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**HEXAGON ENERGY MATERIALS LIMITED**  
**(Formerly Hexagon Resources Limited)**

ABN 27 099 098 192

# **INTERIM FINANCIAL REPORT**

**FOR THE HALF-YEAR ENDED**  
**31 DECEMBER 2019**

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**Board of Directors**

Charles Whitfield - Non-Executive Chairman  
Michael Rosenstreich - Managing Director  
Garry Plowright - Non-Executive Director

**Officers of the Company**

Rowan Caren - Company Secretary  
Lianne Grove - Chief Commercial Officer

**Registered Office & Principal Place of Business**

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Applecross, WA 6153

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Canning Bridge, Applecross WA 6153

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Website: [www.hxgenergymaterials.com](http://www.hxgenergymaterials.com)

**Domicile and Country of Incorporation**

Australia

**Australian Business Number**

27 099 098 192

**Auditors**

BDO Audit (WA) Pty Ltd  
38 Station Street  
Subiaco WA 6008  
Website: [www.bdo.com.au](http://www.bdo.com.au)

**Share Registry**

Automic Pty Ltd  
Level 5, 126 Phillip Street  
Sydney NSW 2000  
Website: [www.automic.com.au](http://www.automic.com.au)

**Securities Exchange**

Australian Securities Exchange Limited (ASX)  
Home Exchange - Perth  
ASX Code - HXG (Ordinary Shares)

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**DIRECTORS' REPORT**

Your Directors present their half-year report on Hexagon Energy Materials Limited (formerly Hexagon Resources Limited) ('Hexagon' or 'Company') and its controlled entities ('Consolidated Entity' or 'Group') for the half-year ended 31 December 2019.

**1. BOARD OF DIRECTORS**

The Directors of the Company in office at the date of this report or at any time during the period are:

<b>Name</b>	<b>Position</b>	<b>Period of Directorship</b>
Charles Whitfield	Non-Executive Director Non-Executive Chairman	Appointed 22 August 2016 Appointed 5 May 2017
Michael Rosenstreich	Managing Director	Appointed 17 March 2017
Garry Plowright	Non-Executive Director	Appointed 10 June 2015

**2. CORPORATE INFORMATION**

Hexagon is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX). Hexagon has prepared a consolidated interim financial report encompassing the entities that it controlled during the period.

**3. NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES**

Hexagon aims to develop a fast-track to cash flow through the commercialisation of an innovative; rare earth element (REE) processing technology called RapidSX™ and graphite transformation into battery and advanced graphite materials, focused initially in the USA. The company retains its interest in upstream graphite projects in Australia and USA.

**4. FINANCIAL REVIEW**

For the half-year ended 31 December 2019, the loss for the Consolidated Entity after providing for income tax was \$1,284,685 (2018: \$1,429,697).

The Consolidated Entity's main expenses were as follows:

	<b>31-Dec-19</b>	<b>31-Dec-18</b>
	<b>\$</b>	<b>\$</b>
Corporate and administration expenses	772,109	551,181
Exploration and evaluation expenditure	734,672	432,488
Personnel expenses and director fees	194,579	274,829
Share based payment expense	(83,211)	223,431

**5. CORPORATE**

**Management Changes**

On 30 September 2019 Mr Michael Chan resigned as Chief Development Officer of the Company. Replacement technical expertise has been engaged from the United Kingdom and North America.

**Capital Structure**

On 11 October 2019, 3,000,000 performance rights and 300,000 options were cancelled for nil consideration.

On 25 November 2019, 650,000 fully paid ordinary shares were issued to the Chief Commercial Officer upon conversion of performance rights.

At 31 December 2019, the Company had 292,433,397 ordinary shares, 24,097,500 options and 950,000 performance rights on issue.

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## DIRECTORS' REPORT

### 6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 2 October 2019 the Company reported that Mineral Resources Limited had notified it of its intention to withdraw from the McIntosh Joint Venture (**MJV**) effective from 31 October 2019. Hexagon had reported previously that its focus would turn increasingly toward downstream graphite processing in light of a persistent and significant oversupply and idled capacity to produce graphite flake concentrates. The implications of this market appraisal by Hexagon and its advisors was that new upstream graphite developments without committed offtake agreements or an inhouse "customer" for their material would face significant challenges to provide attractive investment returns during the crucial start-up/qualification phases which coincide with this predicted graphite concentrate oversupply in the next three to four years.

On 10 October 2019 the Company executed a binding Investment Agreement whereby Hexagon has secured an option to acquire a 49% interest in an advanced, downstream REE separation technology from Innovation Metals Corp ('**IMC**'). IMC's proprietary RapidSX™ separation technology will enable current and future rare-earth producers to undertake additional processing to add value and produce high-purity rare earth oxides (**REOs**) on a cost competitive basis with China diversifying the current extreme concentration of REE supply and separation capability in China.

On 22 November 2019 at the Company's Annual General Meeting, shareholders voted to support the 'change of name' to Hexagon Energy Materials Limited, reflecting Hexagon's expanded strategy to include down-stream REE processing; REE also being a critical component of the high growth renewable energy, energy storage and electric vehicle storage alongside graphite. Shareholders also approved the transaction with IMC whereby Hexagon will acquire a 49% interest in American Innovation Metals (**AIM**), a special purpose vehicle to commercialise the RapidSX™ processing technology.

There were no other significant changes in the state of affairs during the period.

### 7. REVIEW OF OPERATIONS

#### 7.1 Rare Earths Processing

On 10 October 2019, Hexagon announced its planned participation in a new REE processing Joint Venture (**JV**) with private Canadian company, IMC, which was subsequently approved by Hexagon shareholders.

The objective of the JV is to commercialise RapidSX, a proven solvent extraction (**SX**) based technology to separate and purify REEs into commercial-grade REOs. Successfully piloted, with US\$1.8 million of funding from the US Dept. of Defense, RapidSX has demonstrated significantly lower capital and operating costs than conventional SX – and, most importantly, is cost competitive with Chinese separation plants.

China dominates the global REE supply chain from mining to separation to production of REE permanent magnets (**REPMs**). REPMs are critical, non-substitutable inputs to electric vehicle motors, wind power turbines and electronic devices, as well as several military/defence applications – which, as repeatedly cited by the US government, creates a critical and strategic supply concentration risk to both businesses and governments outside of China.

RapidSX offers a compelling solution for finally enabling the supply chain to diversify from China by offering producers a low-capital, highly efficient separation process which is based on well understood SX chemistry and was proven through United States' Department of Defense-funded pilot plant test work. The technical comparison is provided in Table 1 below.

Hexagon has elected to commence funding of the RapidSX CDP to ensure the CDP is available to process customers' samples in Q4 of 2020. The availability of the CDP is critical for customers to achieve financing and generate samples for REO offtakes.

There are two commercialisation models being developed by the JV parties:

- a technology licensing structure where the JV participates in the CapEx and OpEx savings – likely through a mixture of fixed and variable fees related to REO sales revenue; and
- Build-out of its own REE separation capability to purchase concentrate materials and sell high-purity REOs, at locations that do not adversely impact on any licensing arrangements.

There are already a series of confidentiality agreements in place with a range of producing companies and entities with advanced 'shovel-ready' projects. The current focus is to finalise technical services agreements, which, subject to the CDP program results, are expected to convert into binding licensing agreements and installation of full, commercial-scale RapidSX plants.

**DIRECTORS' REPORT**

Table 1: Summary of RapidSX™ vs Conventional SX for REE Separation

	RapidSX™	Conventional SX	Comment
<b>Performance &amp; Efficiency</b>			
Commercial Purity	Yes	Yes	
REE Recovery Rates	High	High	
Processing Time	Rapid	Slow	Reduced metal residence time
Time to Equilibrium	Hours/Days	Weeks	
<b>CAPEX</b>			
Equipment Cost	~60% to 70% Reduction	High	Far smaller footprint and less equipment.
Separation Staging	~90% Reduction	High	
<b>OPEX</b>			
Organic Volumes	Low	High	<\$2/kg for LREO
Labour	Low	High	<\$12/kg for HREO
Power Consumption	Low	High	Based on Pilot work

**Note:** Because Heavy REE (HREE) separation requires more staging and separation units (columns); CapEX and OpEx efficiencies for Light REE (LREE) will be magnified for HREE-endowed projects.

## 7.2 Graphite

The Company is presently working on commercialising its valuable IP on downstream graphite processing and pursuing opportunities to establish production in the US. It has also undertaken work on its two upstream projects, McIntosh in Western Australia and Ceylon in Alabama, USA.

### Downstream Graphite Transformation

Hexagon completed key test work directed at enhancing graphite electrodes used in electric-arc furnaces (EAF) worldwide. Graphite electrodes are an essential part of the EAF steel production process and comprise a significant portion of the operating costs. The market for graphite electrodes is growing and technology advances that will extend their service life and lower consumption rates have significant market appeal.

Testing of purified flake-graphite concentrate from its McIntosh Project treated with a proprietary ingredient and branded as "Performance+", has demonstrated a positive and direct correlation between the addition of Performance+ and increased electrical conductivity and durability in synthetic-graphite electrodes.

### 7.3 McIntosh Graphite Project (WA, Australia)

Mineral Resources Limited withdrew from the MJV with effect from 31 October 2019. Hexagon has regained 100% interest in the McIntosh project tenements. It plans to hold and undertake selective evaluation work in preparation for the rebalancing of the international graphite concentrate supply-demand situation, forecast to occur in the coming years.

**Flotation Test work Outcomes** - Samples from three drill holes totalling 276 kg at a combined head grade of 4.47% TGC were submitted to a specialist test work facility in China to outline an optimised flowsheet to produce high-grade graphite concentrate whilst preserving flake size. Final results were received during the period. Flake graphite concentrate assaying 94.7% TC was produced through rougher, regrinds and ten cleaning stages. The concentrate grade and recovery results are consistent with previous piloting work at ALS in 2016/2017. The concentrate flake-size distribution data did not reconcile with previous results announced in November 2017 with a finer product produced which requires further investigation. Additional flowsheet development work, including coarser primary grind, utilisation of stirred mills for regrind only and possibly gravity separation to remove sulphide minerals is required to achieve a coarser flake size distribution. No immediate follow up work is planned at this point as the Company's immediate interest is in downstream test work.

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#### 7.4 Alabama Graphite Projects (Alabama, USA)

Hexagon has an 80% interest in several early-stage graphite exploration projects located in Alabama, USA, including the historic, Ceylon Mine workings. In July 2019, the Company committed to undertake the first metallurgical test work on a series of bulk samples excavated from the site totalling over 100 tonnes.

Bench-scale tests were carried out on one composite sample. Concentrate assaying 97.4% TGC was produced through rougher, one re-grind and five cleaning stages. Recovery was high with only 1.6% of the graphite reporting to tails. As high as 8.2% of the final concentrate was premium + 300 µm jumbo flake. The high concentrate grade and coarse size distribution highlight good market potential for Ceylon flake-graphite concentrate. These preliminary results indicate the flowsheet to treat Ceylon mineralisation could be simpler compared to other graphite projects – including Hexagon's McIntosh project; which means significantly reduced capital expenditures to build any processing plant and likely lower operating cost.

As with the McIntosh project, following this test work the Company has no immediate plans to undertake further work, while management is concentrating on the downstream transformation work.

#### 7.5 Halls Creek Project (WA, Australia)

Hexagon recently flew a 100 m spaced airborne magnetic and radiometric data survey over its Halls Creek Project (HCP) area. This new data was merged with additional high resolution open-file data and geological interpretation was completed at a 1:25,000 scale. The purpose of the recently flown survey was to refine the structural and lithological targets within the large tenure with the aim of defining drill targets. High priority targets and tenement overlain on the recent aeromagnetic data is presented in Figures 1 and 2.

The increased geophysics data resolution has enabled better discrimination of the various geological units as well as potential vectors for mineralisation controls which has added significant value to the land package. The new data has defined several geophysical anomalies that coincide with known surface mineralisation and/or geochemical anomalism, many of which represent suggested drill targets.

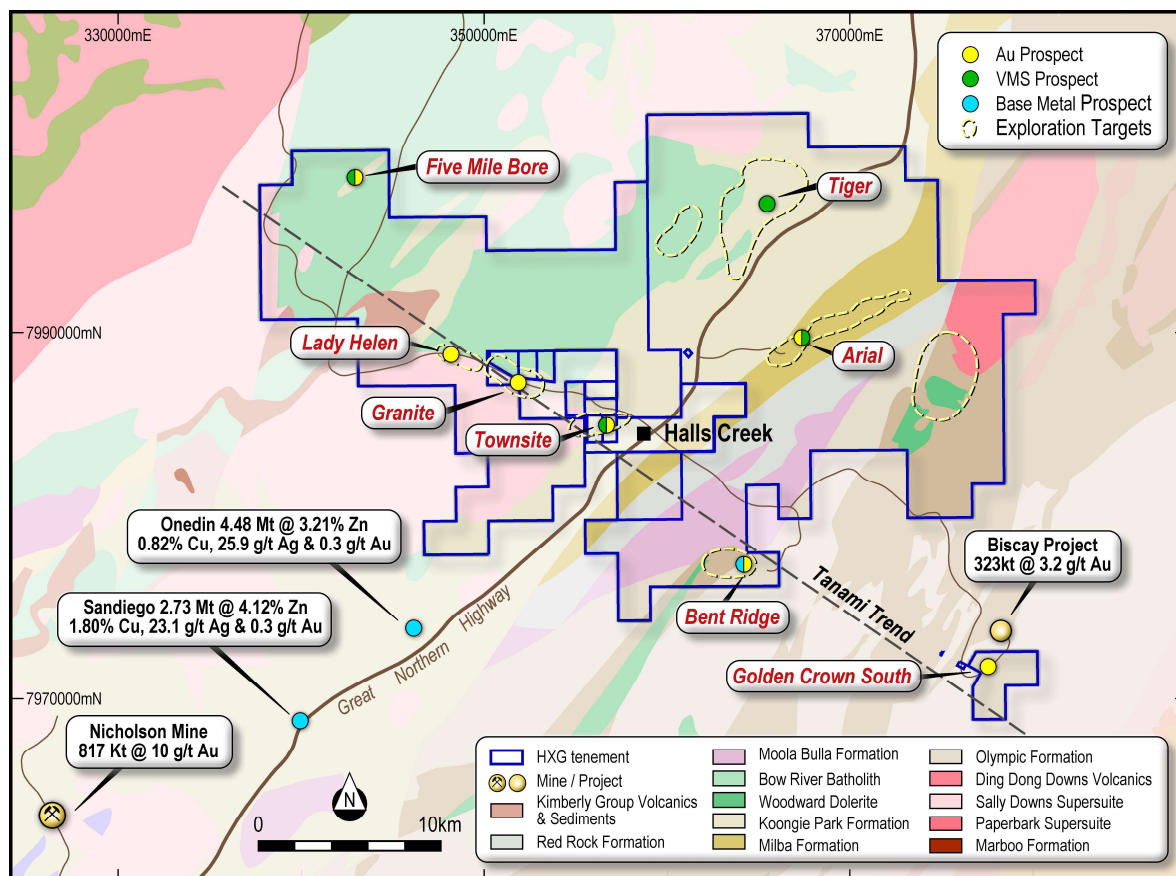


Figure 1: Halls Creek Project – Regional Geology with prospects

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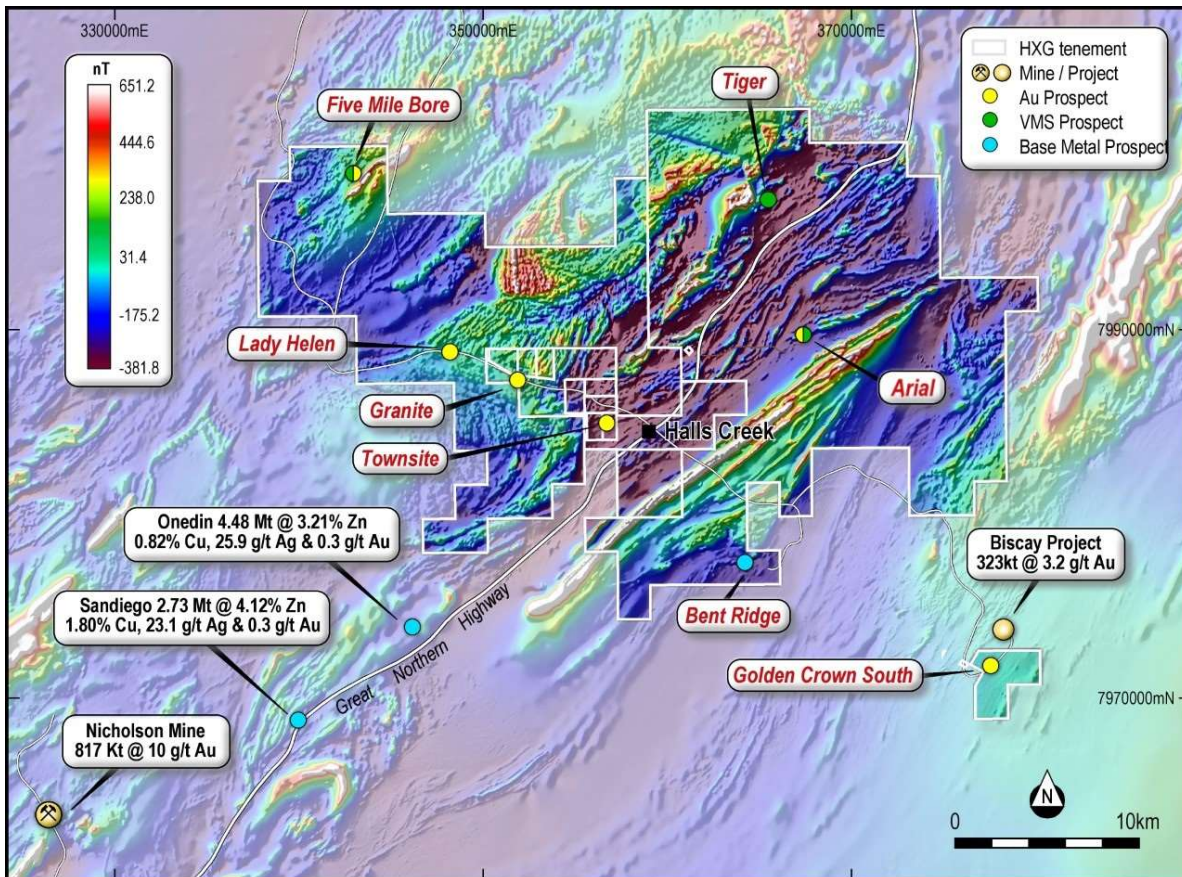


Figure 2: Halls Creek Project - aeromagnetic data (1vd) with high priority targets

Together these gold and base metal targets represent a polymetallic system that has remained grossly underexplored despite being in a highly prospective geologic setting and mining jurisdiction.

## 7.5 Competent Persons' Attributions

### Exploration Results

The information within this report that relates to exploration results, Exploration Target estimates and geological data at the Halls Creek Projects is based on information compiled by Ms Cherie Leeden who is a Consultant to the Company and reviewed by Mr Mike Rosenstreich, a full-time employee of the Company. Ms Leeden is a Member of the Australian Institute of Geoscientists and Mr Rosenstreich is a Fellow of the Australian Institute of Mining and Metallurgy. Both, have sufficient experience relevant to the styles of mineralisation and types of deposits under consideration and to the activities currently being undertaken to qualify as a Competent Person(s) as defined in the 2012 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves and they both consent to the inclusion of this information in the form and context in which it appears in this report.



**DIRECTORS' REPORT**

**8. SUBSEQUENT EVENTS**


On 17 February 2020 Hexagon reported that IMC, its partner in the commercialisation of RapidSX for REE separation has entered into a Technical Services Agreement (TSA) with Ucore Rare Metals Inc. (Ucore) (TSXV: UCU) (OTCQX: UURAF). The purpose of the TSA is to assess RapidSX for the separation of REE concentrate materials into high-purity REE oxides (REOs) from Ucore's flagship Bokan-Dotson Ridge REE Project located in Alaska, USA, and/or other commercially available, U.S. allied-sourced, mixed REE concentrate sources currently under nearer-term consideration for potential utilisation at the company's planned Alaska Strategic Metals Complex in the United States.

The directors are not aware of any other matters or circumstances at the date of the report, other than those referred to in this report or the financial statements or notes thereto, that have significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the Company in subsequent financial years.

**9. AUDITOR'S INDEPENDENCE DECLARATION**

The Lead Auditor's Independence Declaration forms part of the Directors' Report and is attached on page 9.

Signed in accordance with a resolution of the Board of Directors



**Michael Rosenstreich**  
**Managing Director**  
**12 March 2020**

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**DECLARATION OF INDEPENDENCE BY JARRAD PRUE TO THE DIRECTORS OF HEXAGON ENERGY MATERIALS LIMITED**

As lead auditor for the review of Hexagon Energy Materials Limited for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Hexagon Energy Materials Limited and the entities it controlled during the period.



**Jarrad Prue**

Director

**BDO Audit (WA) Pty Ltd**

Perth, 12 March 2020

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**Hexagon Energy Materials Limited**  
**Interim Financial Report**  
**For the half-year ended 31 December 2019**



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Note	31-Dec-19	Restated (i) 31-Dec-18
		\$	\$
Revenue from continuing operations		21,212	14,116
Exchange differences on translation of foreign currencies		17,802	39,285
Other income		439,248	-
Business development		(144,798)	-
Corporate and administration expenses		(772,109)	(551,181)
Exploration and evaluation expenditure		(734,672)	(432,488)
Loss on disposal of plant and equipment		-	(1,169)
Personnel expenses and director fees		(194,579)	(274,829)
Share-based payments expense	7	83,211	(223,431)
<b>Loss from continuing operations before income tax</b>		<b>(1,284,685)</b>	<b>(1,429,697)</b>
Income tax expense		-	-
<b>Loss from continuing operations after income tax</b>		<b>(1,284,685)</b>	<b>(1,429,697)</b>
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss</i>			
(Loss) / gain on revaluation of equity investments at FVOCI		(71,296)	3,561
<b>Other comprehensive (loss) / income for the period, net of tax</b>		<b>(71,296)</b>	<b>3,561</b>
<b>Total comprehensive loss for the period</b>		<b>(1,355,981)</b>	<b>(1,426,136)</b>
<b>Loss for the period is attributable to:</b>			
Owners of Hexagon Energy Materials Limited		(1,284,685)	(1,429,697)
Non-controlling interests		-	-
		<b>(1,284,685)</b>	<b>(1,429,697)</b>
<b>Total comprehensive loss for the period is attributable to:</b>			
Owners of Hexagon Energy Materials Limited		(1,355,981)	(1,426,136)
Non-controlling interests		-	-
		<b>(1,355,981)</b>	<b>(1,426,136)</b>
<b>Loss per share attributable to ordinary equity holders</b>			
- Basic and diluted loss per share		(0.004)	(0.005)

(i) Refer to note 2(e) and note 4 for details regarding the restatement as a result of a change in accounting policy.

*The Consolidated Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.*

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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	31-Dec-19	Restated (i) 30-Jun-19	Restated (i) 30-Jun-18
		\$	\$	\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents		1,838,794	4,203,294	7,361,880
Trade and other receivables	3	469,564	34,022	18
<b>Total current assets</b>		<b>2,308,358</b>	<b>4,237,316</b>	<b>7,361,898</b>
<b>Non-current assets</b>				
Trade and other receivables		5,500	5,500	6,950
Equity investments at FVOCI		-	71,296	67,540
Plant and equipment		18,446	21,667	23,032
Other assets		170,395	-	-
Exploration and evaluation assets	4	1,494,226	1,157,648	928,992
Right of use assets		78,225	-	-
<b>Total non-current assets</b>		<b>1,766,792</b>	<b>1,256,111</b>	<b>1,026,514</b>
<b>Total assets</b>		<b>4,075,150</b>	<b>5,493,427</b>	<b>8,388,412</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables		288,527	343,213	322,009
Provisions		27,063	29,070	26,159
Lease liability		34,072	-	-
<b>Total current liabilities</b>		<b>349,662</b>	<b>372,283</b>	<b>348,168</b>
<b>Non-current liabilities</b>				
Lease liability		43,536	-	-
<b>Total non-current liabilities</b>		<b>43,536</b>	<b>-</b>	<b>-</b>
<b>Total liabilities</b>		<b>393,198</b>	<b>372,283</b>	<b>348,168</b>
<b>Net assets</b>		<b>3,681,952</b>	<b>5,121,144</b>	<b>8,040,244</b>
<b>EQUITY</b>				
Contributed equity	5	58,857,850	58,857,850	58,817,934
Reserves	6	2,355,978	2,500,485	1,970,448
Accumulated losses		(57,549,323)	(56,254,638)	(52,748,138)
<b>Capital and reserves attributable to owners of Hexagon Energy Materials Limited</b>		<b>3,664,505</b>	<b>5,103,697</b>	<b>8,040,244</b>
Non-controlling interests		17,447	17,447	-
<b>Total equity</b>		<b>3,681,952</b>	<b>5,121,144</b>	<b>8,040,244</b>

(i) Refer to note 2(e) and note 4 for details regarding the restatement as a result of a change in accounting policy.

*The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.*

Hexagon Energy Materials Limited  
Interim Financial Report  
For the half-year ended 31 December 2019



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Attributable to owners of Hexagon Energy Materials Limited			Total	Non- controlling interests	Total Equity
	Contributed Equity	Reserves	Accumulated Losses			
	\$	\$	\$	\$	\$	\$
<b>Balance at 1 July 2019 as previously reported</b>	<b>58,857,850</b>	<b>2,500,485</b>	<b>(45,268,027)</b>	<b>16,090,308</b>	<b>17,447</b>	<b>16,107,755</b>
Change in accounting policy	-	-	(10,986,611)	(10,986,611)	-	(10,986,611)
<b>Balance at 1 July 2019 restated (i)</b>	<b>58,857,850</b>	<b>2,500,485</b>	<b>(56,254,638)</b>	<b>5,103,697</b>	<b>17,447</b>	<b>5,121,144</b>
<b>Comprehensive income:</b>						
Loss for the period	-	-	(1,284,685)	(1,284,685)	-	(1,284,685)
Revaluation of equity investments at FVOCI	-	(61,296)	(10,000)	(71,296)	-	(71,296)
<b>Total comprehensive loss for the period</b>	<b>-</b>	<b>(61,296)</b>	<b>(1,294,685)</b>	<b>(1,355,981)</b>	<b>-</b>	<b>(1,355,981)</b>
<b>Transactions with owners in their capacity as owners:</b>						
Share based payments	-	(83,211)	-	(83,211)	-	(83,211)
<b>At 31 December 2019</b>	<b>58,857,850</b>	<b>2,355,978</b>	<b>(57,549,323)</b>	<b>3,664,505</b>	<b>17,447</b>	<b>3,681,952</b>

	Contributed Equity	Reserves	Accumulated Losses	Total Equity
	\$	\$	\$	\$
<b>Balance at 1 July 2018 as previously reported</b>	<b>58,817,934</b>	<b>1,970,448</b>	<b>(43,233,910)</b>	<b>17,554,472</b>
Change in accounting policy	-	-	(9,514,228)	(9,514,228)
<b>Balance at 1 July 2018 restated (i)</b>	<b>58,817,934</b>	<b>1,970,448</b>	<b>(52,748,138)</b>	<b>8,040,244</b>
<b>Comprehensive income:</b>				
Loss for the period	-	-	(1,429,697)	(1,429,697)
Gain on revaluation of equity investments at FVOCI	-	3,561	-	3,561
<b>Total comprehensive gain / (loss) for the period</b>	<b>-</b>	<b>3,561</b>	<b>(1,429,697)</b>	<b>(1,426,136)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Share based payments	-	223,431	-	223,431
Transfer between reserves	-	(16,454)	16,454	-
<b>At 31 December 2018</b>	<b>58,817,934</b>	<b>2,180,986</b>	<b>(54,161,381)</b>	<b>6,837,539</b>

(i) Refer to note 2(e) and note 4 for details regarding the restatement as a result of a change in accounting policy.

*The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.*

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**CONSOLIDATED STATEMENT OF CASH FLOWS**

Note	Restated (i)	
	31-Dec-19	31-Dec-18
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(1,076,200)	(980,450)
Payments for exploration and evaluation expense	(843,343)	(482,960)
Interest received	21,096	14,117
<b>Net cash used in operating activities</b>	<b>(1,898,447)</b>	<b>(1,449,293)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds on sale of plant and equipment	-	2,500
Payment for option fee - Innovation Metals Corp	(170,395)	-
Payments for exploration and evaluation asset	(295,460)	(149,711)
<b>Net cash used in investing activities</b>	<b>(465,855)</b>	<b>(147,211)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment for lease liability	(18,000)	-
<b>Net cash used in financing activities</b>	<b>(18,000)</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,382,302)</b>	<b>(1,596,504)</b>
Cash and cash equivalents at the beginning of the period	4,203,294	7,361,880
Net foreign exchange differences	17,802	39,285
<b>Cash and cash equivalents at the end of the period</b>	<b>1,838,794</b>	<b>5,804,661</b>

(i) Refer to note 2(e) and note 4 for details regarding the restatement as a result of a change in accounting policy.

*The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.*

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**1. CORPORATE INFORMATION**

Hexagon Energy Materials Limited (referred to as 'Hexagon' or the 'Company' or 'Parent Entity') is a company domiciled in Australia. The address of the Company's registered office and principal place of business is disclosed in the Corporate Directory of this report. The consolidated financial statements of the Company as at and for the half-year ended 31 December 2019 (the 'Period') comprise the Company and its subsidiaries (together referred to as the 'Consolidated Entity' or the 'Group'). The Group is primarily involved in mineral exploration.

**2. BASIS OF PREPARATION**

This interim general purpose financial report for the half-year reporting Period ended 31 December 2019 has been prepared in accordance with *AASB 134 Interim Financial Reporting* and the Corporations Act 2001.

The half-year interim financial report of Hexagon Energy Materials Limited was authorised for issue in accordance with a resolution of the Directors on 12 March 2020.

**(a) Compliance with IFRS**

The consolidated financial statements of the Consolidated Entity also comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB').

**(b) Basis of measurement**

The consolidated financial statements have been prepared on a going concern basis on the historical cost basis.

**(c) Going Concern**

These financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

As disclosed in the review report for the half year ended 31 December 2019 the Group recorded a loss of \$1,284,685, had net cash outflows from operating activities of \$1,898,447 and is in a net asset position of \$3,681,952 at period end. These conditions indicate the existing of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The ability of the entity to continue as a going concern is dependent on securing additional funding through capital raising or other fund-raising activities in the near future to continue its operational activities.

The Directors are satisfied they will be able to raise additional working capital as required and thus it is appropriate to prepare the financial statements on a going concern basis.

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

**(d) New and revised Accounting Standards and Interpretations adopted by the Group**

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

➤ **AASB 16 Leases**

The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (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 improve as the operating expense is now replaced by interest expense and depreciation in the statement of comprehensive income. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Right-of-use assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**Lease liabilities**

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**(e) Changes to the Group Accounting Policies**

➤ **Exploration and evaluation asset**

The financial report has been prepared on the basis of retrospective application of a voluntary change in accounting policy in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

The Group previously capitalised exploration and evaluation expenditure in relation to its graphite projects and carried forward the expenditure to the extent that they were expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

The result of this accounting change means that the Group will expense exploration and evaluation expenditure in relation to graphite as incurred until a time where an asset is in development.

The Board determined that the change in accounting policy will result in more relevant and no less reliable information as the policy is more transparent and less subjective. Recognition criteria of exploration and evaluation assets are inherently uncertain and expensing as incurred results in a more transparent Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income. Furthermore, the change in policy aids in accountability of line management's expenditures and the newly adopted policy is consistent with industry practice. The impact of the adoption of the accounting policy change has been summarised in Note 4.

The accounting policies for other areas of interests remain the same as disclosed in the 30 June 2019 annual report.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**3. TRADE AND OTHER RECEIVABLES**

	31-Dec-19	30-Jun-19
	\$	\$
<b>Current assets</b>		
Research and development income tax concession <sup>(1)</sup>	439,248	-
Accrued interest	5,277	5,821
GST receivable	24,994	27,705
Other receivables	45	496
	<b>469,564</b>	<b>34,022</b>

(1) On 28 January 2020, Hexagon received a research and development income tax incentive of \$439,248.

**4. EXPLORATION AND EVALUATION ASSETS**

In the half year ending 31 December 2019, the Group changed its accounting treatment of its graphite exploration and evaluation expenditure in accordance with standard AASB 6: Exploration for and Evaluation of Mineral Resources. Previously, the Group capitalised exploration and evaluation expenditure and carried forward the expenditures to the extent that they were expected to be recouped through the successful development. The result of this accounting change means that the Group will expense all graphite exploration and evaluation expenditure until a time where an asset is in development.

The following table summarises the adjustments made to the financial report upon implementation of the new accounting policy.

The effect on the Consolidated Statement of Financial Position were as follows:

	Exploration Expenditure	Accumulated Losses
	\$	\$
<b>Balance at 30 June 2018 as previously reported</b>	<b>10,443,220</b>	<b>(43,233,910)</b>
Impact of the change in accounting policy	(9,514,228)	(9,514,228)
<b>Restated balances at 30 June 2018</b>	<b>928,992</b>	<b>(52,748,138)</b>
<b>Balance at 30 June 2019 as previously reported</b>	<b>12,144,259</b>	<b>(45,268,027)</b>
Impact of the change in accounting policy	(10,986,611)	(10,986,611)
<b>Restated balances at 30 June 2019</b>	<b>1,157,648</b>	<b>(56,254,638)</b>
Capitalised exploration expenditure during the period	336,578	-
<b>Balance at 31 December 2019</b>	<b>1,494,226</b>	<b>(57,549,323)</b>

The effects on the Consolidated Statement of Comprehensive Income were as follows:

	31-Dec-18
	\$
- Increase in loss for the period	(432,488)

The effects on the earnings per share for the comparative period were as follows:

	31-Dec-18
	\$
- Previously reported - Basic and diluted earnings per share	(0.003)
- Restated - Basic and diluted earnings per share	(0.005)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**5. CONTRIBUTED EQUITY**

**Issued and fully paid**

	31-Dec-19		30-Jun-19	
	\$	No.	\$	No.
Fully paid ordinary shares	58,857,850	292,433,397	58,857,850	291,783,397
	<b>58,857,850</b>	<b>292,433,397</b>	<b>58,857,850</b>	<b>291,783,397</b>

**Movement reconciliation**

ORDINARY SHARES	Quantity	\$
<b>Balance at the beginning of the period</b>	<b>291,783,397</b>	<b>58,857,850</b>
Employee Share Loan Scheme <sup>(1)</sup>	650,000	-
<b>Balance at the end of the period</b>	<b>292,433,397</b>	<b>58,857,850</b>

(1) On 25 November 2019, 650,000 fully paid ordinary shares were issued to the Chief Commercial Officer upon conversion of performance rights.

**6. RESERVES**

	31-Dec-19	30-Jun-19
	\$	\$
Options reserve	2,122,266	2,034,495
Share loan scheme reserve	84,167	100,849
Performance rights reserve	149,545	303,845
FVOCI reserve	-	61,296
	<b>2,355,978</b>	<b>2,500,485</b>

**Option reserve**

The reserve represents the value of options issued to employees, directors and service providers engaged in capital raising activities.

	31-Dec-19	30-Jun-19
	\$	\$
<b>Movement reconciliation</b>		
<b>Balance at the beginning of the period</b>	<b>2,034,495</b>	<b>1,830,532</b>
Vesting expenses relating to options during the period	96,971	203,963
Reversal of share-based payment expense	(9,200)	-
<b>Balance at the end of the period</b>	<b>2,122,266</b>	<b>2,034,495</b>

**Share loan scheme reserve**

The reserve represents the value of shares issued to employees and directors under a share loan scheme.

	31-Dec-19	30-Jun-19
	\$	\$
<b>Movement reconciliation</b>		
<b>Balance at the beginning of the period</b>	<b>100,849</b>	<b>65,709</b>
Vesting expenses relating to share loan scheme during the period	2,190	51,445
Reversal of share-based payment expense	(18,872)	-
Transfer to accumulated losses	-	(16,305)
<b>Balance at the end of the period</b>	<b>84,167</b>	<b>100,849</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Performance rights reserve**

The reserve represents the value of performance rights issued to an employee in accordance with the employee's employment contract.

	31-Dec-19	30-Jun-19
	\$	\$
<b>Movement reconciliation</b>		
<b>Balance at the beginning of the period</b>	<b>303,845</b>	<b>16,667</b>
Vesting expenses relating to performance rights during the period	62,366	287,178
Reversal of share-based payment expense	(216,666)	-
<b>Balance at the end of the period</b>	<b>149,545</b>	<b>303,845</b>

**FVOCI reserve (formerly available-for-sale reserve)**

The reserve is used to recognise increments and decrements in the fair value of available-for-sale financial assets.

	31-Dec-19	30-Jun-19
	\$	\$
<b>Movement reconciliation</b>		
<b>Balance at the beginning of the period</b>	<b>61,296</b>	<b>57,540</b>
Gain on revaluation of available-for-sale financial assets	-	3,756
Revaluation of equity investments at FVOCI	(61,296)	-
<b>Balance at the end of the period</b>	<b>-</b>	<b>61,296</b>

**7. SHARE BASED PAYMENTS**

	Number of options, rights & shares	Share-based payment expense at 31-Dec-19	Reversal of share-based payment expense at 31-Dec-19	Remaining share-based payment expense at 31-Dec-19
Employee and Consultants Options (i)	24,097,500	\$96,971	(\$9,200)	\$164,582
Loan Scheme Shares (ii)	1,200,000	\$2,190	(\$18,872)	\$2,166
Performance Rights (iii)	950,000	\$62,366	(\$216,666)	\$29,254
<b>Total</b>	<b>26,247,500</b>	<b>\$161,527</b>	<b>(\$244,738)</b>	<b>\$196,002</b>

**(i) Employee and Consultant Options**

Details of loan scheme shares issued, exercised and cancelled during the period are set out below:

Options	Grant Date	Expiry Date	Exercise Price	Balance at the start of the period	Granted during the period	Exercised during the period	Lapsed during the period	Balance at the end of the period
Options - T1	25-Sep-17	16-Oct-20	\$0.15	8,132,500	-	-	(100,000)	8,032,500
Options - T2	25-Sep-17	16-Oct-20	\$0.17	8,132,500	-	-	(100,000)	8,032,500
Options - T3	25-Sep-17	16-Oct-20	\$0.20	8,132,500	-	-	(100,000)	8,032,500
<b>Total</b>				<b>24,397,500</b>	<b>-</b>	<b>-</b>	<b>(300,000)</b>	<b>24,097,500</b>

During the period, 300,000 unlisted employee options lapsed for nil consideration.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(ii) Loan Scheme Shares**

Details of loan scheme shares issued, exercised and cancelled during the period are set out below:

Shares	Grant Date	Expiry Date	Exercise Price	Balance at the start of the period	Granted during the period	Exercised during the period	Lapsed during the period	Balance at the end of the period
Various Holders	25-Sep-17	25-Sep-27	\$0.11	1,000,000	-	-	-	1,000,000
M Chan (a)	15-Feb-18	7-Jun-20	\$0.22	300,000	-	-	(300,000)	-
L Grove	21-Jan-19	4-Feb-29	\$0.1421	200,000	-	-	-	200,000
<b>Total</b>				<b>1,500,000</b>	<b>-</b>	<b>-</b>	<b>(300,000)</b>	<b>1,200,000</b>

- a) On 11 October 2019, the vesting conditions in respect to Mr Chan's 300,000 shares which were issued under the Employee Share Loan Scheme were not satisfied prior to his resignation as Chief Development Officer.

**(iii) Performance Rights**

Details of performance rights issued, exercised and lapsed during the period are set out below:

Rights	Grant Date	Expiry Date	Issue Price	Balance at the start of the period	Granted during the period	Exercised during the period	Lapsed during the period	Balance at the end of the period
M Chan (a)	15-Feb-18	18-Jun-21	\$0.220	3,000,000	-	-	(3,000,000)	-
L Grove (b)	21-Jan-19	4-Feb-24	\$0.145	1,600,000	-	(650,000)	-	950,000
<b>Total</b>				<b>4,600,000</b>	<b>-</b>	<b>(650,000)</b>	<b>(3,000,000)</b>	<b>950,000</b>

- a) On 11 October 2019, 3,000,000 performance rights held by Mr Chan lapsed, as the vesting conditions in respect of the performance rights were not satisfied prior to Mr Chan's resignation as Chief Development Officer.
- b) On 25 November 2019, 650,000 performance rights were converted to shares in accordance with the Company's employee incentive scheme.

**8. SEGMENT REPORTING**

**Reportable Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The chief operating decision makers, who are responsible for allocating resources and assessing performance of the operating segments, have been identified as the Board of Directors.

Following the acquisition of an 80% interest in a private USA registered company, Charge Minerals LLC in March 2019, it was determined that the Group operates in three operating segments, mineral exploration in Australia, mineral exploration in United States of America and resources allocated to administration. This is the basis in which internal reports are provided to the Directors for assessing performance and determining the allocation of resources within the Group.

**(i) Segment performance**

	Exploration USA	Exploration Australia	Administration	Total
<b>31-Dec-19</b>	\$	\$	\$	\$
<b>Revenue</b>				
Interest income	-	-	21,212	21,212
Other income	-	439,248	-	439,248
<b>Total segment revenue</b>	<b>-</b>	<b>439,248</b>	<b>21,212</b>	<b>460,460</b>

**Reconciliation of segment results to net loss before tax**

**Amounts not included in segment results but reviewed by the Board**

- Exploration and evaluation expenditure	(583,220)	(151,452)	-	(734,672)
- Administration, consulting and other expenses				(865,675)
- Business development				(144,798)
<b>Net loss before tax from continuing operations</b>				<b>(1,284,685)</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

	Exploration USA	Exploration Australia	Administration	Total
<b>31-Dec-18</b>	\$	\$	\$	\$
<b>Revenue</b>				
Interest income	-	-	14,116	<b>14,116</b>
<b>Total segment revenue</b>	<b>-</b>	<b>-</b>	<b>14,116</b>	<b>14,116</b>

**Reconciliation of segment results to net loss before tax**

**Amounts not included in segment results but reviewed by the Board**

- Exploration and evaluation expenditure - Restated (i)	-	(432,488)	-	(432,488)
- Administration, consulting and other expenses				(1,011,325)
<b>Net loss before tax from continuing operations</b>				<b>(1,429,697)</b>

**(ii) Segment assets**

	Exploration USA	Exploration Australia	Administration	Total
<b>31-Dec-19</b>	\$	\$	\$	\$
<b>Total segment asset</b>	<b>-</b>	<b>1,494,226</b>	<b>2,580,924</b>	<b>4,075,150</b>

	Exploration USA	Exploration Australia	Administration	Total
<b>30-Jun-19</b>	\$	\$	\$	\$
<b>Total segment asset - Restated (i)</b>	<b>-</b>	<b>1,157,648</b>	<b>4,335,779</b>	<b>5,493,427</b>

**(iii) Segment liabilities**

	Exploration USA	Exploration Australia	Administration	Total
<b>31-Dec-19</b>	\$	\$	\$	\$
<b>Total segment liabilities</b>	<b>16,629</b>	<b>16,881</b>	<b>359,688</b>	<b>393,198</b>

	Exploration USA	Exploration Australia	Administration	Total
<b>30-Jun-19</b>	\$	\$	\$	\$
<b>Total segment liabilities</b>	<b>73,639</b>	<b>7,042</b>	<b>291,602</b>	<b>372,283</b>

(i) Refer to note 2(e) and note 4 for details regarding the restatement as a result of a change in accounting policy.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

#### Transactions with Related Parties

Drumrock Capital Ltd, an entity associated with Charles Whitfield, provided consulting services totaling \$42,500 to the Company during the period (2018: \$42,500).

There were no other transactions with related parties during the period.

### 10. COMMITMENTS

#### Future exploration

The Group has certain obligations to expend minimum amounts on exploration in tenement areas. These obligations may be varied from time to time and are expected to be fulfilled in the normal course of operations of the Group.

	31-Dec-19	30-Jun-19
	\$	\$
<b>Exploration obligations to be undertaken:</b>		
Payable within one year	930,080	114,236
Payable within one year and five years	3,214,452	117,782
	<b>4,144,532</b>	<b>232,018</b>

Other than the commitments noted above, there has been no other material change in the Groups commitments during the period.

### 11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at the date of this report.

### 12. DIVIDENDS & FRANKING CREDITS

There were no dividends paid or recommended during the period. There are no franking credits available to the shareholders of the Company.

### 13. SUBSEQUENT EVENTS

On 17 February 2020 Hexagon reported that IMC, its partner in the commercialisation of RapidSX for REE separation has entered into a Technical Services Agreement (TSA) with Ucore Rare Metals Inc. (Ucore) (TSXV: UCU) (OTCQX: UURAF). The purpose of the TSA is to assess RapidSX for the separation of REE concentrate materials into high-purity REE oxides (REOs) from Ucore's flagship Bokan-Dotson Ridge REE Project located in Alaska, USA, and/or other commercially available, U.S. allied-sourced, mixed REE concentrate sources currently under nearer-term consideration for potential utilisation at the company's planned Alaska Strategic Metals Complex in the United States.

The directors are not aware of any other matters or circumstances at the date of the report, other than those referred to in this report or the financial statements or notes thereto, that have significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the Company in subsequent financial years.

**DIRECTORS' DECLARATION**

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors



**Michael Rosenstreich**  
**Managing Director**  
**12 March 2020**

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## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Hexagon Energy Materials Limited

### Report on the Half-Year Financial Report

#### Conclusion

We have reviewed the half-year financial report of Hexagon Energy Materials Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

#### Emphasis of matter - Material uncertainty relating to going concern

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

#### Directors' responsibility for the Half-Year Financial Report

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

#### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

#### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

**BDO Audit (WA) Pty Ltd**

BDO

A handwritten signature in black ink, appearing to read 'J Prue', is written over the printed name.

**Jarrad Prue**

**Director**

Perth, 12 March 2020

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