directors which provided for the repayment of the funds expended by TNG, in exchange for the transfer of the Kanowna Securities to Davis Samuel. Subsequently, in September 1999, Davis Samuel purported to rescind the December 1998 settlement agreement.

TNG, as a party to the proceedings instituted by the Commonwealth, issued cross-claims against Davis Samuel and several other parties including Messrs Allan Endresz, Peter Cain, William Forge, David Muir and Peter Clark. TNG vigorously defended the Commonwealth claims. The court hearing commenced in June 2008 and concluded in the last quarter of 2008. The court reserved its decision, which was handed down on 1 August 2013.

The decision handed down on 1 August 2013 gave judgment for the Commonwealth on its claims, including the claim against TNG in relation to the Kanowna Securities, but has given leave to both TNG and the Commonwealth to make further submissions on how the Commonwealth's election to recover funds from Mark Endresz impacts on the remedies available to the Commonwealth as against TNG. Subject to this, TNG may be required to deliver up the Kanowna Securities to the Commonwealth, or an amount equal to their assessed value (possibly plus interest).

The Court also gave judgment for TNG on its counterclaim against ten of the defendants and on TNG's third party notice to Peter John Clark for damages to be assessed and to indemnify it against the Commonwealth's claim. In addition, the Court confirmed that TNG has an interest in funds and real property as a result of TNG paying over amounts as a consequence of various entities breaching fiduciary duties owed to TNG or assisting in those breaches. The recoverability of the full amount of any judgment in TNG's favour will depend on the ability to pay of those parties who are liable.

The above decision required further hearings and determinations to take place before final orders are made. As a result, any cost to TNG and or recoverable by it on its counter claims cannot be reliably measured at this point in time. These further hearings took place in November and December 2013, but the decisions have been reserved.

If the outcome of this matter is not favourable to TNG, TNG will be liable to deliver the Kanowna Securities (or their value ,possibly with interest) to the Commonwealth, and may also be liable for costs of the proceedings if awarded against it.

Notes to the condensed consolidated interim financial statements

10. Contingent liabilities (Continued)

Subscription agreement

On 7 November 2011, TNG signed the subscription agreement with the East China Mineral Exploration & Development Bureau ("ECE") formalising the previously announced strategic partnership.

In summary, the Subscription Agreement provided that:

the Subscribers agreed to subscribe for and the Company agrees to issue 122,058,455 Shares as follows:

- (i) 62,249,812 Shares to Ao-Zhong; and
- (ii) 59,808,643 Shares to Aosu,

The Company also represents and warrants to the Subscribers that any liability which any court may order the Company to pay in respect of legal proceedings known as *The Commonwealth v TNG Limited* (Davis Samuel Claim) will not exceed a value of \$500,000. If this representation and warranty is found to be incorrect (following the final determination of the Davis Samuel Claim after any avenues of appeal which any party to the Davis Samuel Claim elects to pursue have been exhausted), the Company will be liable to pay as liquidated damages to the Subscribers an amount that is the lesser of:

- (a) \$1,500,000; or
- (b) court ordered liability (including for damages and costs other than the Company's own legal costs incurred before the date of the Subscription Agreement) x 29.999%.

The Subscribers were unwilling to enter into the Subscription Agreement unless the Company included this clause to compensate the Subscribers (up to a cap of \$1,500,000) in respect of any liability incurred as a result of the Davis Samuel Claim (if the Company's liability exceeds \$500,000). Whilst the company is anticipating it will continue to incur legal costs, as identified above, it is vigorously defending the claim. The Company does not anticipate that its liability (as defined in the Subscription Agreement) in respect of the Davis Samuel Claim will exceed \$500,000.

11. Share based payments

During the half year ended 31 December 2013 the following shares and options were issued:

Issue	Grant date/ participant entitled	Number	Vesting conditions	Contractual life of option
1	Shares granted to employees on 27 November 2013	2,100,000	1 years' service	5.0 years
1	Shares granted to consultants on 27 November 2013	1,750,000	1 years' service	5.0 years
1	Shares granted to directors on 27 November 2013	8,000,000	1 years' service	5.0 years
2	Options granted to directors on 27 November 2013	4,000,000	1 years' service	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.

Notes to the condensed consolidated interim financial statements

Instruments issued during the period

a) Shares and Loans issued under TNG Employee Share Plan and TNG Non-Executive and Consultant Share Plan

11,850,000 shares were issued subject to the terms of the TNG share plans which were approved by shareholders on 21 November 2012. The Plan Shares issued cannot be sold transferred, assigned, charged or otherwise encumbered for 12 months after the date of issue.

TNG has issued limited Recourse Loans to the value of shares issued under the plans. The loans are repayable in full by the date which is 5 years after the date of issue of the Plan and are interest free. The loans are however, limited recourse, so if the Plan Shares are sold the proceeds will be taken to repay the loan even if the proceeds are less than the value of the loan.

In the event that vesting conditions are not satisfied the participant must arrange to sell the shares and pay TNG any outstanding loan amount in accordance with the terms of the Share Plan.

The following inputs were used in the measurement of the fair values at grant of the shares and loans:

	Issue 1
Dividend yield	0.00%
Share price at date of grant	\$0.042
Exercise price	\$0.040
Volatility	85%
Risk free rate	3.48%
Expiration date	26 Nov 2018
Binomial valuation	\$0.029

b) Options issued under TNG Non-Executive and Consultant Option Plan

4,000,000 options were issued subject to the terms of the TNG Non-Executive and Consultant option Plan which was approved by shareholders on 21 November 2012.

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

	Issue 2
Dividend yield	0.00%
Share price at date of grant	\$0.042
Exercise price	\$0.057
Volatility	85%
Risk free rate	3.036%
Expiration date	26 Nov 2016
Binomial valuation	\$0.021

12. Subsequent events

On 6 March 2014, the Company announced it had completed a placement raising \$738,225 on the same terms as its earlier Share Purchase Plan (\$0.045 cents per share with one free attaching option exercisable at \$0.08 by 31 July 2015 for every 2 shares issued). The company issued 16,404,998 shares and 8,202,491 options under the terms of the placement.

TNG Limited and Controlled Entities Half-Year Financial Report

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 15 to 24, 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 2013 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
Director

13 March 2014



Independent auditor's review report to the members of TNG Limited

We have reviewed the accompanying half-year financial report of TNG Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2013, condensed consolidated statement of profit or loss and comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year 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 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 31 December 2013 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of TNG Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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*.



Conclusion

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 TNG 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 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Restatement of comparative balances

Without modification to the conclusion expressed above, we draw attention to Note 6 of the financial report, which discloses the comparative balances which have been restated to comply with Australian Accounting Standards.

A stylized, handwritten-style 'KPMG' logo in grey.

KPMG

A handwritten signature in grey ink, appearing to read 'T. Hart'.

Trevor Hart
Partner

Perth

13 March 2014