# WA Kaolin Limited

**ABN 56 083 187 017**

**Annual Financial Report**
**30 June 2019**

## Contents

## DIRECTORS' REPORT

The directors of WA Kaolin Limited (the "Company") submit the financial report for the year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

**Directors**

The names of directors who held office throughout the period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mr Keith Snell (resigned 24 July 2020)
Mr Alfred Baker
Mr Andrew Sorensen (alternate director, appointed 18 October 2019)
Dr John White (appointed 22 May 2020)
Ms Cathy Moises (appointed 22 May 2020)
Mr Linton Putland (appointed 22 May 2020)

**Directors' Information**

*Dr John White (Non-Executive Chairman) (appointed 22 May 2020)*

Dr White has been a director and/or CEO of several publicly listed and private Australian companies. Dr White is formerly the Chairman of the Federal Government's Uranium Industry Framework Council, a member of the Federal Government's Defence Procurement Board and Director of the DefenceSA Advisory Board.

Dr White had extensive involvement with Woodside's North West Shelf Offshore Gas and LNG Development from 1978 to 1984, and then participated in the RAN Collins Class Submarine Project tender as Project Director for the Australian-German owned AMEC proposal.

Dr White was CEO of Transfield Defence Systems Pty Ltd from 1988 to 1996 and then Global Chief Executive of the recycling/packaging group, Visy Industries. John is currently Chairman of Regenerative Australian Farmers Pty Ltd and Birdon Ltd.

*Mr Keith Snell (resigned 24 July 2020)*

Mr Snell had over fifty years' experience in the design, construction and logistic support of naval vessels in Australia, the United Kingdom and the United States of America - and throughout his career, successfully completed complex projects for maritime, land, aviation, electronic and industrial systems in Australia and internationally. Keith was also the co-owner and group Managing Director of Scientific Management Associates - Australia's largest supplier of Integrated Logistics Support services to the Department of Defence and Industry.

Mr Snell passed away on 24 July 2020 after battling health issues for some time.

*Mr Alfred Baker (Executive Director)*

Mr Baker has an engineering background with more than 40 years' experience in process technology and is co-founder of WA Kaolin. He is an experienced and successful businessman, authoring several patents and designs during his extensive career.

Since 1996, Mr Baker has founded and directed a number of companies, including:

- EMC Pacific Aust P/L (EMCPA), Australia's only manufacturer of power distribution insulators. EMCPA has formed a joint venture to commence manufacture of its products in USA, commencing April 2020.
- Pacific Polymers, a mineral treatment plant operating in Dandenong, Victoria, using patented technology.

Mr Baker was Managing Director of the highly successful PQ Australia (PQA) from 1976 to 1996, which he co-founded with his brother. PQA produces the inorganic chemical, Sodium Silicate, in both glass and liquid form, and the patented valuable downstream product 'Q-Cel' hollow microspheres.

In all cases, innovation, hands on determination and training of younger executives have led to success and low-cost producer status.

*Ms Cathy Moises (Non-Executive Director) (appointed 22 May 2020)*

Ms Moises has worked for a number of the most prominent Stock broking firms within Australia including Merrill Lynch, Citigroup, Evans and Partners (as a partner) and most recently worked as Head of Research for Patersons Securities.

Ms Moises has a Bachelor of Science (Hons) Geology in addition to a Securities Institute of Australia Diploma of Finance and Investment and has over 30 years' experience working within the resources industry primarily as a financial analyst. She has extensive capital markets, company management, financial analysis and Institutional Investor engagement experience. Ms Moises currently serves as Non-Executive Director for Arafura Resources Limited

## DIRECTORS' REPORT (continued)

*Mr Linton Putland (Non-Executive Director) (appointed 22 May 2020)*

Mr Putland holds degrees in Mining Engineering (Bachelor of Engineering, Western Australian School of Mines) and a Masters in Science (Mineral Economics, Western Australian School of Mines) with more than 30 years' experience in mining operations, joint ventures and corporate management in Australia, Africa and the Americas, over a wide range of commodities.

Mr Putland is principal of LJ Putland & Associates, a private mining consultancy company which was founded in 2002, providing advisory and consultancy services in mining project and company evaluation and due diligence appraisals with a focus on corporate growth. During this period, he has also been Managing Director of a privately-owned exploration company with joint venture interests in Africa.

Prior to this he held corporate and senior management roles in IAMGOLD, AurionGold, Delta Gold and Pancontinental Mining. He is a Member of AusIMM and a Graduate Member of AICD.

*Mr Andrew Sorensen (Alternate Director) (appointed 18 October 2019)*

Mr Sorensen joined WA Kaolin in 2006 and has more than 30 years' experience in operations management across a broad range of industries. He has a Bachelor's degree in Applied Science (Information Management) and a Master's of Business Administration.

Prior to joining WA Kaolin Mr Sorensen held various senior leadership positions including General Manager CMTP Pty Ltd Derrimut, Vice President / General Manager (Asia Pacific) for Potters Industries Inc. and Manufacturing Manager for PQ Australia Pty Ltd.

Mr Sorensen is responsible for considering and deciding on key strategic, business and operational matters. He oversees the operational team, guiding continuous improvement of the WA Kaolin project. He is also responsible for driving standards in health, safety, security, environment, IT and procurement.

*Mr Michael Kenyon (Company Secretary)*

Mr Kenyon has held senior roles with both private and ASX-listed corporations over the past 22 years. He holds a Bachelor of Business degree from Edith Cowan University, is a Chartered Accountant and a graduate member of the Australian Institute of Company Directors.

He commenced his finance career with roles at then 'Big 6' professional services firms, Ernst & Whinney and Price Waterhouse before joining diversified industrial company, Vysarn Pty Ltd in 1997 as Chief Financial Officer.

Since that time, Mr Kenyon has held CFO roles with ASX-listed Forge Group Ltd, Matrix Composites and Engineering Ltd and is currently CFO for Pacific Energy Ltd and Resource Development Group Ltd. He is also a non-executive director with a small ASX-listed company and a leading Catholic health care services provider in Perth, Western Australia.

**Directors' Meetings**

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each eligible director was as follows:

| | Directors' Meetings | Eligible to attend |
|---|---|---|
| **Number of meetings held:** | 2 | |
| | | |
| **Number of meetings attended:** | | |
| Mr Keith Snell | 2 | 2 |
| Mr Alfred Baker | 2 | 2 |
| Mr Andrew Sorensen | 2 | 2 |

**Review of operations**

The Company's operations for the financial year resulted in a loss before tax of $1,415,031 (2018: $1,855,387).

**Principal Activities**

The principal activities of the company were the exploration and development of an Inferred Mineral Resource of high-grade premium kaolinised granite, proprietary production and value-adding processes.

## DIRECTORS' REPORT (continued)

### Significant events after reporting date

On 6 June 2019, the Company, Scientific Management Associates (Victoria) Pty Ltd (SMA) and Wamco Industries Group Pty Ltd (Wamco) entered into a debt novation agreement. An effect of the agreement is that SMA released the Company from an obligation to pay it an amount of $11,251,017. In consideration for this release, the Company agreed to grant a royalty interest to Wamco. The terms of the royalty interest provide that the Company must pay Wamco an amount calculated by reference to the amount, in tonnes, or sales value of kaolin ore sold by the Company during a period. A Royalty Deed evidencing this arrangement was executed on 1 July 2019. The Company has agreed to pay a royalty to Wamco until the earlier of 1 July 2049 and the date WA Kaolin relinquishes, surrenders or conveys to Wamco all of the Tenements (other than L70/156 and G70/251).

The royalty is calculated as the greater of:

(a) $1.50 per tonne of dry kaolin ore or product sold in a quarter, provided that if kaolin product has been sold after processing, then tonnage used to calculate the royalty will be twice the actual tonnage of the processed kaolin; or

(b) 1.5% of the price received for the sale of kaolin ore or product in a quarter.

On 18 October 2019, Mr Sorensen resigned as a director and was appointed as alternate director for Mr Snell. Dr White, Ms Moises and Mr Putland were appointed as non-executive directors on 22 May 2020.

In May 2020, the Company undertook a pre- Initial Public Offering (IPO) capital raising event by way of the issue of Convertible Notes at a face value of $1 per note. An amount of $3.9m was raised by the Company from 24 separate noteholders and was completed in mid-May. Each Convertible Note accrues interest at a rate of 10% per annum and has a maturity date of 6 months after the issue date.

On 17 July 2020, the Company executed a formal agreement with Wamco Industries Pty Ltd (Wamco) for the provision of consultancy services, to be provided by Wamco's executive, Mr Alf Baker, who is also an executive director of the Company. The agreement provides for a consultancy fee of $12,000 per month and $15,000 per month following completion of an IPO as well as the payment and/or reimbursement of reasonable expenses. This agreement now formalises the arrangement that the Company has had with Wamco and Mr Baker for many years.

On 24 July 2020, the Company's co-founder and non-executive director, Mr Snell, sadly passed away after battling ongoing health issues.

The Company sought out additional investors during late August 2020. A second round of pre-IPO funds were raised in the sum of $2,769,000 by way of Convertible Notes with the same terms and conditions as the first round of investment.

The Company is currently in the midst of preparing a prospectus in which it will seek to raise between $21.5m and $26.5m through the issue of between 107.5 and 132.5 million Shares at an Offer Price of A$0.20 per Share together with 1 free attaching Option for every 2 Shares issued. Application will be made for the admission of the Company to the Official List and quotation of its Shares on the ASX with the proposed ASX Code WAK within seven days after the Prospectus Date.

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

There have been no other significant events after reporting date.

### Likely developments and expected results

It is expected that the operations of the Company will continue in line with that of the current reporting period.

### Environmental regulations

The Company is subject to certain environmental legislation.

## DIRECTORS' REPORT (continued)

**Indemnification and insurance of Directors and Officers**

The Company has indemnified all the directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

**Proceedings on behalf of the Company**

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

**Auditor Independence and Non-Audit Services**

Section 307C of the Corporations Act 2001 requires our auditors, BDO Audit WA Pty Ltd (BDO), to provide the directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is set out on page xx and forms part of this directors' report for the year ended 30 June 2019.

**Non-Audit Services**

During the year, $18,000 of corporate tax fees were incurred by the Company's audit firm, BDO (2018: $Nil).

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the non-audit service fees do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Signed in accordance with a resolution of the directors.

JJWhite

Dr John White
Chairman
Perth, Western Australia
24 September 2020

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

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

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF WA KAOLIN LIMITED

As lead auditor of WA Kaolin Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 24 September 2020



BDO Audit (WA) Pty Ltd ABN 79 112 284 787 is a member of a national association of independent entities which are all members of BDO Australia Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (WA) Pty Ltd and BDO Australia Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation.

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| **Continuing operations** | | | |
| Other income | 2(a) | 578,297 | 607,422 |
| Rental expenses and outgoings | 2(b) | (270,378) | (254,748) |
| Employee benefits expense | | (477,969) | (488,467) |
| Depreciation and amortisation | 2(b) | (41,813) | (36,774) |
| Other expenses | | (794,779) | (884,578) |
| Results from operating activities | | (1,006,642) | (1,057,145) |
| | | | |
| Finance income | | 5,790 | 29 |
| Finance costs | | (414,179) | (798,271) |
| Net finance costs | | (408,389) | (798,242) |
| | | | |
| **Loss before income tax** | | **(1,415,031)** | **(1,855,387)** |
| Income tax (expense)/benefit | 3 | - | - |
| **Loss after income tax from continuing operations** | | **(1,415,031)** | **(1,855,387)** |
| | | | |
| **Other comprehensive income for the period, net of income tax** | | - | - |
| **Total comprehensive loss** | | **(1,415,031)** | **(1,855,387)** |

The accompanying notes form part of these financial statements

# STATEMENT OF FINANCIAL POSITION
# AS AT 30 JUNE 2019

| Assets | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 4 | - | 17,521 |
| Trade and other receivables | 5 | 52,251 | 75,511 |
| **Total current assets** | | **52,251** | **93,032** |
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | 4,968,681 | 4,978,676 |
| Deferred exploration and evaluation expenditure | 7 | 1,756,132 | 1,756,132 |
| **Total non-current assets** | | **6,724,813** | **6,734,808** |
| **Total assets** | | **6,777,064** | **6,827,840** |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Bank overdraft | | 26,355 | - |
| Trade and other payables | 8 | 2,986,075 | 2,485,242 |
| Borrowings | 9 | 3,343,800 | 36,036,824 |
| Provisions | 10 | 40,259 | 29,937 |
| **Total current liabilities** | | **6,396,489** | **38,552,003** |
| **Non-current liabilities** | | | |
| Borrowings | 9 | 15,638,842 | - |
| **Total non-current liabilities** | | 15,638,842 | - |
| **Total liabilities** | | **22,035,331** | **38,552,003** |
| **Net assets** | | **(15,258,267)** | **(31,724,163)** |
| **Equity** | | | |
| Issued capital | 11 | 3,020,000 | 3,020,000 |
| Reserves | 11 | 21,059,645 | 3,178,718 |
| Accumulated losses | | (39,337,912) | (37,922,881) |
| **Total equity** | | **(15,258,267)** | **(31,724,163)** |

The accompanying notes form part of these financial statements

## STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 30 JUNE 2019

| | Issued capital<br>$ | Accumulated losses<br>$ | Asset revaluation reserve<br>$ | Share-based payment reserve<br>$ | Capital contribution reserve<br>$ | Total equity<br>$ |
|---|---|---|---|---|---|---|
| **30 June 2018** | | | | | | |
| **Balance as at 1 July 2017** | 3,020,000 | (36,067,494) | 3,175,779 | - | - | (29,871,715) |
| Loss for the year | - | (1,855,387) | - | - | - | (1,855,387) |
| Other comprehensive income | - | - | - | | - | - |
| Total comprehensive loss for the year | - | (1,855,387) | - | - | - | (1,855,387) |
| *Transactions with owners in their capacity as owners:* | | | | | | |
| Share-based payment | - | | - | 2,939 | - | 2,939 |
| **Balance at 30 June 2018** | 3,020,000 | (37,922,881) | 3,175,779 | 2,939 | - | (31,724,163) |
| **Balance as at 1 July 2018** | 3,020,000 | (37,922,881) | 3,175,779 | 2,939 | - | (31,724,163) |
| Loss for the year | - | (1,415,031) | - | - | - | (1,415,031) |
| Other comprehensive income | - | - | - | - | - | - |
| Total comprehensive loss for the year | - | (1,415,031) | - | - | - | (1,415,031) |
| *Transactions with owners in their capacity as owners:* | | | | | | |
| Fair value adjustment to related party borrowings | - | - | - | - | 7,326,453 | 7,326,453 |
| Debt forgiveness by shareholders/owners | - | - | - | - | 10,554,474 | 10,554,474 |
| | - | - | - | - | 17,880,927 | 17,880,927 |
| **Balance at 30 June 2019** | 3,020,000 | (39,337,912) | 3,175,779 | 2,939 | 17,880,927 | (15,258,267) |

The accompanying notes form part of these financial statements

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 30 JUNE 2019

| | Notes | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from product sales | | 26,473 | 54,629 |
| Payments to suppliers and employees | | (877,429) | (2,242,175) |
| Interest received | | 5,790 | - |
| R&D Tax credit | | 420,544 | 582,221 |
| **Net cash outflow from operating activities** | 4(i) | (424,622) | (1,605,325) |
| | | | |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (31,818) | (26,500) |
| **Net cash outflow from investing activities** | | (31,818) | (26,500) |
| | | | |
| **Cash flows from financing activities** | | | |
| Loan interest paid | | (100,250) | (108,215) |
| Proceeds from Borrowings | | 512,814 | 1,757,969 |
| **Net cash inflow from financing activities** | | 412,564 | 1,649,754 |
| | | | |
| Net (decrease)/increase in cash held | | (43,876) | 17,929 |
| Cash and cash equivalents at the beginning of the period | | 17,521 | (408) |
| **Cash and cash equivalents at the end of the period** | | (26,355) | 17,521 |

The accompanying notes form part of these financial statements

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

The financial report was authorised for issue 24 September 2020.

The 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 financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

### (b) Adoption of new and revised standards

*Standards and Interpretations applicable to 30 June 2019*
In the year ended 30 June 2019, the Directors have reviewed all the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is necessary to Company accounting policies.

*AASB 9 Financial Instruments*

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and makes changes to a number of areas including classification of financial instruments, measurements, impairment of financial assets and hedge accounting model.

The Company has adopted AASB 9 from 1 July 2018.

The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest.

A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value.

All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI').

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

For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch).

New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity.

New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

The Company has applied AASB 9 retrospectively with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2018 and has elected not to restate comparative information accordingly, the information presented for 30 June 2018 has not been restated.

*AASB 15 Revenue from Contracts with Customers*

AASB 15 replaces AASB 118 *Revenue* and AASB 111 *Construction Contracts* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, including in respect of multiple element arrangements. The core principle of AASB 15 is that it requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations, Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards.

Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

The Company has adopted AASB 15 using the modified retrospective method of adoption (without practical expedients) with the effect of initially applying this standard recognised at the date of initial application, being 1 July 2018. Accordingly, the information presented for 30 June 2018 has not been restated.

### (c) Going concern

The Company incurred a net loss before tax of $1,415,031 during the reporting period ended 30 June 2019, and had a net cash outflow of $424,622 from operating activities.

The ability of the Company to continue as a going concern is dependent on the financial support from its shareholders to fund its working capital requirements and/or successfully raising capital. The Company has raised some initial capital by way of an issue of convertible notes in the sum of $3.9m during May 2020. It is currently seeking to raise a further $1.1m to attain its target of $5m of new capital. The Company also has plans to raise further equity between $22m and $25m in order to develop its production facility to resume full-scale at the Company’s mine located near Wickepin, Western Australia as well as having sufficient working capital to fund its production targets.

The Company sought out additional investors during late August 2020. A second round of pre-IPO funds were raised in the sum of $2,769,000 by way of Convertible Notes with the same terms and conditions as the first round of investment.

These conditions indicate a material uncertainty that may cast significant doubt about the entity’s ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

In anticipation of its initial capital raising, the Company has also recently been able to renegotiate terms on its related-party borrowings including reduced or no interest terms, extended terms for repayment and forgiveness on a substantial amount of interest accrued on its largest borrowing.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business.

Should the Company not achieve the matters set out above or not complete any other alternative forms of fund raisings, there is uncertainty whether the Company would continue as a going concern and therefore would realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements do not include any adjustment relating to the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

### (d) Revenue from Contracts with customers

*Applicable to 30 June 2019*

Revenue is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*(i) Interest income*

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (e) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting period end date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity or entities within a tax consolidated group and the same taxation authority.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (f) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (g) Impairment of assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (eg in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

### (h) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (i) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within 30 days.

The Company measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade and other receivables are estimated with reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry in which the debtor operates and an assessment of both the current and the forecast direction of conditions at the reporting date.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery; for example, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

**(j) Property, plant and equipment**

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment for buildings. Land is not depreciated. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment – over 2 to 20 years

Motor Vehicle – over 4 to 6 years

Leasehold improvements – over 10 to 13 years

*Derecognition and disposal*

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

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

*Impairment*

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of profit or loss and other comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (k) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

### (l) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

### (m) Employee leave benefits

*(i) Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities accruing to employees in respect of wages and salaries, annual leave and long service leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Company.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

### (n) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (o) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

Finance lease assets are depreciated on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### (p) Financial instruments

*Recognition and derecognition*

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

*Classification and initial measurement of financial assets*

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity’s business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

*Subsequent measurement of financial assets*

*Financial assets at amortised cost*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets to collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

*Impairment of financial assets*

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaced AASB 139's 'incurred loss model'.

Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company identifying a credit loss event. Instead the Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Level 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Level 2').
- 'Level 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

*Trade and other receivables and contract assets*

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

*Classification and measurement of financial liabilities*

The Company's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

*Applicable to 30 June 2018*

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

*Loans and receivables*
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

### (q) Exploration, Evaluation and Development Expenditure

Exploration and evaluation costs including costs of studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities along with those for general and administrative costs are expensed in the period they are incurred. Acquisition costs of acquiring are capitalised until the viability of the area of interest is determined. Those acquisition costs are carried forward when the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (r) Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

*Recovery of capitalised exploration*

The Company assesses impairment of capitalised exploration at each reporting date by evaluating conditions specific to the Company and to exploration assets that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Impairment of Property, Plant and Equipment*

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

*Useful lives of depreciable assets*

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets.

*Fair value of land*

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount.

*Discount rate on borrowings*

During the year, loan agreements were entered into with related party lenders. As the terms were on an interest-free basis, the borrowings were required to be recognised at fair value on the initial recognition of these agreements. An implied rate of 12% was used in this calculation which will result in a financial cost over the life of the facilities.

### (s) New standards and interpretations not yet adopted

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application date or future reporting periods and which the Company has decided not to early adopt. A discussion of those future requirements and their impact on the Company is as follows:

*AASB 16 Leases*

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Company will adopt this standard from 1 July 2019 and make an assessment of its effect during the next 12-months.

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 2: REVENUE AND EXPENSES

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **(a) Other income** | | |
| Wages recovery | 29,521 | - |
| Consultancy fees | 20,524 | - |
| R&D Tax refund | 420,544 | 582,221 |
| Lease option reversal | 94,459 | - |
| Other income | 13,249 | 25,201 |
| | 578,297 | 607,422 |

**(b) Expenses**

Profit before income tax includes the following specific expenses:

| | 2019 | 2018 |
|---|---|---|
| *Depreciation* | | |
| Plant & equipment | 10,872 | 9,127 |
| Leasehold improvements | 23,083 | 23,083 |
| Motor vehicles | 7,858 | 4,564 |
| Total depreciation | 41,813 | 36,774 |
| | | |
| *Rental expenses and outgoings* | | |
| Property rental | 34,567 | 43,192 |
| Landowner’s payments | 91,963 | 68,235 |
| Tenement rentals | 110,180 | 110,258 |
| Tenement rates | 33,668 | 33,063 |
| | 270,378 | 254,748 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 3: INCOME TAX

| | 2019 $ | 2018 $ |
|---|---|---|
| **Income tax recognised in profit or loss:** | | |
| The major components of tax expense are: | | |
| Current tax | - | - |
| Deferred tax | - | - |
| Under/(over) provision in prior years | - | - |
| Total income tax expense | - | - |
| | | |
| **Reconciliation of income tax expense to prima facie tax payable:** | | |
| Loss from continuing operations before income tax expense | (1,415,031) | (1,855,387) |
| Tax at the Australian tax rate of 27.5% (2018: 30%) | (389,134) | (556,616) |
| Tax effect of amounts which are non-deductible (taxable) in calculating taxable income: | | |
| Other permanent differences | - | 6,087 |
| Research and development expenses | - | 352,078 |
| Research and development credit | (115,650) | (160,111) |
| Change in corporate tax rate | 74,222 | - |
| Timing movements not recognised | (9,964) | (3,923) |
| Deferred tax assets not brought to account | 440,526 | 362,485 |
| Income tax expense/(benefit) | - | - |
| | | |
| The applicable weighted average effective tax rates | 0% | 0% |
| | | |
| **Unrecognised deferred tax asset** | | |
| Tax losses | 4,810,583 | 7,272,538 |
| Provisions and accruals | 14,234 | 9,353 |
| s40-880 | 59,377 | - |
| Net deferred tax assets unrecognised | 4,884,194 | 7,281,891 |

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 4: CASH AND CASH EQUIVALENTS

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Cash at bank and on hand | - | 17,521 |

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Security deposits are restricted cash used as collateral to obtain bank guarantee facilities. These deposits are interest bearing and the interest is compounded and added to operating cash reserves.

### (i) Reconciliation to the Statement of Cash Flows:

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | | |
|---|---|---|
| Balance as above | - | 17,521 |
| Bank overdraft | (26,355) | - |
| Balance as per statement of cash flows | (26,355) | 17,521 |

### (ii) Reconciliation of net profit for the year to net cash flows from operating activities

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Net loss for the year | (1,415,031) | (1,855,387) |
| Depreciation | 41,813 | 36,774 |
| Share-based payment | - | 2,939 |
| Financing costs | 414,179 | 798,271 |
| *Increase/(decrease) in operating assets:* | | |
| Trade and other receivables | 26,474 | 54,629 |
| *Increase/(decrease) in operating liabilities:* | | |
| Trade and other payables | 507,943 | (642,551) |
| Net cash used in operating activities | (424,622) | (1,605,325) |

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 5: CURRENT TRADE AND OTHER RECEIVABLES

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Other receivables | 17,352 | 36,845 |
| Allowance for impairment | - | - |
| | 17,352 | 36,845 |
| Sundry debtors | 684 | 7,666 |
| Other receivable – GST (net) | 34,215 | 31,000 |
| | 34,899 | 38,666 |
| Total trade and other receivables | 52,251 | 75,511 |

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Analysis of other receivables | | |
| *Within initial terms* | 17,352 | 7,005 |
| *Aging of past due but not impaired* | | |
| 30 – 60 days | - | - |
| 60 – 90 days | - | 386 |
| 90+ days | - | 29,454 |
| | - | 29,840 |
| Gross amount of other receivables | 17,352 | 36,845 |

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 6: PROPERTY, PLANT AND EQUIPMENT

| | Property, plant and equipment | Motor vehicles | Land and buildings | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Year ended 30 June 2019 | | | | |
| At 1 July 2018, net of accumulated depreciation and impairment | 9,153 | 49,210 | 4,920,313 | 4,978,676 |
| Additions | 31,818 | - | - | 31,818 |
| Disposals | - | - | - | - |
| Depreciation charge for the year | (10,872) | (7,858) | (23,083) | (41,813) |
| At 30 June 2019, net of accumulated depreciation and impairment | 30,099 | 41,352 | 4,897,230 | 4,968,681 |
| | | | | |
| At 30 June 2019 | | | | |
| Cost or fair value | 8,371,455 | 65,277 | 5,188,081 | 13,624,813 |
| Accumulated depreciation and impairment | (8,341,356) | (23,925) | (290,851) | (8,656,132) |
| Net carrying amount | 30,099 | 41,352 | 4,897,230 | 4,968,681 |

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 6: PROPERTY, PLANT AND EQUIPMENT (continued)

| | Property, plant and equipment | Motor vehicles | Land and buildings | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Year ended 30 June 2018 | | | | |
| At 1 July 2017, net of accumulated depreciation and impairment | 18,280 | 27,274 | 4,943,396 | 4,988,950 |
| Additions | - | 26,500 | - | 26,500 |
| Disposals | - | - | - | - |
| Depreciation charge for the year | (9,127) | (4,564) | (23,083) | (36,774) |
| At 30 June 2018, net of accumulated depreciation and impairment | 9,153 | 49,210 | 4,920,313 | 4,978,676 |
| At 30 June 2018 | | | | |
| Cost or fair value | 8,339,639 | 65,277 | 5,188,081 | 13,592,997 |
| Accumulated depreciation and impairment | (8,330,486) | (16,067) | (267,768) | (8,614,321) |
| Net carrying amount | 9,153 | 49,210 | 4,920,313 | 4,978,676 |

The useful life of the assets was estimated as follows for both 2019 and 2018:

- Plant and equipment 2 to 20 years
- Motor vehicles 4 to 6 years
- Leasehold improvements 10 to 13 years
- Buildings 40 years

### NOTE 7: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Exploration and evaluation costs | 1,752,251 | 1,752,251 |
| Formation costs | 3,881 | 3,881 |
| | 1,756,132 | 1,756,132 |

The recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation of the respective areas.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 8: TRADE AND OTHER PAYABLES

| | 2019 | 2018 |
|---|---|---|
| Current | $ | $ |
| Trade payables | 2,956,258 | 2,474,093 |
| Other employment-related payables | 29,817 | 11,149 |
| | 2,986,075 | 2,485,242 |

## NOTE 9: BORROWINGS

| | 2019 | 2018 |
|---|---|---|
| **Current** | $ | $ |
| Loans from related parties (i) | 3,293,000 | 35,659,567 |
| Loans from other parties | 50,800 | 366,685 |
| Hire purchase liability | - | 10,572 |
| | 3,343,800 | 36,036,824 |
| **Non-current** | | |
| Loans from related parties (i) | 15,245,898 | - |
| Loans from other parties | 392,944 | - |
| **Total borrowings** | **18,982,642** | **36,036,824** |

(i) The Company has the following executed loan agreements in place with its significant lenders at the reporting date with the respective terms and conditions:

A. Lender: Wamco Industries Group Limited
Expiry date: 30 June 2023
Interest rate: The interest rate charged by the financier from which the Lender has borrowed funds for the purpose of funding the loan under the agreement
Repayments: 1) Prior to the IPO date - $276,000; 2) 10 Business days after the IPO date - $100,000; 3) Fourth anniversary of the agreement - $500,000; 4) Any balance repayable upon the Company achieving positive free cash flow for one quarter
Collateral securities: None

B. Lender: Scientific Management Associates (Victoria) Pty Ltd
Expiry date: 30 June 2025
Interest rate: 0%
Repayments: 1) 10 Business days after the IPO date - $1,242,000; 2) Fourth anniversary of the agreement - $4,635,000; 3) Fifth anniversary of the agreement - $7,405,000; 4) Any balance repayable upon the Company achieving positive free cash flow for one quarter
Collateral securities: Deed of Charge dated 11 September 2009

C. Lender: Wamco Industries Group Limited
Expiry date: 30 June 2023
Interest rate: The interest rate charged by the financier from which the Lender has borrowed funds for the purpose of funding the loan under the agreement
Repayments: 1) Prior to the IPO date - $144,000; 2) 10 Business days after the IPO date - $150,000; 3) Second anniversary of the agreement - $250,000; 4) Third anniversary of the agreement - $61,000; 5) Fourth anniversary of the agreement - $839,000; 6) Any balance repayable upon the Company achieving positive free cash flow for one quarter
Collateral securities: None

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 9: BORROWINGS (continued)

D. Lender: Scientific Management Associates (Operations) Pty Ltd
Expiry date: 30 June 2024
Interest rate: 6% per annum
Repayments: 1) 10 Business days after the IPO date - $300,000; 2) Fourth anniversary of the agreement - $8,000,000; 3) Any balance repayable upon the Company achieving positive free cash flow for one quarter
Collateral securities: None

E. Lender: Pacific Polymers Pty Ltd
Expiry date: 30 June 2023
Interest rate: The interest rate charged by the financier from which the Lender has borrowed funds for the purpose of funding the loan under the agreement
Repayments: 1) 10 Business days after the IPO date - $1,076,000; 2) Second anniversary of the agreement - $250,000; 3) Third anniversary of the agreement - $61,000; 4) Fourth anniversary of the agreement - $689,000; 5) Any balance repayable upon the Company achieving positive free cash flow for one quarter
Collateral securities: None

## NOTE 10: PROVISIONS

| **Employee Entitlements:** | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| At 1 July | 29,937 | 25,979 |
| Net movements | 10,322 | 3,958 |
| At 30 June | 40,259 | 29,937 |

| **2019** | Employee benefits | Total |
|---|---|---|
| | $ | $ |
| Current | 40,259 | 40,259 |
| Non-current | - | - |
| | 40,259 | 40,259 |

| **2018** | Employee benefits | Total |
|---|---|---|
| | $ | $ |
| Current | 29,937 | 29,937 |
| Non-current | - | - |
| | 29,937 | 29,937 |

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 11: CAPITAL AND RESERVES

| | 30 June 2019 | | 30 June 2018 | |
|---|---|---|---|---|
| | Number of shares | $ | Number of shares | $ |
| (a) Paid up capital: | 26,065,000 | 3,020,000 | 26,065,000 | 3,020,000 |

(b) Movements in ordinary share capital:

| | Year to 30 June 2019 | | Year to 30 June 2018 | |
|---|---|---|---|---|
| | Number of shares | $ | Number of shares | $ |
| Balance at beginning of financial period | 26,065,000 | 3,020,000 | 26,065,000 | 3,020,000 |
| Issue of shares | - | - | - | - |
| Balance at end of financial period | 26,065,000 | 3,020,000 | 26,065,000 | 3,020,000 |

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

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

| (c) Asset revaluation reserve | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| Opening balance | 3,175,779 | 3,175,779 |
| Movement | - | - |
| Closing balance | 3,175,779 | 3,175,779 |
| | | |
| (d) Capital contribution reserve | | |
| Opening balance | - | - |
| Fair value adjustment to related party borrowings | 7,326,453 | - |
| Debt forgiveness by shareholder/owners | 10,554,474 | - |
| Closing balance | 17,880,927 | - |
| | | |
| (e) Share-based payment reserve | | |
| Opening balance | 2,939 | - |
| Movement | - | 2,939 |
| Closing balance | 2,939 | 2,939 |
| | | |
| Total reserves | 21,059,645 | 3,178,718 |

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 11: CAPITAL AND RESERVES (continued)

**Nature and purpose of reserves**

*Asset revaluation reserve*

The asset revaluation reserve has been used to record increases in the fair value of land and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

*Capital contribution reserve*

The capital contribution reserve reflects the contribution of shareholders via the granting of interest free or low-interest loans. The reserve comprises the cumulative net change in fair value of debt securities until the assets are derecognised or reclassified. This reserve also reflects the contribution of shareholders via the forgiveness of previously accrued interest.

*Share option reserve*

The share option reserve arises as share-based payments are issued.

**Description of the share-based payment arrangements**

*Options issue*

Unlisted options over ordinary shares in the company are granted to key management personnel and employees as a long-term incentive component of their performance based remuneration.

As at 30 June 2019, the following options have been issued and are outstanding:

| Grant date / employees entitled | Number of instruments | Vesting conditions |
|---|---|---|
| Options granted to employees on 1 January 2018 | 250,000 | None |
| Options granted to director on 1 January 2018 | 500,000 | None |
| Total share options | 750,000 | |

The number and weighted average exercise prices of share options are as follows:

| | Weighted average exercise price 2019 | Number of options 2019 | Weighted average exercise price 2018 | Number of options 2018 |
|---|---|---|---|---|
| Outstanding at the beginning of the period | $0.01 | 750,000 | - | - |
| Granted during the period | - | - | $0.01 | 750,000 |
| Exercisable at the end of the period | $0.01 | 750,000 | $0.01 | 750,000 |

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the binomial option valuation methodology with the following inputs:

| Grant date | Expiry date | Fair value per option | Exercise price | Price of shares on grant date | Expected volatility | Risk free interest rate | Expected dividend yield |
|---|---|---|---|---|---|---|---|
| 1 Jan 2018 | 31 Dec 2020 | $0.0039 | $0.01 | $0.006 | 150% | 2.15% | Nil |

Expected volatility is estimated by considering historic average share price volatility. The options are unlisted and non-transferable, however these features were not taken into account in determining fair value.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

**NOTE 12: FINANCIAL INSTRUMENTS**

**(a) Capital risk management**

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings/(accumulated losses).

The Company is not subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **(b) Categories of financial instruments** | | |
| **Financial assets** | | |
| Cash and cash equivalents | - | 17,521 |
| Trade and other receivables | 52,251 | 75,511 |
| | | |
| **Financial liabilities** | | |
| Bank overdraft | 26,355 | - |
| Trade and other payables | 2,986,075 | 2,485,242 |
| Borrowings | 18,982,642 | 36,036,824 |

**(c) Financial risk management objectives**

The Company is exposed to market risk including currency risk, fair value interest rate risk and price risk, credit risk, liquidity risk and cash flow interest rate risk.

**(d) Market risk**

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, commodity prices and exchange rates.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

The Company does not have investments that would expose it to unmanageable market risks.

**(e) Interest rate risk management**

The Company is exposed to interest rate risk as the Company borrows funds at variable interest rates. The Company's policy is to manage its exposure to movements in interest rates by fixing the interest rate on financial instruments, including bank loans, finance leases and hire purchase liabilities, wherever possible. In addition, the Company utilises a number of financial institutions to obtain the best interest rate possible and to manage its risk. The Company does not enter into interest rate hedges.

**Interest rate risk sensitivity analysis**

The Company only had fixed rate borrowings at 30 June 2019, therefore interest rate sensitivity analysis is not required to be undertaken for the purpose of this report.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

**NOTE 12: FINANCIAL INSTRUMENTS (continued)**

**(f) Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient

collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses publicly available financial information and its own trading record to rate its counterparties. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

**(g) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Company currently has no financing facilities in place.

**(h) Fair value of financial instruments**

The directors consider that the carrying value of the financial assets and financial liabilities as recognised in the financial statements approximate their fair values.

The following tables detail the Company's expected contractual maturity for its non-derivative financial liabilities.

These have been drawn up based on undiscounted contractual maturities of the financial liabilities based on the earliest date the Company can be required to repay.

The tables include both interest and principal cash flows.

| 30 June 2019 | Current | | Non-Current | |
|---|---|---|---|---|
| | Within 6 months | 6 – 12 months | 1 – 5 years | 5+ years |
| | $ | $ | $ | $ |
| Bank overdraft | 26,355 | | | |
| Trade and other payables | 2,986,075 | - | - | - |
| Borrowings | 3,343,800 | - | 22,965,294 | - |
| | 6,356,230 | - | 22,964,294 | - |

| 30 June 2018 | Current | | Non-Current | |
|---|---|---|---|---|
| | Within 6 months | 6 – 12 months | 1 – 5 years | 5+ years |
| | $ | $ | $ | $ |
| Trade and other payables | 2,485,242 | - | - | - |
| Borrowings | 36,026,252 | - | | |
| Hire purchase obligations | 5,286 | 5,286 | - | - |
| | 38,516,780 | 5,286 | - | - |

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 12: FINANCIAL INSTRUMENTS (continued)

**Fair value hierarchy**

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

| **Year ended 30 June 2019** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| *Assets* | | | | |
| Land and buildings | - | - | 4,897,229 | 4,897,229 |
| Total assets | - | - | 4,897,229 | 4,897,229 |
| *Liabilities* | | | | |
| Loans | - | - | - | - |
| Total liabilities | - | - | - | - |

| **Year ended 30 June 2018** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| *Assets* | | | | |
| Land and buildings | - | - | 4,897,229 | 4,897,229 |
| Total assets | - | - | 4,897,229 | 4,897,229 |
| *Liabilities* | | | | |
| Loans | | | - | - |
| Total liabilities | - | - | - | - |

Assets and liabilities held for sale are measured at fair value on a non-recurring basis.

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.
The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

*Valuation techniques for fair value measurements categorised within level 3*

The basis of the valuation of land and buildings is fair value. The land and buildings were last revalued on 30 June 2020 based on independent assessments by a member of the Australian Property Institute having recent experience in the location and category of land and buildings being valued. The directors do not believe that there has been a material movement in fair value since the revaluation date. Valuations are based on current prices for similar properties in the same location and condition.

The Company utilises present value techniques to discount future cash flows using a proper commercial interest rate for related party loans that are classified as Level 3 in the fair value hierarchy.

## NOTES TO THE FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 12: FINANCIAL INSTRUMENTS (continued)

*Level 3 assets and liabilities*

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

| | ***Assets*** |
|---|---|
| | **Land and buildings** |
| | **$** |
| Balance at 1 July 2017 | 4,897,229 |
| Losses recognised in profit or loss | - |
| Additions (net) | - |
| Balance at 30 June 2018 | 4,897,229 |
| Deemed capital contribution recognised in equity | - |
| Losses recognised in profit or loss | - |
| Additions (net) | - |
| Present value adjustment in equity | - |
| Balance at 30 June 2019 | 4,897,229 |

### NOTE 13: COMMITMENTS AND CONTINGENCIES

**Operating lease commitments – Company as lessee**

The Company has no fixed term operating leases in its own name, however does pay certain residential and commercial lease payments on behalf of management.

**Capital commitments and contingencies**

No capital expenditure commitments have been made for items of plant and machinery as at 30 June 2019 (2018: $Nil).

| | 2019 | 2018 |
|---|---|---|
| **Exploration commitments** | $ | $ |
| Payable: | | |
| Within one year | 99,700 | 99,700 |
| Within two to five years | 398,800 | 498,500 |
| | 498,500 | 598,200 |

No contingencies were noted as at 30 June 2019 (2018: Nil).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 14: EVENTS AFTER THE REPORTING PERIOD

On 6 June 2019, the Company, Scientific Management Associates (Victoria) Pty Ltd (SMA) and Wamco Industries Group Pty Ltd (Wamco) entered into a debt novation agreement. An effect of the agreement is that SMA released the Company from an obligation to pay it an amount of $11,251,017. In consideration for this release, the Company agreed to grant a royalty interest to Wamco. The terms of the royalty interest provide that the Company must pay Wamco an amount calculated by reference to the amount, in tonnes, or sales value of kaolin ore sold by the Company during a period. A Royalty Deed evidencing this arrangement was executed on 1 July 2019. The Company has agreed to pay a royalty to Wamco until the earlier of 1 July 2049 and the date WA Kaolin relinquishes, surrenders or conveys to Wamco all of the Tenements (other than L70/156 and G70/251).

The royalty is calculated as the greater of:

(a) $1.50 per tonne of dry kaolin ore or product sold in a quarter, provided that if kaolin product has been sold after processing, then tonnage used to calculate the royalty will be twice the actual tonnage of the processed kaolin; or

(b) 1.5% of the price received for the sale of kaolin ore or product in a quarter.

On 18 October 2019, Mr Sorensen resigned as a director and was appointed as alternate director for Mr Snell. Dr White, Ms Moises and Mr Putland were appointed as non-executive directors on 22 May 2020.

In May 2020, the Company undertook a pre- Initial Public Offering (IPO) capital raising event by way of the issue of Convertible Notes at a face value of $1 per note. An amount of $3.9m was raised by the Company from 24 separate noteholders and was completed in mid-May. Each Convertible Note accrues interest at a rate of 10% per annum and has a maturity date of 6 months after the issue date.

On 17 July 2020, the Company executed a formal agreement with Wamco Industries Pty Ltd (Wamco) for the provision of consultancy services, to be provided by Wamco's executive, Mr Alf Baker, who is also an executive director of the Company. The agreement provides for a consultancy fee of $12,000 per month and $15,000 per month following completion of an IPO as well as the payment and/or reimbursement of reasonable expenses. This agreement now formalises the arrangement that the Company has had with Wamco and Mr Baker for many years.

On 24 July 2020, the Company's co-founder and non-executive director, Mr Snell, sadly passed away after battling ongoing health issues.

The Company sought out additional investors during late August 2020. A second round of pre-IPO funds were raised in the sum of $2,769,000 by way of Convertible Notes with the same terms and conditions as the first round of investment.

The Company is currently in the midst of preparing a prospectus in which it will seek to raise between $22m and $25m through the issue of between 107.5 and 132.5 million Shares at an Offer Price of A$0.20 per Share together with 1 free attaching Option for every 2 Shares issued. Application will be made for the admission of the Company to the Official List and quotation of its Shares on the ASX with the proposed ASX Code WAK within seven days after the Prospectus Date.

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

There have been no other significant events after reporting date.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 15: RELATED PARTIES

**Key management personnel compensation**

The key management personnel compensation is as follows:

| | 30 June 2019 $ | 30 June 2018 $ |
|---|---|---|
| Short-term employee benefits | 346,000 | 336,102 |
| Post-employment benefits | 13,000 | 9,610 |
| Housing benefit | 34,567 | 43,192 |
| | 393,567 | 388,904 |

**Other key management personnel and director transactions**

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Mr A Baker is a director and major shareholder of the Company. During the reporting period, the Company has borrowed funds from several entities of which Mr Baker is a director and major shareholder. Details of those loans can be found in the table below.

Mr K Snell is a director and major shareholder of the Company. During the reporting period, the Company has borrowed funds from several of entities of which Mr Snell is a director and major shareholder. Details of those loans can be found in the table below. Mr Snell sadly passed away on 24 July 2020 after battling health issues. Any loans associated with Mr Snell will be managed by his estate.

Mr A Sorensen is a key management person of the Company and has advanced funds to the Company, as detailed below.

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

**NOTE 15: RELATED PARTY (continued)**

**Related party borrowings**

30 June 2019

| Entities associated with: | A Baker[1] | K Snell[2] | A Sorensen[3] |
|---|---|---|---|
| Opening balance | 4,094,774 | 31,564,795 | - |
| Interest | 2,679 | 313,929 | - |
| Funds advanced | 602,431 | 140,000 | 5,000 |
| Funds repaid | (303,783) | - | - |
| Fair value adjustment to related party borrowings (Note 11) | (875,535) | (6,450,918) | - |
| Other – debt written off (i) | - | (10,554,474) | - |
| Closing balance | 3,520,566 | 15,013,332 | 5,000 |

(i) On 6 June 2019, the Company, Scientific Management Associates (Victoria) Pty Ltd (SMA) and Wamco Industries Group Pty Ltd (Wamco) entered into a debt novation agreement. An effect of the agreement is that SMA released the Company from an obligation to pay it an amount of $10,554,474. In consideration for this release, the Company agreed to grant a royalty interest to Wamco.

30 June 2018

| Entities associated with: | A Baker[1] | K Snell[2] | A Sorensen[3] |
|---|---|---|---|
| Opening balance | 2,918,510 | 30,404,740 | - |
| Interest | - | 690,055 | - |
| Funds advanced | 1,591,166 | 590,000 | - |
| Funds repaid | (414,902) | (120,000) | - |
| Closing balance | 4,094,774 | 31,564,795 | - |

Entities associated with the following key management personnel are as follows:

[1] A Baker : Wamco Industries Group Pty Ltd, Wamco Industries Pty Ltd, Pacific Polymers R&D Pty Ltd, Pacific Polymers Pty Ltd, EMC Pacific Pty Ltd

[2] K Snell : Scientific Management Associates (Victoria) Pty Ltd, Scientific Management Associates (Operations) Pty Ltd

[3] A Sorensen : Loans are held in Wamco Industries Group Pty Ltd on behalf of Mr Sorensen

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 30 JUNE 2019

**NOTE 15: RELATED PARTY (continued)**

**Fees and salaries**

Mr Baker has also chosen to not to be paid any fees or financial compensation during the period, instead allowing the Company to accrue such amounts, to be paid at a later date as the Company's cash flow allows. Details of those amounts owing can be found in the table below and are recorded in Trade and other payables within the Statement of Financial Position.

Mr Snell has also chosen to not to be paid any fees or financial compensation during the period, instead allowing the Company to accrue such amounts, to be paid at a later date as the Company's cash flow allows. Details of those amounts owing can be found in the table below. Details of those amounts owing can be found in the table below and are recorded in Trade and other payables within the Statement of Financial Position.

Mr Sorensen has certain amounts accrued on his behalf relating to his director fees during the prior reporting periods, to be paid at a time when the Company's cash flow allows. Details of those amounts owing can be found in the table below and are recorded in Trade and other payables within the Statement of Financial Position.

| 30 June 2019 | A Baker | K Snell | A Sorensen |
|---|---|---|---|
| Opening balance | 627,000 | 375,000 | 234,000 |
| Fees and salaries | 180,000 | 36,000 | 143,000 |
| Payments | (144,000) | - | (143,000) |
| Closing balance | 663,000 | 411,000 | 234,000 |

| 30 June 2018 | A Baker | K Snell | A Sorensen |
|---|---|---|---|
| Opening balance | 447,000 | 339,000 | 210,000 |
| Fees and salaries | 180,000 | 36,000 | 129,712 |
| Payments | - | - | (105,712) |
| Closing balance | 627,000 | 375,000 | 234,000 |

## DIRECTORS' DECLARATION

1. In the opinion of the directors of WA Kaolin Limited ("the 'Company'):

    a. the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:

        i. giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year then ended; and

        ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.

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

    c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2019.

This declaration is signed in accordance with a resolution of the Board of Directors.

JJWhite

Dr John White
Chairman

Dated this 24 September 2020

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

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

# INDEPENDENT AUDITOR'S REPORT

To the members of WA Kaolin Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of WA Kaolin Limited (the Company), which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of WA Kaolin Limited, is in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the Corporations Regulations 2001.

### Basis for opinion

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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### Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

### Other information

The directors are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Directors' report, but does not include the financial report and our auditor's report thereon.

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

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

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

### Responsibilities of the directors for the Financial Report

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

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

### Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (http://www.auasb.gov.au/Home.aspx) at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO Audit (WA) Pty Ltd

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Director

Perth, 24 September 2020