HEXAGON ENERGY MATERIALS LIMITED

ABN 27 099 098 192

FINANCIAL REPORT

YEAR ENDED 30 JUNE 2020

CONTENTS

CORPORATE DIRECTORY

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
Suite 3, 7 Kintail Road
Applecross, WA 6153

PO Box 825
Canning Bridge, Applecross WA 6153

T: +61 (08) 6244 0349
F: +61 (08) 6314 6673
E-mail: info@hxgenergymaterials.com
Website: 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

Share Registry
Automic Pty Ltd
Level 5, 126 Phillip Street
Sydney NSW 2000
Website: www.automic.com.au

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

DIRECTORS' REPORT

Your Directors present their report on Hexagon Energy Materials Limited (formerly Hexagon Resources Limited) ('Hexagon' or 'Company') and its controlled entities ('Consolidated Entity' or 'Group') for the year ended 30 June 2020.

1. BOARD OF DIRECTORS

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

Name	Position	Period of Directorship
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. INFORMATION ON THE BOARD OF DIRECTORS

The following information is current as at the date of this report.

Charles Whitfield - Non-Executive Chairman	
Experience and expertise	Mr. Whitfield is an experienced executive with over 20 years' experience in finance and commercial development of early stage technology and specialist resource companies. Mr Whitfield was an executive Director for Galaxy Resources Limited where he had responsibility for strategy and finance during the significant turnaround of Galaxy from a distressed company to one of the pre-eminent lithium companies. Mr Whitfield is a Director of Drumrock Capital which invests in, and provides advice to, turnaround and early stage technology and specialist resource companies. He was formerly a Managing Director with Citigroup where he held the position of Head of the Corporate Equity Solutions Group (Asia Pacific) and prior to this, he worked for the Deutsche Bank where he was Head of the Strategic Equity Group (Asia Pacific). Mr Whitfield has a Masters in Business Administration (majoring in Finance and Strategy) from Columbia Business School (New York) and a Bachelor of Economics from the University of Exeter (UK).
Other current directorships	None
Former directorships in last 3 years	None
Special responsibilities	Chairman
Interests in shares and options	Direct - Ordinary shares - 4,126,214 Direct - Unlisted Options - 2,975,000 at 15 cents each expiring 16 October 2020. Vested. Direct - Unlisted Options - 2,975,000 at 17 cents each expiring 16 October 2020. Unvested. Direct - Unlisted Options - 2,975,000 at 20 cents each expiring 16 October 2020. Unvested.

DIRECTORS' REPORT

Michael Rosenstreich - Managing Director	
Experience and expertise	Mr. Rosenstreich contributes extensive experience in bringing mine projects from exploration into operations, including organising financing and offtake agreements. He has over 30 years technical, corporate and financial experience. Before joining Hexagon he ran a boutique corporate consultancy, Keystone Resources Development for 3 years specialising in merging technical and financial aspects of mining projects to create, develop or rescue projects or distressed financiers. Mr Rosenstreich was co-founder and Managing Director of Bass Metals Limited, leading it from pre-IPO stage, exploration success and then transitioning to over 5 years of base and precious metals production. Prior to that he worked with NM Rothschild & Sons (Aust) Ltd as a resources banker for 5 years. This followed 13 years in a series of senior geological positions with Homestake Gold and Dominion Mining. Mr Rosenstreich holds a BSc (Hons) in Geology and Masters in Mineral and Energy Economics. He is a Fellow of the AusIMM and a Member of the AICD.
Other current directorships	None
Former directorships in last 3 years	Emerge Gaming Limited (formerly Arrowhead Resources Limited) – Resigned 16 April 2018
Special responsibilities	Managing Director
Interests in shares and options	Indirect - Ordinary Shares - 1,096,053 (500,000 unvested) Indirect - Unlisted Options - 4,250,000 at 15 cents each expiring 16 October 2020. Vested. Indirect - Unlisted Options - 4,250,000 at 17 cents each expiring 16 October 2020. Unvested. Indirect - Unlisted Options - 4,250,000 at 20 cents each expiring 16 October 2020. Unvested.

Garry Plowright - Non-Executive Director	
Experience and expertise	Mr. Plowright is an experienced executive with over 25 years' experience in finance, commercial and technical development within the mining and exploration industry, working for some of Australia's leading resource companies. He had been involved in gold, base metals and iron ore exploration and mining development projects in Australia and worldwide. Previous experience with the supply and logistics of services to the mining and exploration industry including capital raising, corporate governance and compliance, project management, mining and environmental approvals and regulations, contract negotiations, tenure management, land access, stakeholder and community engagement. Mr Plowright has extensive experience in mining law and has provided services to the industry in property acquisitions, project generation and joint venture negotiations. Mr Plowright has held global operational and corporate roles with Gindalbie Metals Ltd, Mt Edon Gold Ltd, Pacmin Mining, Atlas Iron Ltd, Tigris Gold (South Korea) and Westland Titanium (New Zealand).
Other current directorships	Executive Director of Fenix Resources Limited (ASX: FEX)
Former directorships in last 3 years	None
Special responsibilities	None
Interests in shares and options	Indirect - Ordinary shares - 1,000,000 Indirect - Unlisted Options - 637,500 at 15 cents each expiring 16 October 2020. Vested. Indirect - Unlisted Options - 637,500 at 17 cents each expiring 16 October 2020. Unvested. Indirect - Unlisted Options - 637,500 at 20 cents each expiring 16 October 2020. Unvested.

DIRECTORS' REPORT

3. INFORMATION ON THE OFFICERS OF THE COMPANY

Rowan Caren
Company Secretary (Appointed 18 September 2017)

Mr Caren is a highly experienced Company Secretary and qualified Chartered Accountant. He was employed by the chartered accountancy firm PricewaterhouseCoopers in Australia and overseas for six years and has been directly involved in the minerals exploration industry for more than 20 years. He has provided company secretarial and corporate advisory services to several exploration companies and is a member of Chartered Accountants Australia and New Zealand. Mr Caren is a director of ASX listed, Myanmar Metals Ltd (ASX: MYL).

Lianne Grove
Chief Commercial Officer (Appointed 3 September 2018)

Ms Grove is an experienced Certified Practicing Accountant (CPA) and senior finance executive with a wealth of commercial and finance experience and a strong track record in the development and implementation of business strategy, joint venture management and project planning and execution which is instrumental in supporting the commercialisation of Hexagon's graphite resources and interests in rare-earth element processing technology.

Prior to joining Hexagon she held various senior positions in a number of Australian and international companies predominantly in mining and oil and gas, including AWE and Rio Tinto.

Lianne holds a Bachelor of Commerce from the Australian National University, is a Certified Practicing Accountant and is a graduate of the Australian Institute of Company Directors.

Michael Chan
Chief Development Officer (Appointed 21 May 2018, Resigned 30 September 2019)

Mr Chan was the General Manager – Project Development for Syrah Resources Ltd, with prime responsibility for bringing the Balama Graphite Project from an exploration target to an emerging, significant graphite concentrate producer. Prior to joining Syrah Resources, Mr Chan spent 30 years developing innovative process flow sheets and product market development to commercialise a range of specialty and advanced metals including graphite, rare-earths, vanadium, tungsten, titanium and base metals.

Mr Chan holds a Bachelor of Science (Hons) in Minerals Engineering from the University of Birmingham, England, is a member of the Australian Institute of Mining and Metallurgy and is a Chartered Engineer (Council of Engineering Institution, London).

4. MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2020 and the number of meetings attended by each Director.

Directors	Meetings attended	Eligible to attend
Charles Whitfield	3	3
Mike Rosenstreich	3	3
Garry Plowright	3	3

There are no committees of directors. All relevant matters are considered by the Board.

5. 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 financial report encompassing the entities that it controlled during the financial year (refer note 24).

DIRECTORS' REPORT

6. NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

Hexagon is an Australian-listed company which is seeking to develop an integrated rare-earth refining business utilising state-of-art rare-earths elements ('REEs') processing technology to produce a range of high-purity REE oxides ('REOs'). REE permanent magnets are essential for electric-vehicle motors, consumer electronic products, renewable-energy generation, and a number of military applications.

Hexagon has an agreement with Innovation Metals Corp. (IMC) whereby Hexagon has an Option to acquire a 49% equity interest in American Innovation Metals LLC (AIM). AIM is a prospective corporate joint-venture vehicle that, on exercise of that Option, will own an exclusive intellectual property license for IMC's RapidSX™ technology for the separation of REEs into various high-purity REO products. To exercise the option, Hexagon must pay IMC US$2.0 million before 10 October 2020, which will result in Hexagon acquiring a 49% equity interest in AIM, with IMC holding the other 51%. AIM would then commercialise RapidSX for REE separation under joint management. The company is in advanced discussions with potential strategic investors to enable the exercise of the Option.

IMC is developing a Commercialisation and Development Facility ('CDF') to commercialise its RapidSX separation technology. RapidSX offers potential capital cost savings and improved operating effeciencies compared to existing conventional solvent extraction (SX) processes currently utilised by REE producers. The technology was developed and successfully piloted by IMC with US$1.8 million in assistance from the U.S. Department of Defense ('DoD').

Hexagon's focus is on the downstream processing and transformation of REEs into commercial-grade REOs, with the objective of licensing the RapidSX REE-separation technology to end users through AIM or developing its own REE refining capabilities. Additionally, Hexagon has several exploration holdings including the Halls Creek gold project and the McIntosh project which hosts the Company's graphite resources and is also prospective for nickel-copper and PGE deposits.

7. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company's operations are subject to environmental regulations in relation to its exploration and development activities. The Directors are not aware of any significant breaches during the period covered by this report.

8. CURRENCY

The financial report is presented in Australian dollars and amounts are rounded to the nearest dollar.

9. DIVIDENDS

No dividends were paid during the financial year ended 30 June 2020 (2019: nil) and no dividend is recommended for the current year.

10. FINANCIAL REVIEW

For the year ended 30 June 2020, the loss for the Consolidated Entity after providing for income tax was $2,341,291 (2019: loss of $3,522,805).

The Company received a research and development income tax concession of $439,248 (2019: $329,349) during the financial year.

At 30 June 2020 the Company had 292,433,397 ordinary shares and 24,097,500 options on issue.

The Consolidated Entity's main expenses were as follows:

	30-Jun-20	30-Jun-19
	$	$
Business development	559,511	-
Corporate and administration expenses	982,923	1,058,308
Exploration and evaluation expenditure	1,032,839	1,801,732
Personnel expenses and director fees	354,812	556,880
(Net reversal of share-based payments) / Share-based payments expense	(28,339)	542,586

Cashflows

The major items of cash receipts (expenditure) during the year were:

	30-Jun-20	30-Jun-19
	$	$
Receipts:		
Receipt of government grant in relation to exploration assets	439,248	329,349
Proceeds from issue of shares	-	39,916
Expenditures:		
Payments to suppliers and employees (1)	(1,245,106)	(1,622,971)
Payments for exploration and evaluation expenses	(1,651,766)	(1,770,713)
Payments for exploration and evaluation assets	(402,243)	(228,212)

(1) Employee payments that relate specifically to the Company's projects are included in "Payments for exploration and evaluation expenses" and "Payments for exploration and evaluation assets".

11. CORPORATE

Management Changes

On 30 September 2019 Mr Michael Chan resigned as Chief Development Officer of the Company. Mr Gavin Beer was appointed as a Strategic Technical Advisor in February 2020.

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 ('Ms Grove') upon conversion of performance rights.

On 30 June 2020, 950,000 performance rights held by Ms Grove lapsed as the 'graphite-related' non-market and market performance hurdles were not satisfied.

At 30 June 2020, the Company had 292,433,397 ordinary shares and 24,097,500 options on issue.

12. 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 and other 'energy-materials opportunities in response to a persistent and significant global oversupply and idled capacity to produce flake graphite 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 secured an Option to acquire a 49% equity interest in AIM, the prospective corporate joint-venture vehicle that, on exercise of that Option, will own an exclusive intellectual-property license for IMC's RapidSXTM technology for the separation of REEs into various high-purity REO products. IMC's proprietary RapidSXTM separation technology has the potential to enable current and future REE producers to undertake additional processing to add value and produce high-purity 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 sectors, as well as graphite. Shareholders also approved the transaction outlined in the Investment Agreement with IMC.

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

13. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATION

The likely developments of the Company are anticipated to be as follows:

- **Rare-Earths Processing:** To exercise the Option to acquire a 49% equity interest in AIM and then to work with IMC within the joint venture to commercialise and to utilise RapidSX for REEs. Hexagon is in negotiations to secure a strategic investor to provide the funding for it to exercise the Option with a US$2.0 million payment to IMC before 10 October 2020 resulting in a 51% and 49% equity split of AIM for IMC and Hexagon respectively. The Company is in advanced discussions with potential strategic investors.
- **Halls Creek Project - Gold and Base Metals:** The Company is undertaking a staged field-based exploration program leveraging off the detailed aeromagnetic survey data flown in September 2019. The interpretation of this data has provided high-quality 'geological context' for the numerous high priority targets prospective for gold and base metal mineralisation. The planned exploration program will follow-up several outstanding high-grade gold targets identified from historical data and the recent aeromagnetic data
- **McIntosh Project - Graphite and Base Metals:** Hexagon's next step is to compile the historical data into an 'accessible' database and apply modern exploration principles, leveraging off recent advances in reprocessing technology of geophysical data and ore deposit modelling to prioritise targets. This will include structural-stratigraphic interpretation and a package wide geochemical and geophysical compilation and data reprocessing for selected areas.

14. REVIEW OF OPERATIONS

14.1 Rare-Earths Processing

On 10 October 2019, Hexagon announced its planned participation in AIM, the new REE processing prospective joint venture vehicle with private Canadian company, IMC, which was subsequently approved by Hexagon shareholders.

The objective of the JV is to commercialise RapidSX™ for REE separation. RapidSX is a new, demonstrated SX based technology to separate and purify REEs for the production of commercial-grade REOs. Developed by IMC and successfully piloted, with the assistance of US$1.8 million in funding from the DoD, RapidSX has demonstrated significantly lower capital and enhanced operating efficiencies compared to conventional SX – and, most importantly, is potentially 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 turbines and electronic devices, as well as numerous military/defence applications – which 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 DoD-funded pilot plant test work.

Hexagon has an Option to acquire a 49% equity interest in AIM, which on exercise of the Option will own an exclusive global licence for RapidSX for REE separation.

To exercise the Option, Hexagon must make a US$2.0 million payment to IMC by 10 October 2020 resulting in a 51% and 49% equity split of AIM for IMC and Hexagon respectively. There is also a deferred consideration component payable to IMC out of Hexagon's share of AIM profits at a maximum rate of 50% of any such disbursements with no interest payable, to a total of US$4.0 million. On exercise of the Option all AIM board-level decisions will require unanimous consent – effectively giving Hexagon an equal voice.

Recent developments in respect of the commercialisation of RapidSX for REEs, as reported by Hexagon and IMC include:

- IMC has filed a provisional patent application for RapidSX in the US Patent and Trademark Office;
- AIM was incorporated in Delaware, USA;
- IMC has provided Hexagon with additional capital and operating cost estimates, based on previous work, to support Hexagon's commercial assessments and financial modelling and is providing ongoing assistance; and
- The commercial demonstration plant will be hosted within IMC's CDF, a pilot facility owned and operated by Kingston Process Metallurgy Inc ('KPM') in Kingston, Ontario, Canada.

Hexagon is continuing discussions with a number of potential funding partners, examining a range of funding options.

DIRECTORS' REPORT

14.2 Halls Creek Project (WA, Australia)

The Halls Creek Project ('HCP') comprises thirteen granted tenements spanning 657 km^2 which host known gold and base metal surface mineralisation.

The Company is undertaking a staged field-based exploration program leveraging off the detailed aeromagnetic survey data flown in September 2019. The interpretation of this data has provided high-quality 'geological context' for the numerous high priority targets prospective for gold and base metal mineralisation (refer Figure 1).

The planned exploration program will follow-up several outstanding high-grade gold targets such as:

- Lady Helen – historical drill intercept of 4 metres at 22.6 g/t gold and 17.3 g/t silver from surface and a rock chip result of 36 g/t gold;
- Townsite Prospect – with a surface rock chip sample result of 26 g/t gold; and
- Granite Prospect with a rock chip result of 11.5 g/t.

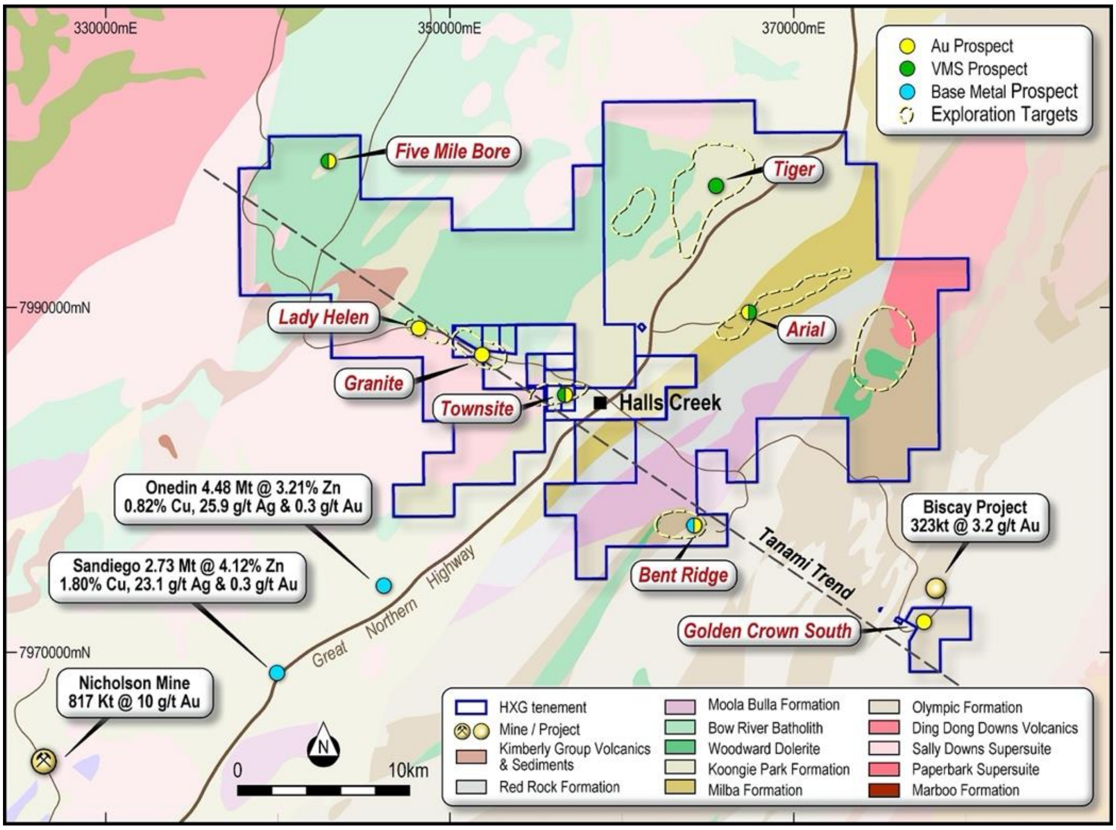
Gold targets have also been identified at:

- Bent Ridge Prospect with 1.3 g/t gold from rock chip sample of veined and altered lode, within an extensive arsenic-in-soil anomaly; and
- Golden Crown South – which is considered to be prospective for extensions and parallel structures to those previously drilled and mined at the adjacent Palm Springs Gold Project as reported by Meteoric Resources Ltd (ASX:MEI) on 15 June 2020, "Proposed acquisition of High-Grade Western Australian Gold Project".

A staged program, conducted over a period of several months, is planned to comprise:

1. Geochemical - sampling to identify new targets and better define existing targets along the Lady Helen to Bent Ridge gold trend and new targets identified from the aeromagnetic data.
2. Geophysics – a review of historical data and, where relevant, apply new processing techniques or geological models to identify untested targets.
3. Geological Mapping – at a detailed prospect-scale along the Lady Helen-Bent Ridge trend and at a broader regional scale to identify structural controls on lode-gold mineralisation, the main regional structural and lithological units as reconciled to the aeromag interpretation and mapping of other anomalies identified from the aeromagnetic and historical data.
4. Drilling –to better define regional scale mineralised structures which host some of the gold targets referred to previously, subject to the geochemical and geophysical results.

Figure 1: Halls Creek Project Summary Geology and Target Locations



14.3 McIntosh Project – Graphite and Base Metals (WA, Australia)

Until recently, Hexagon had focused on purely graphite exploration at the McIntosh Project and was successful in defining a JORC-compliant graphite resource within its tenements and a positive prefeasibility study. Due to the subsequent depressed market for flake graphite concentrates, Hexagon engaged independent consulting group, NV Resources, early in 2020 to review the project's potential to host other base and precious metal deposits in addition to the existing graphite Mineral Resources.

The NV Resources team sourced, and appraised high-quality historical data relating to the project and have identified a suite of compelling nickel-copper targets, which warrant further investigation. The geological setting of the McIntosh area is also highly prospective for PGE mineralisation which remains largely unexplored notwithstanding the Panton PGE project (Panoramic Resources ASX:PAN) located adjacent to the Company's tenements.

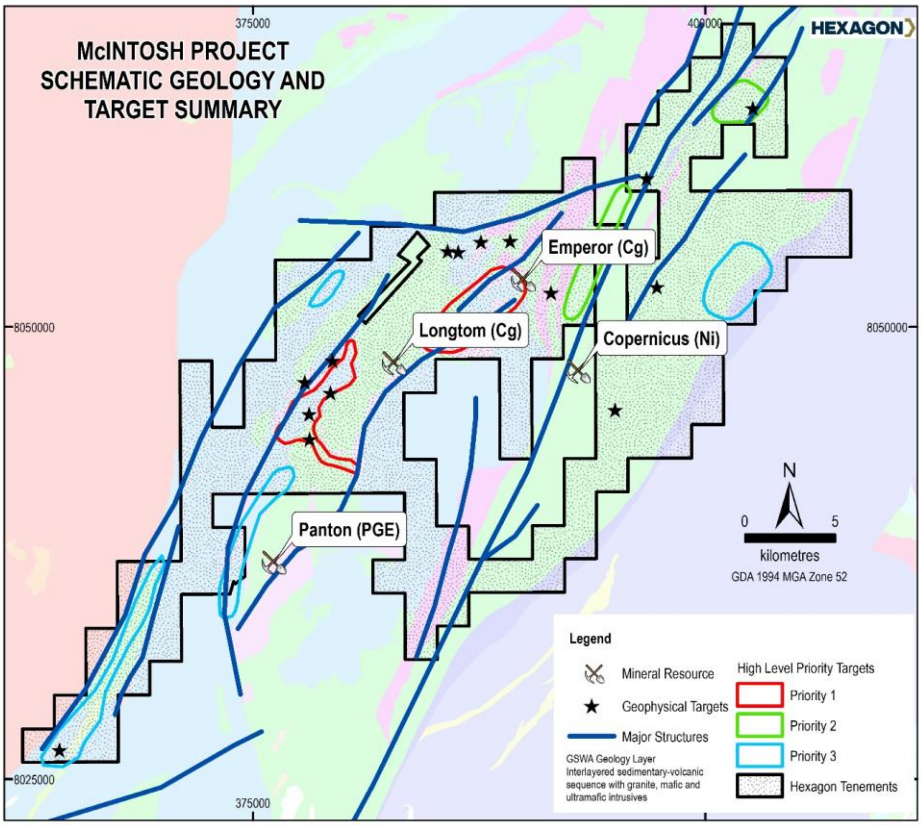
McIntosh exploration review summary findings

The East Kimberley region has been the subject of base metal exploration since the 1970s. The work undertaken was generally of a very high quality by experienced and successful exploration groups. There was a hiatus of base metal exploration on the McIntosh tenements from approximately 2005. Since that time there have been several significant and potentially analogous discoveries such as magmatic nickel-copper deposits in the Fraser Range of WA (Nova – IGO), the West Kimberley (Merlin – BUX/IGO) and possibly, Julimar (CHN),– which highlight the potential for new geological models and major advances in exploration technology to yield new discoveries.

With so many prospects and mineral occurrences over such an extensive strike length, the McIntosh tenements are considered to be highly prospective. The recent review of the historical geochemical data has identified eight (8) high priority base and/or precious metal targets. A further fifteen (15) geophysical targets have been identified after reprocessing historical electromagnetic (EM) data. The 8 geochemical targets and 15 EM anomalies are depicted in Figure 2.

Recent work on the McIntosh project highlights the rare combination of a consolidated large land package covering highly prospective geology with abundant mineralised surface occurrences which warrant further investigation. Furthermore, the project boasts a significant existing dataset which would cost tens of millions to reproduce. Given the known fertility of the nearby district (Savannah nickel mine and Panton Sill PGE deposit) modern exploration is warranted to investigate a suite of geochemical and geophysical anomalies within the McIntosh Project. The Company considers that the East Kimberley province boasts the right criteria to host world class deposits.

Figure 2: McIntosh Project – New target summary map



14.4 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 totaling over 100 tonnes.

Bench-scale and pilot scale tests were carried out on one composite sample and a 20 tonne bulk sample from Ceylon Mine Project. 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 much 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 opportunities.

14.5 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.

15. INTEREST IN EXPLORATION TENEMENTS

Hexagon Energy Materials Limited held the following interests in exploration tenements as at 30 June 2020:

McIntosh, WA				
Tenement	**Ownership Status**	**Application Date**	**Grant Date**	**Expiry Date**
E80/3864	100% Hexagon	29/01/2007	08/04/2008	7/04/2022
E80/3906	100% Hexagon	16/03/2007	03/12/2008	02/12/2020
E80/3907	100% Hexagon	16/03/2007	03/12/2008	02/12/2020
E80/3928	100% Hexagon	17/04/2007	02/06/2009	01/06/2021
E80/4688	100% Hexagon	15/02/2012	25/10/2012	24/10/2022
E80/4732	100% Hexagon	24/08/2012	14/11/2013	13/11/2023
E80/4733	100% Hexagon	28/08/2012	15/11/2013	14/11/2023
E80/4734	100% Hexagon	29/08/2012	17/09/2014	16/09/2024
E80/4739	100% Hexagon	20/09/2012	14/11/2013	13/11/2023
E80/4825	100% Hexagon	28/08/2013	03/09/2014	2/09/2024
E80/4841	100% Hexagon	03/12/2013	27/08/2014	26/08/2024
E80/4842	100% Hexagon	03/12/2013	27/08/2014	26/08/2024
E80/4879	100% Hexagon	12/05/2014	23/07/2015	22/07/2020*
E80/4931	100% Hexagon	16/12/2014	12/08/2015	11/08/2020*
E80/5151	100% Hexagon	13/10/2017	05/07/2019	04/07/2024
E80/5157	100% Hexagon	13/11/2017	05/07/2019	04/07/2024
P80/1821	100% Hexagon	31/10/2013	27/08/2014	26/08/2022

* The Company has submitted applications for the extension of term.

Halls Creek, WA				
Tenement	**Ownership Status**	**Application Date**	**Grant Date**	**Expiry Date**
E80/4793	100% Hexagon	17/05/2013	03/11/2014	2/11/2024
E80/4794	100% Hexagon	17/05/2013	03/09/2014	2/09/2024
E80/4795	100% Hexagon	17/05/2013	10/12/2014	9/12/2024
E80/4858	100% Hexagon	23/01/2014	06/05/2016	05/05/2021
E80/5126	75% Hexagon	15/08/2017	25/10/2019	24/10/2024
P80/1799	100% Hexagon	09/05/2012	03/09/2013	02/09/2021
P80/1800	100% Hexagon	09/05/2012	03/09/2013	02/09/2021
P80/1801	100% Hexagon	09/05/2012	03/09/2013	02/09/2021
P80/1814	100% Hexagon	05/09/2013	07/10/2014	06/10/2022
P80/1815	100% Hexagon	05/09/2013	07/10/2014	06/10/2022
P80/1816	100% Hexagon	05/09/2013	07/10/2014	06/10/2022
P80/1817	100% Hexagon	05/09/2013	07/10/2014	06/10/2022
P80/1818	100% Hexagon	05/09/2013	07/10/2014	06/10/2022

Alabama, USA				
Tenement	**Ownership Status**	**Application Date**	**Grant Date**	**Expiry Date**
MLAs**	80% Hexagon		28/02/2019	27/02/2024

** Mineral Lease Agreements with respective mineral rights holders.

16. INDEMNIFICATION OF OFFICERS OR AUDITOR

Indemnification
The Company has agreed to indemnify the current directors and company secretary of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and company secretary of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

Insurance premiums
The Company paid a premium, during the year, in respect of a director and officer insurance policy, insuring the directors of the Company, the company secretary, and executive officers of the Company against any liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act. The directors have not included details of the nature of the labilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts as such disclosure is prohibited under the terms of the contract.

No indemnities have been given or insurance premiums paid, during or since the end of the year, for any person who is or has been an auditor of the Company.

17. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of any Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

18. SHARE OPTIONS

Details of options issued, exercised and expired during the financial year are set out below:

Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Lapsed during the year [4]	Balance at the end of the year
25-Sep-17 [1]	16-Oct-20	$0.15	**8,132,500**	-	-	(100,000)	**8,032,500**
25-Sep-17 [2]	16-Oct-20	$0.17	**8,132,500**	-	-	(100,000)	**8,032,500**
25-Sep-17 [3]	16-Oct-20	$0.20	**8,132,500**	-	-	(100,000)	**8,032,500**
Total			**24,397,500**	**-**	**-**	**(300,000)**	**24,097,500**

(1) Fully vested at 30 June 2018.
(2) 7,895,500 options are subject to vesting conditions (2019: 7,895,500). Refer Note 20: Net Reversal of Share Based Payments / (Share Based Payments Expense) for additional detail.
(3) 7,970,500 options are subject to vesting conditions (2019: 8,070,500). Refer Note 20: Net Reversal of Share Based Payments / (Share Based Payments Expense for additional detail.
(4) 300,000 unlisted employee options lapsed for nil consideration during the financial year.

19. PERFORMANCE RIGHTS

Details of performance rights issued and expired during the financial year are set out below:

Grant Date	Expiry Date	Balance at the start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at the end of the year
15-Feb-18 [1]	18-Jun-21	3,000,000	-	-	(3,000,000)	**-**
21-Jan-19 [2]	4-Feb-24	1,600,000	-	(650,000)	(950,000)	**-**
Total		**4,600,000**	**-**	**(650,000)**	**(3,950,000)**	**-**

(1) 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.
(2) On 25 November 2019, 650,000 performance rights were converted to shares in accordance with the Company's employee incentive scheme. On 30 June 2020, 950,000 performance rights held by Ms Grove lapsed as the non-market and market performance hurdles were not satisfied.

20. REMUNERATION REPORT - AUDITED

This report for the year ended 30 June 2020 outlines the remuneration arrangements of the Group in accordance with the requirements of the Corporations Act 2001 ('the Act') and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel ('KMP') who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Parent company.

Individual KMP disclosure

Details of KMP of the Group who held office during the financial year are as follows:

Directors	Position	Appointment Date
Charles Whitfield	Non-Executive Director and	22 August 2016
	Non-Executive Chairman	5 May 2017
Michael Rosenstreich	Managing Director	17 March 2017
Garry Plowright	Non-Executive Director	10 June 2015

Other KMP	Position	Appointment Date
Rowan Caren	Company Secretary	18 September 2017
Lianne Grove	Chief Commercial Officer	3 September 2018
Michael Chan (1)	Chief Development Officer	21 May 2018

(1) On 30 September 2019 Mr Michael Chan resigned as Chief Development Officer of the Company.

There have been no other changes after the reporting date and up to the date that the financial report was authorised for issue.

The Remuneration Report is set out under the following main headings:

- A Remuneration Philosophy
- B Remuneration Governance, Structure and Approvals
- C Remuneration and Performance
- D Details of Remuneration
- E Contractual Arrangements
- F Share-based Compensation
- G Equity Instruments Issued on Exercise of Remuneration Options
- H Value of Shares to KMP
- I Voting and comments made at the Company's 2019 Annual General Meeting
- J Loans to KMP
- K Loans from KMP
- L Other transactions with KMP

A. Remuneration Philosophy

KMP have authority and responsibility for planning, directing and controlling the activities of the Group. KMP of Hexagon comprise the Board of Directors, the Company Secretary, the Chief Commercial Officer ('CCO') and the Chief Development Officer ('CDO') up until his resignation, being 30 September 2019.

The performance of the Group depends upon the quality of its KMP. To prosper the Company must attract, motivate and retain appropriately skilled Directors and Executives.

The Group's broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

No remuneration consultants were employed during the financial year.

DIRECTORS' REPORT

B. Remuneration Governance, Structure and Approvals

Remuneration of Directors is currently set by the Board of Directors. The Board has not established a separate Remuneration Committee at this point in the Group's development, nor has the Board engaged the services of an external remuneration consultant. It is considered that the size of the Board along with the level of activity of the Group renders this impractical. The Board is primarily responsible for:

- The over-arching executive remuneration framework;
- Operation of the incentive plans which apply to executive directors and senior executives (the executive team), including key performance indicators and performance hurdles;
- Remuneration levels of executives, and
- Non-executive director fees.

Their objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Company.

➢ **Non-Executive Director Remuneration**

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Company's specific policy for determining the nature and amount of emoluments of board members of the Company is as follows:

In accordance with the Constitution, the existing Shareholders of the Company have determined in general meeting that the maximum non-executive Director remuneration to be $300,000 in total, per annum.

As at 30 June 2020 each non-executive Director was entitled to receive fees of $40,000 plus superannuation per annum (2019: $40,000 plus superannuation).

As at 30 June 2020 the Chairman was entitled to receive fees of $65,000 per annum (2019: $65,000). A Director will not be entitled to receive Directors' fees if he or she is employed by the Company in a full-time executive capacity.

A Director may also be paid fees or other amounts as the Directors determine if a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director will also be reimbursed for out of pocket expenses incurred as a result of their Directorship or any special duties.

The remuneration of Non-Executives is detailed in Table 1 and Table 2, and their contractual arrangements are disclosed in "Section E – Contractual Arrangements".

➢ **Executive Directors and Key Management Personnel Remuneration**

The Company aims to reward the executive Directors and key management personnel with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- reward executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of Executives is detailed in Table 1 and Table 2, and their contractual arrangements are disclosed in "Section E – Contractual Arrangements".

C. Remuneration and Performance

The following table shows the share price, market capitalisation and the losses of the Group as at 30 June for the last five financial years:

	2020	2019*	2018*	2017*	2016*
Share price at end of financial year ($)	0.04	0.09	0.21	0.09	0.15
Market capitalisation at end of financial year ($M)	11.70	27.43	61.27	22.17	35.07
Loss for the financial year ($)	2,341,291	3,522,805	2,826,627	2,063,085	3,670,129
Director and KMP remuneration	883,477	1,694,912	1,316,989	973,791	442,158

* In the year ending 30 June 2020, 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. Refer to Note 2(e) and note 12 for details regarding the restatement as a result of a change in accounting policy.

Relationship between Remuneration and Company Performance

Given the current phase of the Company's development the Board does not consider earnings during the current and previous financial years when determining, and in relation to, the nature and amount of remuneration of KMP.

The Company may issue options to provide an incentive for key management personnel which, it is believed, is in line with industry standards and practice and is also believed to align the interests of key management personnel with those of the Company's shareholders.

The Company did not engage remuneration consultants during the 2020 financial year to review management and other staff remuneration packages.

D. Details of Remuneration

During the financial year ended 30 June 2020 and 30 June 2019 KMP received short-term employee benefits, post-employment benefits, share-based payments and employee benefits expenses.

Table 1: Remuneration of Directors and other KMP of the Group for the year ended 30 June 2020:

	Short Term Employee Benefits			Long Term Employee Benefits	Post-Employment Benefits	Share-based Payments		
	Salary & Fees	Bonus	Consulting fees	Leave Entitlements	Super-annuation	Shares & Options	Total	Perfor-mance Related %
30-Jun-20	**$**	**$**	**$**	**$**	**$**	**$**	**$**	
Directors								
Charles Whitfield	65,000	-	85,000	-	-	73,383	**223,383**	33%
Michael Rosenstreich	287,085	-	-	16,307	24,990	118,018	**446,400**	26%
Garry Plowright	38,000	-	-	-	3,610	15,726	**57,336**	27%
Sub-Total	**390,085**	-	**85,000**	**16,307**	**28,600**	**207,127**	**727,119**	
Other KMP								
Rowan Caren	51,300	-	-	-	-	875	**52,175**	2%
Lianne Grove	228,000	-	-	8,975	21,660	8,428	**267,063**	3%
Michael Chan (1)	75,558	-	-	(9,149)	6,250	(235,539)	**(162,880)**	145%
Sub-Total	**354,858**	**-**	-	**(174)**	**27,910**	**(226,236)**	**156,358**	
Total	**744,943**	**-**	**85,000**	**16,133**	**56,510**	**(19,109)**	**883,477**	

(1) Michael Chan resigned as Chief Development Officer on 30 September 2019.

DIRECTORS' REPORT

Table 2: Remuneration of Directors and other KMP of the Group for the year ended 30 June 2019:

	Short Term Employee Benefits			Long Term Employee Benefits	Post-Employment Benefits	Share-based Payments		Performance Related %
	Salary & Fees	Bonus (2)	Consulting fees	Leave Entitlements	Super-annuation	Shares & Options	Total	
30-Jun-19	**$**	**$**	**$**	**$**	**$**	**$**	**$**	
Directors								
Charles Whitfield	65,000	-	85,000	-	-	73,383	**223,383**	33%
Michael Rosenstreich	303,510	-	-	4,760	25,000	118,018	**451,288**	26%
Garry Plowright	40,000	-	20,547	-	5,752	15,726	**82,025**	19%
Sub-Total	**408,510**	-	**105,547**	**4,760**	**30,752**	**207,127**	**756,696**	
Other KMP								
Rowan Caren	54,000	-	-	-	-	875	**54,875**	2%
Michael Chan	259,994	40,000	-	7,361	25,000	217,855	**550,210**	40%
Lianne Grove (1)	198,000	-	-	4,746	25,000	105,385	**333,131**	32%
Sub-Total	**511,994**	**40,000**	-	**12,107**	**50,000**	**324,115**	**938,216**	
Total	**920,504**	**40,000**	**105,547**	**16,867**	**80,752**	**531,242**	**1,694,912**	

(1) Lianne Grove was appointed Chief Commercial Officer on 3 September 2018.
(2) Michael Chan was paid a $40,000 sign on bonus during the current financial year, as per his employment agreement.

Table 3: Shareholdings of KMP (Direct and Indirect Holdings)

30-Jun-20	Balance at 1/07/2019	Granted as Remuneration	Lapsed during the year	Other (4)	Balance at 30/06/2020
Directors					
Charles Whitfield	**4,126,214**	-	-	**-**	**4,126,214**
Michael Rosenstreich (1)	**1,096,053**	-	-	**-**	**1,096,053**
Garry Plowright	**1,000,000**	-	-	**-**	**1,000,000**
Other KMP					
Rowan Caren	**-**	-	-	**-**	**-**
Lianne Grove (2)	**237,000**	650,000	(50,000)	**-**	**837,000**
Michael Chan (3)	**504,545**	-	(300,000)	(204,545)	**-**
Total	**6,963,812**	**650,000**	**(350,000)**	**(204,545)**	**7,059,267**

(1) 1,000,000 shares were issued under the employee share loan scheme in the 2018 financial year, of which 500,000 shares were fully vested at 30 June 2019. The remaining 500,000 shares are subject to vesting conditions. The amount of remuneration in respect of shares yet to vest is $4,395.
(2) 200,000 shares were issued under the employee share loan scheme in the 2019 financial year, of which 125,000 incentive shares (Tranche 1-2) were fully vested at 30 June 2019 and a further 25,000 incentive shares (Tranche 3) were fully vested at 30 June 2020. The remaining 50,000 incentive shares (Tranche 4-5) held by Ms Grove lapsed on 30 June 2020 as the non-market and market performance hurdles were not satisfied. On 25 November 2019, 650,000 performance rights held by Ms Grove were converted to shares in accordance with the Company's employee incentive scheme.
(3) 504,545 shares were issued under the employee share loan scheme in the 2018 financial year, of which 204,545 shares were fully vested at 30 June 2019. On 11 October 2019, Mr Chan's remaining 300,000 incentive shares lapsed, as the vesting conditions in respect of the incentive shares were not satisfied prior to Mr Chan's resignation as Chief Development Officer.
(4) Shares held at date of resignation.

DIRECTORS' REPORT

Table 4: Movement in Option holdings of KMP (Direct and Indirect Holdings)

30-Jun-20	Balance at 1/07/2019	Granted as remuneration	Options Exercised	Net Change Other	Balance at 30/06/2020
Directors					
Charles Whitfield	**8,925,000**	-	-	-	**8,925,000**
Michael Rosenstreich	**12,750,000**	-	-	-	**12,750,000**
Garry Plowright	**1,912,500**	-	-	-	**1,912,500**
Other KMP					
Rowan Caren	**225,000**	-	-	-	**225,000**
Lianne Grove	**-**	-	-	-	**-**
Total	**23,812,500**	**-**	**-**	**-**	**23,812,500**

Table 5: Fair value of Option holdings of KMP (Direct and Indirect Holdings)

30-Jun-20	Grant date	Number of options	Fair value of options at grant date	Number of options vested	% vested	Years in which options may vest
Directors						
Charles Whitfield	25/09/2017	2,975,000	$0.042	2,975,000	100%	-
Charles Whitfield	25/09/2017	2,975,000	$0.039	-	-	2017 - 2020
Charles Whitfield	25/09/2017	2,975,000	$0.035	-	-	2017 - 2020
Michael Rosenstreich	25/09/2017	4,250,000	$0.042	4,250,000	100%	-
Michael Rosenstreich	25/09/2017	4,250,000	$0.039	-	-	2017 - 2020
Michael Rosenstreich	25/09/2017	4,250,000	$0.035	-	-	2017 - 2020
Garry Plowright	25/09/2017	637,500	$0.042	637,500	100%	-
Garry Plowright	25/09/2017	637,500	$0.039	-	-	2017 - 2020
Garry Plowright	25/09/2017	637,500	$0.035	-	-	2017 - 2020
Other KMP						
Rowan Caren	25/09/2017	75,000	$0.042	75,000	100%	-
Rowan Caren	25/09/2017	75,000	$0.039	75,000	100%	-
Rowan Caren	25/09/2017	75,000	$0.035	-	-	2017 - 2020
Total		**23,812,500**		**8,012,500**		

Table 6: Performance rights holdings of KMP (Direct and Indirect Holdings)

30-Jun-20	Balance at 1/07/2019	Granted as remuneration	Rights Exercised	Lapsed during the year	Balance at 30/06/2020
Directors					
Charles Whitfield	**-**	-	-	-	**-**
Michael Rosenstreich	**-**	-	-	-	**-**
Garry Plowright	**-**	-	-	-	**-**
Other KMP					
Rowan Caren	**-**	-	-	-	**-**
Lianne Grove (1)	**1,600,000**	-	(650,000)	(950,000)	**-**
Michael Chan (2)	**3,000,000**	-	-	(3,000,000)	**-**
Total	**4,600,000**	**-**	**(650,000)**	**(3,950,000)**	**-**

(1) On 25 November 2019, 650,000 performance rights held by Ms Grove were converted to shares in accordance with the Company's employee incentive scheme. On 30 June 2020, 950,000 performance rights held by Ms Grove lapsed as the non-market and market performance hurdles were not satisfied.

(2) 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.

DIRECTORS' REPORT

Table 7: Fair Value of Performance rights holdings of KMP (Direct and Indirect Holdings)

30-Jun-20	Grant date	Number of performance rights	Value of performance rights at grant date	Number of performance rights vested	% vested	Years in which performance rights may vest
Other KMP						
Lianne Grove	21/01/2019	325,000	$0.145	325,000	100%	-
Lianne Grove	21/01/2019	325,000	$0.145	325,000	100%	-
Lianne Grove	21/01/2019	475,000	$0.089	-	-	2019-2020
Lianne Grove	21/01/2019	475,000	$0.089	-	-	2019-2020
Michael Chan	15/02/2018	3,000,000	$0.200	-	-	2018-2021
Total		**4,600,000**		**650,000**		

E. Contractual Arrangements

Agreement with the Managing Director – Michael Rosenstreich

On 18 August 2018, the Company and Michael Rosenstreich entered into a new employment agreement ('Employment Agreement'), replacing the previous agreement signed on 17 March 2017, when Mr Rosenstreich was appointed Managing Director. The Employment Agreement contains the terms and conditions under which Mr Rosenstreich will provide his services to the Company.

The agreement:

- has no specified term;
- involves the payment to Michael Rosenstreich of an annual salary of $328,500 inclusive of superannuation up to $25,000, plus the reimbursement of all reasonable business expenses;
- has provision for three months' notice for termination by Michael Rosenstreich and six months' notice for termination by the Company; and
- otherwise contains standard terms relating to confidentiality, conflicts of interest and representations and warranties.

Agreement with Chairman – Charles Whitfield

On 4 May 2017, the Company and Charles Whitfield entered into an agreement containing the terms and conditions under which he will provide his services as Non-Executive Chairman of the Company and an agreement containing the terms and conditions under which he will provide his services as a Consultant to the Company.

The agreement for Non-Executive Chairman Services:

- has no specified term;
- involves the payment to Charles Whitfield of annual director's fees of $65,000, plus the reimbursement of all reasonable business expenses;
- participation in the employee share option plan at the discretion of the Board and subject to shareholder approval;
- has provision for 90 days' notice for termination by either the Company or Charles Whitfield; and
- otherwise contains standard terms relating to confidentiality, conflicts of interest and representations and warranties.

The agreement for Consulting Services:

- has no specified term;
- involves the payment to Charles Whitfield of annual consulting fees of $85,000, plus the reimbursement of all reasonable business expenses;
- participation in the employee share option plan at the discretion of the Board and subject to shareholder approval;
- has provision for 90 days' notice for termination by either the Company or Charles Whitfield; and
- otherwise contains standard terms relating to confidentiality, conflicts of interest and representations and warranties.

DIRECTORS' REPORT

Agreement with Non-Executive Director – Garry Plowright

The agreement for Non-Executive Director Services:
- has no specified term;
- involves the payment to Garry Plowright of annual director's fees of $40,000 plus superannuation, plus the reimbursement of all reasonable business expenses;
- has provision for termination by either the Company or Garry Plowright; and
- otherwise contains standard terms relating to confidentiality, conflicts of interest and representations and warranties.

During the 2019 financial year, Hexagon had an agreement for Consulting Services with Garry Plowright which involved the payment to Garry Plowright of monthly consulting fees of $5,000 plus reimbursement of all reasonable business expenses. This agreement was verbally terminated in September 2018 although Garry Plowright continues to provide consulting services at no charge.

Agreement with Company Secretary

Mr Rowan Caren was appointed Joint Company Secretary on 18 September 2017. He assumed full responsibility for all company secretarial duties effective 1 November 2017. Mr Caren is engaged on an on-going consultancy style agreement for the provision of services as company secretary. Services are invoiced monthly based on an agreed monthly fee of $4,500 plus GST. The contract provides for a 30-day notice period.

Agreement with Chief Commercial Officer

Ms Lianne Grove was appointed Chief Commercial Officer on 3 September 2018. The employment agreement contains a three-month probation period, has provision for three months' notice of termination by either party, provides for an annual salary of $262,800 inclusive of superannuation. Ms Grove is also entitled to participate in the employee share loan scheme; awarding of Performance Rights subject to performance conditions and long-term incentive payments subject to performance conditions.

Agreement with Chief Development Officer

Mr Michael Chan was appointed Chief Development Officer on 21 May 2018. Mr Chan resigned from his role as Chief Development Officer on 30 September 2019. The employment agreement provided an annual salary of $284,700 inclusive of superannuation and contained a provision for three months' notice of termination by either party. Mr Chan was also entitled to participate in the employee share loan scheme; awarding of Performance Rights subject to performance conditions, long term incentive payments subject to performance conditions; short term cash incentives and sign-on packages comprising cash and shares.

On 1 April 2020 Directors, KMP and certain key consultants voluntarily accepted a 20% to 30% reduction in salary and fees for 6 months during the global COVID-19 Pandemic to assist the Company preserve its cash and minimise expenditure.

F. Share-based Compensation

The Company rewards Directors and senior management for their performance and aligns their remuneration with the creation of shareholder wealth by issuing share options and or shares. Share-based compensation is at the discretion of the Board and no individual has a contractual right to participate in any share-based plan or to receive any guaranteed benefits.

➢ **Options**

No incentive-based options were issued as remuneration to Directors or other KMP during the year ended 30 June 2020 (2019: nil).

➢ **Employee Share Loan Scheme Shares**

No employee share loan scheme shares were issued as remuneration to Directors or other KMP during the year ended 30 June 2020.

Shares granted under the ESOP are subject to service conditions carry no dividend or voting rights until the options vest, are exercised and converted to ordinary shares whereupon those ordinary shares carry dividend and voting rights consistent with all other ordinary shares of the Company.

DIRECTORS' REPORT

The fair value of the employee share loan scheme shares is estimated as at the date of grant using a binomial or other appropriate model taking into account the terms and conditions upon which the shares were granted.

A material feature of the employee share loan scheme is the issue of shares may be undertaken by way of provision of a non-recourse, interest free loan with the whole amount becoming immediately due and payable following the 10th anniversary on the date on which the loan was made. For purposes of allocating vesting expenses, it is assumed the performance criteria will be met within three years.

The expected life of the shares is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of shares granted were incorporated into the measurement of fair value.

➢ **Performance Rights**

No performance rights were issued as remuneration to Directors or other KMP during the current financial year.

Performance rights are subject to service conditions carry no dividend or voting rights until the performance rights vest and are converted to ordinary shares whereupon those ordinary shares carry dividend and voting rights consistent with all other ordinary shares of the Company.

The fair value of the performance rights is estimated as at the date of grant using a binomial or other appropriate model taking into account the terms and conditions upon which the performance rights were granted.

G. Equity Instruments Issued on Exercise of Remuneration Options or Rights

On 25 November 2019, 650,000 fully paid ordinary shares were issued to Ms Grove upon conversion of her performance rights.

There were no other remuneration options, rights or shares exercised during the year ended 30 June 2020.

H. Value of Shares to KMP

On 21 January 2019, 200,000 incentive shares under an employee share loan scheme were granted to Ms Grove with an issue price of $0.1421 each, refer Note D: Details of Remuneration, table 3 for further detail.

There were no other shares issued to KMP during the year ended 30 June 2020, other than as noted in (G) above.

I. Voting and comments made at the Company's 2019 AGM

The Company received 71% "Yes" votes on its Remuneration Report for the 2019 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration practices.

J. Loans to KMP

On 21 January 2019, 200,000 incentive shares under an employee share loan scheme were granted to Lianne Grove. Refer table 3.

There were no loans made to any KMP during the year ended 30 June 2020.

K. Loans from KMP

There were no loans from any KMP during the year ended 30 June 2020 (2019: $nil).

L. Other transactions with KMP

Drumrock Capital Ltd, an entity associated with Charles Whitfield, provided consulting services totaling $85,000 to the Company during the financial year (2019: $85,000).

During the year ended 30 June 2020 Garry Plowright provided consulting services at no charge (2019: $20,547).

There were no other transactions with KMP during the financial year ended 30 June 2020.

End of Remuneration Report

DIRECTORS' REPORT

21. NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the group are important.

The Board of Directors has considered the position and are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Board of Directors to ensure they do not impact the impartiality 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.*

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, BDO Audit (WA) Pty Ltd and its related practices:

	30-Jun-20	30-Jun-19
	$	$
Remuneration for other services		
Taxation services	11,378	30,485
Technical advice including R&D Claims	12,631	51,812
Total Non-Audit Services	**24,009**	**82,297**

22. EVENTS SINCE THE END OF THE FINANCIAL YEAR

The directors are not aware of any 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.

23. AUDITOR'S INDEPENDENCE DECLARATION

The Lead Auditor's Independence Declaration forms part of the Directors' Report and is attached on page 23.

Signed in accordance with a resolution of the Board of Directors

M. R

Michael Rosenstreich
Managing Director
23 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 JARRAD PRUE TO THE DIRECTORS OF HEXAGON ENERGY MATERIALS LIMITED

As lead auditor of Hexagon Energy Materials Limited for the year ended 30 June 2020, 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.

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, 23 September 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	30-Jun-20	Restated * 30-Jun-19
		$	$
Revenue from continuing operations	6	517,250	383,890
Exchange differences on translation of foreign currencies		43,205	53,984
Business development		(559,511)	-
Corporate and administration expenses	7	(982,923)	(1,058,308)
Exploration and evaluation expenditure		(1,032,839)	(1,801,732)
Loss on disposal of plant and equipment		-	(1,173)
Personnel expenses and director fees	7	(354,812)	(556,880)
Net reversal of share-based payments / (Share-based payments expense)	20	28,339	(542,586)
Loss from continuing operations before income tax		**(2,341,291)**	**(3,522,805)**
Income tax expense	8	-	-
Loss from continuing operations after income tax		**(2,341,291)**	**(3,522,805)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Exchange differences on translation of foreign operations	18	2,467	-
(Loss) / gain on revaluation of equity investments at FVOCI		(71,296)	3,756
Other comprehensive (loss) / income for the year, net of tax		**(68,829)**	**3,756**
Total comprehensive loss for the year		**(2,410,120)**	**(3,519,049)**
Loss from continuing operations for the year is attributable to:			
Owners of Hexagon Energy Materials Limited		(2,323,844)	(3,522,805)
Non-controlling interests		(17,447)	-
		(2,341,291)	**(3,522,805)**
Total comprehensive loss for the year is attributable to:			
Owners of Hexagon Energy Materials Limited		(2,392,673)	(3,519,049)
Non-controlling interests		(17,447)	-
		(2,410,120)	**(3,519,049)**
Loss per share attributable to ordinary equity holders			
- Basic and diluted loss per share	9	(0.008)	(0.012)

* Refer to Note 2(e) and note 12 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30-Jun-20	Restated * 30-Jun-19	Restated * 30-Jun-18
		$	$	$
ASSETS				
Current assets				
Cash and cash equivalents	10(a)	1,205,587	4,203,294	7,361,880
Trade and other receivables		18,509	34,022	18
Total current assets		**1,224,096**	**4,237,316**	**7,361,898**
Non-current assets				
Trade and other receivables		5,500	5,500	6,950
Equity investments at FVOCI		-	71,296	67,540
Plant and equipment		15,360	21,667	23,032
Other assets	11	170,395	-	-
Exploration and evaluation assets	12	1,583,396	1,157,648	928,992
Right of use assets	13	61,042	-	-
Total non-current assets		**1,835,693**	**1,256,111**	**1,026,514**
Total assets		**3,059,789**	**5,493,427**	**8,388,412**
LIABILITIES				
Current liabilities				
Trade and other payables	14	269,147	343,213	322,009
Provisions	15	45,204	29,070	26,159
Lease liability	16	35,314	-	-
Total current liabilities		**349,665**	**372,283**	**348,168**
Non-current liabilities				
Lease liability	16	27,439	-	-
Total non-current liabilities		**27,439**	-	-
Total liabilities		**377,104**	**372,283**	**348,168**
Net assets		**2,682,685**	**5,121,144**	**8,040,244**
EQUITY				
Contributed equity	17	58,857,850	58,857,850	58,817,934
Reserves	18	2,413,317	2,500,485	1,970,448
Accumulated losses	19	(58,588,482)	(56,254,638)	(52,748,138)
Capital and reserves attributable to owners of Hexagon Energy Material Limited		**2,682,685**	**5,103,697**	**8,040,244**
Non-controlling interests		-	17,447	-
Total equity		**2,682,685**	**5,121,144**	**8,040,244**

* Refer to Note 2(e) and note 12 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of Hexagon Energy Materials Limited					
	Issued Capital $	Reserves $	Accumulated Losses $	Total $	Non-controlling interests $	Total Equity $
Balance at 1 July 2019 as previously reported	**58,857,850**	**2,500,485**	**(45,268,027)**	**16,090,308**	**17,447**	**16,107,755**
Change in accounting policy *	-	-	**(10,986,611)**	**(10,986,611)**	-	**(10,986,611)**
Balance at 1 July 2019 restated	**58,857,850**	**2,500,485**	**(56,254,638)**	**5,103,697**	**17,447**	**5,121,144**
Comprehensive income:						
Loss for the year	-	-	(2,323,844)	**(2,323,844)**	(17,447)	**(2,341,291)**
Exchange differences on translation of foreign operations	-	2,467	-	**2,467**	-	**2,467**
Revaluation of equity Investments at FVOCI	-	(61,296)	(10,000)	**(71,296)**	-	**(71,296)**
Total comprehensive loss for the year	**-**	**(58,829)**	**(2,333,844)**	**(2,392,673)**	**(17,447)**	**(2,410,120)**
Transactions with owners in their capacity as owners:						
Share based payments	-	(28,339)	-	**(28,339)**	-	**(28,339)**
At 30 June 2020	**58,857,850**	**2,413,317**	**(58,588,482)**	**2,682,685**	**-**	**2,682,685**

	Attributable to owners of Hexagon Energy Materials Limited					
	Issued Capital $	Reserves $	Accumulated Losses $	Total Equity $	Non-controlling interests $	Total Equity $
Balance at 1 July 2018 as previously reported	**58,817,934**	**1,970,448**	**(43,233,910)**	**17,554,472**	**-**	**17,554,472**
Change in accounting policy *	-	-	(9,514,228)	**(9,514,228)**	-	**(9,514,228)**
Balance at 1 July 2018 restated	**58,817,934**	**1,970,448**	**(52,748,138)**	**8,040,244**	**-**	**8,040,244**
Comprehensive income:						
Loss for the year	-	-	(3,522,805)	**(3,522,805)**	-	**(3,522,805)**
Revaluation of equity investments at FVOCI	-	3,756	-	**3,756**	-	**3,756**
Total comprehensive income / (loss) for the year	**-**	**3,756**	**(3,522,805)**	**(3,519,049)**	-	**(3,519,049)**
Transactions with owners in their capacity as owners:						
Issue of share capital	39,916	-	-	**39,916**	-	**39,916**
Share based payments	-	542,586	-	**542,586**	-	**542,586**
Transfer between reserves	-	(16,305)	16,305	-	-	-
Asset acquisition (refer Note 23)	-	-	-	-	17,447	**17,447**
At 30 June 2019	**58,857,850**	**2,500,485**	**(56,254,638)**	**5,103,697**	**17,447**	**5,121,144**

* Refer to Note 2(e) and note 12 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	30-Jun-20	Restated * 30-Jun-19
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(1,245,106)	(1,622,971)
Payments for exploration and evaluation expenses		(1,661,766)	(1,770,713)
Interest received		33,210	45,321
Interest expense		(3,156)	-
Net cash used in operating activities	**10(b)**	**(2,876,818)**	**(3,348,363)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		-	(7,384)
Proceeds on sale of plant and equipment		-	2,124
Payment for option fee - Innovation Metals Corp		(170,395)	-
Payments for exploration and evaluation		(402,243)	(228,212)
Receipt of government grant in relation to exploration assets		439,248	329,349
Net cash (used in) / provided by investing activities		**(133,390)**	**95,877**
CASH FLOWS FROM FINANCINGACTIVITIES			
Payment for lease liability		(33,170)	-
Proceeds from issue of shares		-	39,916
Net cash (used in) / provided by financing activities		**(33,170)**	**39,916**
Net decrease in cash and cash equivalents		**(3,043,378)**	**(3,212,570)**
Cash and cash equivalents at the beginning of the year		4,203,294	7,361,880
Net foreign exchange differences		45,671	53,984
Cash and cash equivalents at the end of the year	**10(a)**	**1,205,587**	**4,203,294**

* Refer to Note 2(e) and note 12 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Hexagon 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 the Financial Report. The consolidated financial statements of the Company as at and for the year ended 30 June 2020 comprise the Company and its subsidiaries. The Group is primarily involved in mineral exploration.

2. BASIS OF PREPARATION

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Hexagon Energy Materials Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue by the Directors on 23 September 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 in accordance with the historical cost convention, unless otherwise stated.

(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.

For the year ended 30 June 2020 the group recorded a loss of $2,341,291, net cash outflows from operating activities of $2,876,818 and had net working capital of $874,431. These conditions indicate the existence of 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 to continue its operational activities in the next 12 months. The Directors consider that additional working capital will be able to be raised as required and that the Group will continue as a going concern and as such the financial report has been prepared on 'a going concern' basis. In arriving at this position, the Directors have considered the following matters:

- The Group is expecting a tax refund from its research and development activities conducted in FY20;
- The Group is in advanced discussions with potential strategic investors for the rare-earth elements business which will provide the funding for the US$2 million option fee and working capital to advance the Group's REE commercialisation strategy;
- The Group has the ability to defer some of its exploration expenditure to conserve working capital if necessary;
- Should it be required, the Directors are satisfied that the Company could raise additional funds by either a form of equity raising such as a share purchase plan or entitlements issue or from the sale of non-core assets to fund on-going exploration commitments and for working capital.

On this basis the Directors are satisfied that there are sufficient opportunities 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. This 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

➢ ***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.

(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 Group will continue to capitalise exploration and evaluation expenditure that relates to its Gold Project.

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 12.

3. PRINCIPLES OF CONSOLIDATION

Subsidiaries are all entities (including structured entities) over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity.

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of comprehensive income, statement of changes in equity and statement of financial position statement of financial position respectively.

4. FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars. The functional and presentation currency of the Company is Australian dollars (AUD). The functional currency of the subsidiaries of the Group is based on their domicile.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investments in a foreign operation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Foreign exchange gains and losses that relate to borrowings are presented in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, within finance costs. All other foreign exchange gains and losses are presented in the Consolidated Statement of Comprehensive Income on a net basis within other income or other expenses.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position,
- Income and expenses for each Statement of Profit or Loss and Other Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

5. KEY JUDGEMENTS AND ESTIMATES

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the Group.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years. In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Impairment

The Consolidated Entity assesses impairment at each reporting date by evaluating conditions specific to the Consolidated Entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Exploration & evaluation expenditure

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. During the financial year however, Hexagon changed its accounting policy so that all exploration and evaluation expenditure in relation to graphite will be expensed as incurred until a time where an asset is in development.

The Group continues to capitalise exploration and evaluation expenditure in relation to its Gold Project and performs regular reviews on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Share based payments

The Group measures the cost of equity settled transactions with Directors, employees and consultants, where applicable, by reference to the fair value instruments at the date at which they are granted. The fair value is determined using the black-scholes, binomial or other appropriate model, taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. REVENUE FROM CONTINUING OPERATIONS

	30-Jun-20	30-Jun-19
	$	$
Interest income	28,002	51,142
Research and development income tax concession	439,248	329,349
Other revenue	50,000	3,399
	517,250	**383,890**

RECOGNITION AND MEASUREMENT
Income
Income is recognised and measured at the fair value of the consideration received or receivable to the extent that is probable that the economic benefits to flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised.

Interest Income
Interest income is recognised when the Company gains control of the right to receive the interest payment.

All revenue is stated net of the amount of goods and services tax.

7. EXPENSES

	30-Jun-20	30-Jun-19
	$	$
Administration expenses		
Accounting and finance expenses	161,846	263,395
Compliance and regulatory expenses	203,671	225,275
Consulting and corporate expenses	102,604	151,054
Depreciation expense	6,308	5,887
Investor relations and promotional expenses	213,962	198,975
Insurance expense	19,605	21,364
IT expenses	12,996	13,501
Rent expense	61,143	64,982
Travel and accommodation expenses	167,646	87,059
Other administration expenses	33,142	26,816
	982,923	**1,058,308**
Personnel expenses and director fees		
Wages and salaries, including superannuation	248,202	448,080
Director fees and other benefits	106,610	108,800
	354,812	**556,880**

HXG

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. INCOME TAX EXPENSE

	30-Jun-20	Restated * 30-Jun-19
	$	$
Accounting loss before income tax	(2,341,291)	(3,522,805)
Tax at the Australian tax rate of 30% (2019: 30%)	(702,387)	(1,056,842)
Expiry of performance rights and share-based payments	(8,502)	162,776
Other permanent differences	(146,774)	(98,805)
Deferred tax assets not bought to account	857,663	992,871
Income tax expense/benefit	**-**	**-**
Deferred tax liability		
Unrealised foreign exchange	34,454	16,195
Lease	434	-
Research and development assets/exploration	395,997	347,294
Other temporary differences	184	18,389
	431,069	**381,878**
Offset of deferred tax assets	(431,069)	(381,878)
Net deferred tax liability recognised	**-**	**-**
Unrecognised deferred tax asset		
Tax losses	8,170,163	5,325,726
Other temporary differences	150,161	262,231
	8,320,324	5,587,957
Offset of deferred tax liabilities	(431,069)	(381,878)
Net deferred tax assets	**7,889,255**	**5,206,079**

* Refer to Note 2(e) and note 12 for details regarding the restatement as a result of a change in accounting policy.

RECOGNITION AND MEASUREMENT

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss. Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The charge for current income tax expense is based on the profit/(loss) for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the balance date.

Deferred tax is accounted for using the statement of financial position method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

9. EARNINGS PER SHARE

	30-Jun-20	Restated * 30-Jun-19
Net loss attributable to the ordinary equity holders of the Group ($)	(2,323,844)	(3,522,805)
Weighted average number of ordinary shares for basic loss per share (No)	292,170,555	291,783,397
Continuing operations		
- Basic and diluted loss per share ($)	(0.008)	(0.012)

* Refer to Note 2(e) and note 12 for details regarding the restatement as a result of a change in accounting policy.

RECOGNITION AND MEASUREMENT

The Consolidated Entity presents basic and diluted earnings per share (‘EPS’) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

10. CASH AND CASH EQUIVALENTS

(a) Reconciliation to cash at the end of the year

	30-Jun-20	30-Jun-19
	$	$
Cash on hand and at bank	758,747	1,838,609
Short-term deposits	446,840	2,364,685
	1,205,587	**4,203,294**

(b) Reconciliation of net cash flows from operating activities to loss for the year after tax

	30-Jun-20	Restated* 30-Jun-19
	$	$
Loss after income tax	(2,341,291)	(3,522,805)
Adjustments for:		
Other income	(439,248)	(329,349)
Depreciation	6,308	5,887
Exchange differences on translation of foreign currencies	(43,205)	(53,984)
Share based payments	(28,339)	542,586
Change in operating assets and liabilities		
Decrease in receivables	10,305	84,458
Decrease in trade payables and accruals	(46,731)	(68,488)
Increase / (decrease) in employee entitlements	5,383	(6,668)
Net cash outflow from operating activities	**(2,876,818)**	**(3,348,363)**

* Refer to Note 2(e) and note 12 for details regarding the restatement as a result of a change in accounting policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RECOGNITION AND MEASUREMENT

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less.

11. OTHER ASSETS

	30-Jun-20	30-Jun-19
	$	$
Current assets		
RapidSX Technology option fee	170,395	-
	170,395	-

12. EXPLORATION AND EVALUATION ASSETS

In the year ending 30 June 2020, 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	Retained Earnings
	$	$
Balance at 30 June 2018 as previously reported	**10,443,220**	**(43,233,910)**
Impact of the change in accounting policy	(9,514,228)	(9,514,228)
Restated balances at 30 June 2018	**928,992**	**(52,748,138)**
Balance at 30 June 2019 as previously reported	**12,144,259**	**(45,268,027)**
Impact of the change in accounting policy	(10,986,611)	(10,986,611)
Restated balances at 30 June 2019	**1,157,648**	**(56,254,638)**
Exploration expenditure during the year	425,748	-
Balance at 30 June 2020	**1,583,396**	**(58,606,462)**

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

	30-Jun-19
	$
- Increase in loss for the period	(1,472,383)

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

	30-Jun-19
	$
- Previously reported - Basic and diluted earnings per share	(0.007)
- Restated - Basic and diluted earnings per share	(0.012)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RECOGNITION AND MEASUREMENT

Exploration and evaluation expenditure, which are intangible costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Consolidated Entity has obtained the legal rights to explore an area are recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:
(i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
(ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or other wise 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 if one or more of the following facts and circumstances exist:
(i) the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future and is not expected to be renewed.
(ii) substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned.
(iii) exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area.
(iv) sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full, from successful development or by sale.

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from intangible assets to mineral property and development assets within plant and equipment.

13. RIGHT OF USE ASSETS

	30-Jun-20	30-Jun-19
	$	$
Office building - right-of-use	95,923	-
Less: Accumulated depreciation	(34,881)	-
	61,042	-

The Consolidated Entity leases a building for its office which is under agreement, the lease was extended for two years commencing 12 April 2020 to 11 April 2022.

RECOGNITION AND MEASUREMENT

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE AND OTHER PAYABLES

	30-Jun-20	30-Jun-19
	$	$
Trade payables	182,628	202,151
Other payables and accrued expenses	86,519	141,062
	269,147	**343,213**

RECOGNITION AND MEASUREMENT

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

For trade and other payables, the fair value is approximate to their carrying value amount, due to their short-term nature.

15. PROVISIONS

	30-Jun-20	30-Jun-19
	$	$
Provision for annual leave	45,204	29,070
	45,204	**29,070**

RECOGNITION AND MEASUREMENT

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event;

- it is probably that resources will be expended to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

Employee Benefits
Short-term employee benefits
Provision is made for the Company's obligation for short-term employee benefits. Short-term employee benefits are benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service, including wages, salaries and sick leave. Short-term employee benefits are measured at the (undiscounted) amounts expected to be paid when the obligation is settled.

A provision is recognised in the Consolidated Statement of Financial Position when the Consolidated Entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. LEASE LIABILITY

	30-Jun-20	30-Jun-19
	$	$
Current liability		
Lease Liability	35,314	-
	35,314	-

	30-Jun-20	30-Jun-19
	$	$
Non-Current liability		
Lease Liability	27,439	-
	27,439	-

RECOGNITION AND MEASUREMENT

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.

17. CONTRIBUTED EQUITY

(a) Issued and fully paid

	30-Jun-20		30-Jun-19	
	$	No.	$	No.
Fully paid ordinary shares	58,857,850	292,433,397	58,857,850	291,783,397
	58,857,850	**292,433,397**	**58,857,850**	**291,783,397**

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proposed winding up of the company in proportion to the number and amount paid on the share hold.

(b) Movement Reconciliation

ORDINARY SHARES	Quantity	$
Balance 30 June 2018	**291,783,397**	**58,817,934**
Proceeds from employee share scheme (1)	-	39,916
Balance 30 June 2019	**291,783,397**	**58,857,850**
Shares issued upon conversion of performance rights (2)	650,000	-
Balance 30 June 2020	**292,433,397**	**58,857,850**

(1) Proceeds from employee share scheme shares which were issued during the 2018 financial year.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Capital Risk Management

The Group's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Given the stage of the Company's development there are no formal targets set for return on capital. There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements. The net equity of the Company is equivalent to capital. Net capital is obtained through capital raisings on the Australian Securities Exchange.

RECOGNITION AND MEASUREMENT

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 business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

18. RESERVES

	30-Jun-20	30-Jun-19
	$	$
Options reserve	2,220,082	2,034,495
Share loan scheme reserve	96,518	100,849
Performance rights reserve	94,250	303,845
Foreign currency translation reserve	2,467	-
FVOCI reserve	-	61,296
	2,413,317	**2,500,485**

<u>Option reserve</u>

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

	30-Jun-20	30-Jun-19
	$	$
Movement reconciliation		
Balance at the beginning of the financial year	**2,034,495**	**1,830,532**
Vesting expenses relating to options during the year	194,787	203,963
Reversal of share-based payment expense	(9,200)	**-**
Balance at the end of the financial year	**2,220,082**	**2,034,495**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Share loan scheme reserve

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

	30-Jun-20	30-Jun-19
	$	$
Movement reconciliation		
Balance at the beginning of the financial year	**100,849**	**65,709**
Vesting expenses relating to share loan scheme during the year	16,503	51,445
Reversal of share-based payment expense	(20,834)	**-**
Transfer to accumulated losses	-	(16,305)
Balance at the end of the financial year	**96,518**	**100,849**

Performance rights reserve

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

	30-Jun-20	30-Jun-19
	$	$
Movement reconciliation		
Balance at the beginning of the financial year	**303,845**	**16,667**
Vesting expenses relating to performance rights during the year	62,367	287,178
Reversal of share-based payment expense	(271,962)	-
Balance at the end of the financial year	**94,250**	**303,845**

Foreign currency translation reserve

The reserve is used to record exchange differences arising on the translation of foreign controlled entity.

	30-Jun-20	30-Jun-19
	$	$
Movement reconciliation		
Balance at the beginning of the financial year	-	-
Effect of translation of foreign currency operations to group presentation currency	2,467	-
Balance at the end of the financial year	**2,467**	**-**

FVOCI reserve

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

	30-Jun-20	30-Jun-19
	$	$
Movement reconciliation		
Balance at the beginning of the financial year	**61,296**	**57,540**
Reversal on sale of financial assets	-	-
(Loss) / gain on revaluation of available-for-sale financial assets	(61,296)	3,756
Balance at the end of the financial year	**-**	**61,296**

19. ACCUMULATED LOSSES

	30-Jun-20	Restated* 30-Jun-19
	$	$
Movement reconciliation		
Balance at the beginning of the financial year	**(56,254,638)**	**(43,233,910)**
Net loss during the year	(2,323,844)	(3,522,805)
Transfer from option reserve	-	16,305
Change in accounting policy *	-	(9,514,228)
Revaluation of equity investments at FVOCI	(10,000)	-
Balance at the end of the financial year	**(58,588,482)**	**(56,254,638)**

* Refer to Note 2(e) and note 12 for details regarding the restatement as a result of a change in accounting policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. NET REVERSAL OF SHARE BASED PAYMENTS / (SHARE BASED PAYMENTS EXPENSE)

	Number of options, rights & shares	Share-based payment expense at 30-Jun-20	Reversal of share-based payment expense at 30-Jun-20	Remaining share-based payment expense at 30-Jun-20
Employee and Consultants Options (i)	24,097,500	$194,787	($9,200)	$65,211
Loan Scheme Shares (ii)	1,150,000	$17,542	($21,872)	$4,395
Performance Rights (iii)	-	$62,367	($271,963)	-
Total	**25,247,500**	**$274,696**	**($303,035)**	**$69,606**

(i) Employee and Consultant Options

Details of options issued, exercised and expired during the financial year are set out below:

Options	Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at the end of the year
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**
Total				**24,397,500**	**-**	**-**	**(300,000)**	**24,097,500**
Weighted average exercise price				$0.17	**-**	**-**	**-**	$0.17

The model and assumptions for the employee and consultant options are shown in the table below:

	Options - T1	Options - T2	Options - T3
Grant date *	25-Sep-17	25-Sep-17	25-Sep-17
Expected volatility	85%	85%	85%
Risk-free rate average	2.13%	2.13%	2.13%
Expected life (years)	3	3	3
Dividend yield	N/A	N/A	N/A
Exercise price	$0.15	$0.17	$0.20
Number issued	8,282,500	8,282,500	8,282,500
Share price at grant date	$0.095	$0.095	$0.095
Fair value (each)	$0.042	$0.039	$0.035
Total fair value	**$347,865**	**$323,018**	**$289,888**

* Grant Date is the date on which Shareholders or the Board, as appropriate approved the issue of the respective option issues.

Vesting Conditions:

Each tranche in the table above is subject to specific non-market related performance hurdles as approved by the Board and in the case of options issued to Directors, by shareholders. At 30 June 2020, all tranche 1 options have vested, 237,000 tranche 2 options have vested and 62,000 tranche 3 options had vested.

Options granted under the ESOP are subject to service conditions, carry no dividend or voting rights until the options vest, are exercised and converted to ordinary shares whereupon those ordinary shares carry dividend and voting rights consistent with all other ordinary shares of the Company.

The fair value of the equity-settled share options is estimated as at the date of grant using a binomial or other appropriate model taking into account the terms and conditions upon which the options were granted.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(ii) Loan Scheme Shares

Details of loan scheme shares issued, exercised and expired during the financial year are set out below:

Shares	Grant Date	Expiry Date	Exercise Price	Balance at the start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance at the end of the year
M Rosenstreich	25-Sep-17	25-Sep-27	$0.11	**1,000,000**	-	-	-	**1,000,000**
M Chan	15-Feb-18	7-Jun-20	$0.22	**300,000**	-	-	(300,000)	**-**
L Grove	21-Jan-19	4-Feb-29	$0.1421	**200,000**	-	-	(50,000)	**150,000**
Total				**1,500,000**	**-**	**-**	**(350,000)**	**1,150,000**

The model and assumptions for the employee incentive loan scheme shares are shown in the table below:

	Various Holders	M Chan	L Grove -T1-T3	L Grove - T4-T5
Grant date	25-Sep-17	15-Feb-18	21-Jan-19	21-Jan-19
Expected volatility	85%	100%	100%	97.4%
Risk-free rate average	2.80%	2.14%	2.29%	2.28%
Expected life (years)	10	10	10.047	10.047
Dividend yield	N/A	N/A	N/A	N/A
Exercise price	$0.11	$0.22	$0.1421	$0.1421
Number issued	1,570,000	300,000	150,000	50,000
Share price at grant date	$0.095	$0.20	$0.145	$0.145
Fair value (each)	$0.079	$0.179	$0.13	$0.06
Total fair value	**$124,030**	**$53,566**	**$19,564**	**$3,000**

Vesting Conditions:

Shares: 1,570,000 incentive shares under an employee share loan scheme were granted on 25 September 2017 with an issue price of $0.11 each. A material feature of the employee share loan scheme is the issue of shares may be undertaken by way of provision of a non-recourse, interest free loan with the whole amount becoming immediately due and payable following the 10th anniversary on the date on which the loan was made. For purposes of the valuation, it is assumed that the probability of the performance criteria being met within three years is 100%. 500,000 incentive shares relating to the Managing Director have vested and remain on issue and the remaining 500,000 incentive shares are subject to specific non-market related performance hurdles as approved by the Board and in the case of incentive shares issued to Directors, by shareholders. At 30 June 2019, 540,000 incentive shares expired / lapsed due to employees being terminated and or at the employee's request, 30,000 incentive shares were exercised and 500,000 incentive shares are yet to vest.

M Chan: 300,000 incentive shares under an employee share loan scheme were granted on 15 February 2018 with an issue price of $0.22 each with a deemed expiry of 7 June 2020 and are subject to specific non-market related performance hurdles. A material feature of the employee share loan scheme is the issue of shares may be undertaken by way of provision of a non-recourse, interest free loan with the whole amount becoming immediately due and payable following the 10th anniversary on the date on which the loan was made.

On 11 October 2019, Mr Chan's 300,000 incentive shares lapsed, as the vesting conditions in respect of the incentive shares were not satisfied prior to Mr Chan's resignation as Chief Development Officer. The share-based payment expense relating to these performance options were therefore reversed at 30 June 2020.

L Grove: 200,000 incentive shares under an employee share loan scheme were granted on 21 January 2019 with an issue price of $0.1421 each. A material feature of the employee share loan scheme is the issue of shares may be undertaken by way of provision of a non-recourse, interest free loan with the whole amount becoming immediately due and payable following the 10th anniversary on the date on which the loan was made.

Of the 200,000 incentive shares issued to Ms Grove, 125,000 incentive shares (Tranche 1-2) were fully vested at 30 June 2019 and a further 25,000 incentive shares (Tranche 3) were fully vested at 30 June 2020. The remaining 50,000 incentive shares (Tranche 4-5) held by Ms Grove lapsed on 30 June 2020 as the non-market and market performance hurdles were not satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(iii) Performance Rights

Details of performance rights issued, exercised and expired during the financial year are set out below:

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

The model and assumptions for the employee incentive loan scheme shares are shown in the table below:

	M Chan	L Grove - T1-T2	L Grove - T3-T4
Grant date	15-Feb-18	21-Jan-19	21-Jan-19
Expiry date	18-Jun-21	4-Feb-24	4-Feb-24
Expected life (years)	3	5.047	5.047
Vesting date	18-Jun-21	30-Jun-20	30-Jun-20
Vesting life (years)	3	1.441	1.441
Number issued	3,000,000	650,000	950,000
Share price at grant date	$0.20	$0.145	$0.145
Share price target	N/A	N/A	$0.260
Dividend yield	N/A	N/A	N/A
Employment exit rate	N/A	N/A	5%
Expected volatility	N/A	N/A	97.4%
Risk-free rate average	N/A	N/A	1.92%
Fair value (each)	$0.20	$0.145	$0.089
Total fair value	**$600,000**	**$94,250**	**$84,550**

Vesting Conditions:

Mr Michael Chan: 3,000,000 performance rights (three tranches of 1,000,000) were granted on 15 February 2018 with an issue price of $nil each with a deemed expiry of 7 June 2020, subject to specific non-market related performance hurdles.

On 11 October 2019, Mr Chan's 3,000,000 performance rights lapsed, as the vesting conditions in respect of the performance rights were not satisfied prior to Mr Chan's resignation as Chief Development Officer. The share-based payment expense relating to these performance options were therefore reversed at 30 June 2020.

Ms Lianne Grove: 1,600,000 performance rights (four tranches) were granted on 21 January 2019 with an issue price of $nil each with a deemed expiry of 4 February 2024, subject to specific non-market and market related performance hurdles. For purposes of the valuation, it was assumed that the probability of meeting the performance criteria by 30 June 2020 was 100%.

Tranche 1-2: The non-market performance hurdle was satisfied during the financial year and on the 25 November 2019 all 650,000 performance rights held by Ms Grove were converted to shares in accordance with the Company's employee incentive scheme.

Tranche 3-4: On 30 June 2020, all 950,000 performance rights held by Ms Grove lapsed as the non-market and market performance hurdles were not satisfied. The share-based payment expense relating to these performance options were therefore reversed at 30 June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future cash flow forecasts.

Risk management is carried out by Management and overseen by the Board of Directors.

The main risks arising for the Group are foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The carrying values of the Group's financial instruments are as follows:

	30-Jun-20	30-Jun-19
	$	$
Financial assets		
Cash and cash equivalents	1,205,587	4,203,294
Trade and other receivables	24,009	39,522
Equity investments at FVOCI	-	71,296
	1,229,596	**4,314,112**
Financial liabilities		
Trade and other payables	269,147	343,213
Lease liability	62,753	**-**
	331,900	**343,213**
Net exposure	**897,696**	**3,970,899**

(a) Market Risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the entity's functional currency.

At 30 June 2020, the Consolidated Entity had the following exposure to foreign currency:

	30-Jun-20	30-Jun-19
	$	$
Financial assets:		
Cash and cash equivalents – US Dollar	526,495	1,784,807
Financial liabilities:		
Trade and other payables - US Dollar	36,837	135,257
Net Exposure	**489,658**	**1,649,550**

Sensitivity

Exchange rates over the 12 month period were analysed and sensitivity determined to show the effect on profit and equity after tax if the exchange rates at reporting date had been 10% basis higher or lower, with all other variables held constant. The following sensitivity analysis is based on the foreign currency risk exposures in existence at the statement of financial position date:

	Post Tax Profit Higher/(Lower)		Equity Higher/(Lower)	
	30-Jun-20	30-Jun-19	30-Jun-20	30-Jun-19
	$	$	$	$
Judgements of reasonably possible movements:				
+ 10.0%	(44,514)	(149,959)	(44,514)	(149,959)
- 10.0%	54,405	183,282	54,405	183,282

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(ii) Interest rate risk

The Group is exposed to interest rate risk due to variable interest being earned on its interest-bearing bank accounts. At the end of the reporting period, the Group had the following interest-bearing financial instruments:

	30-Jun-20		**30-Jun-19**	
	Weighted average interest rate	**Balance $**	**Weighted average interest rate**	**Balance $**
Cash and cash equivalents	0.36%	1,205,587	1.35%	4,203,294

Sensitivity

Within this analysis, consideration is given to potential renewals of existing positions and the mix of fixed and variable interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. The 1% increase and 1% decrease in rates is based on reasonably expected possible changes over a financial year, using the observed range of historical rates for the preceding five-year period.

At 30 June 2020, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax losses and equity would have been affected as follows:

	Post Tax Profit Higher/(Lower)		**Equity Higher/(Lower)**	
	30-Jun-20	**30-Jun-19**	**30-Jun-20**	**30-Jun-19**
	$	**$**	**$**	**$**
Judgements of reasonably possible movements:				
+ 1.0% (100 basis points)	12,056	42,033	12,056	42,033
- 1.0% (100 basis points)	(12,056)	(42,033)	(12,056)	(42,033)

The other financial instruments of the Group that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a counter party to a financial instrument fails to meet its contractual obligations. During the year credit risk has principally arisen from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments.

The carrying amount of financial assets included in the Consolidated Statement of Financial Position represents the Group's maximum exposure to credit risk in relation to those assets. The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, credit worthy third parties and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. Receivable balances are monitored on an ongoing basis with the result that the Group does not have a significant exposure to bad debts.

The Group has no significant concentrations of credit risk within the Group except for the following:

- Note 10: Cash and cash equivalents: Cash held with Westpac Banking Corporation and Regions Bank.

(i) Cash

The Group's primary banker is Westpac Banking Corporation which has a rating of AA- from Standards & Poor's. The Board considers the use of this financial institution to be sufficient in the management of credit risk.

	30-Jun-20	**30-Jun-19**
	$	**$**
Cash at bank and short-term bank deposits:		
Financial institutions - Standard & Poor's rating of AA-	1,205,587	4,175,007
Financial institutions - Other	-	28,287
	1,205,587	**4,203,294**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due and to close out market positions.

The Directors and Management monitor the cash outflow of the Group on an on-going basis against budget and the maturity profiles of financial assets and liabilities to manage its liquidity risk.

The financial liabilities the Group had at reporting date were trade payables and lease liabilities incurred in the normal course of the business. Trade payables were non-interest bearing and were paid within the normal 30-60 day terms of creditor payments.

The table below reflects the respective undiscounted cash flows for financial liabilities existing at 30 June 2020.

Contractual maturities of financial liabilities	<6 months $	>6-12 months $	>12 months $	Total contractual cash flows $	Carrying amount $
30-Jun-20					
Trade and other payables	269,147	-	-	272,303	272,303
Lease Liability	17,478	17,836	27,439	62,753	62,753
	286,625	**17,836**	**27,439**	**331,900**	**331,900**
30-Jun-19					
Trade and other payables	343,213	-	-	343,213	343,213
	343,213	**-**	**-**	**343,213**	**343,213**

(d) Fair value hierarchy

The following assets and liabilities are recognised and measured at fair value on a recurring basis:

- Equity investments at FVOCI / Available-for-Sale financial assets

There are various methods used in estimating the fair value of assets and liabilities. The methods comprise:

(i) Level 1 - the instrument has quoted prices (unadjusted) in active markets for identical assets and liabilities;
(ii) Level 2 - a valuation technique using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices); or
(iii) Level 3 - a valuation technique using inputs that are not based on observable market data (unobservable inputs).

Due to their short-term nature, the net fair values of other financial assets and liabilities approximate their carrying value as disclosed in the statement of financial position. No financial asses or liabilities are readily traded on organised markets in standardised form.

Assets	Level 1 $	Level 2 $	Level 3 $	Total $
30-Jun-20				
Equity investments at FVOCI	-	-	-	-
	-	-	-	-
30-Jun-19				
Equity investments at FVOCI	71,296	-	-	**71,296**
	71,296	-	-	**71,296**

There were no transfers during the period between Level 1 and Level 2 for recurring fair value measurements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

RECOGNITION AND MEASUREMENT

Non-derivative financial instruments

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows.

Subsequent measurement

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost it considered an indicator that the assets are impaired.

Assets carried at amortised cost

For loans and receivables, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. If a loan or held-to maturity investment has a variable interest rate, the discount rate or measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. 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 and the Chief Commercial Officer.

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
30-Jun-20	**$**	**$**	**$**	**$**
Revenue				
Interest income	-	-	28,002	**28,002**
Research & development income tax concession	-	-	439,248	**439,248**
Other income	-	-	50,000	**50,000**
Total segment revenue	**-**	**-**	**517,250**	**517,250**
Reconciliation of segment results to net loss before tax				
Amounts not included in segment results but reviewed by the Board				
- Exploration and evaluation expenditure	(769,480)	(263,359)	-	(1,032,839)
- Corporate and administration expenses				(1,266,191)
- Business development				(559,511)
Net loss before tax from continuing operations				**(2,341,291)**

	Exploration USA	Exploration Australia	Administration	Total
30-Jun-19	**$**	**$**	**$**	**$**
Revenue				
Interest income	-	-	51,142	**51,142**
Research & development income tax concession	-	-	329,349	**329,349**
Other income	-	-	3,399	**3,399**
Total segment revenue	**-**	**-**	**383,890**	**383,890**
Reconciliation of segment results to net loss before tax				
Amounts not included in segment results but reviewed by the Board				
- Exploration and evaluation expenditure	(1,564,259)	(237,473)	-	(1,801,732)
- Corporate and administration expenses				(2,104,963)
Net loss before tax from continuing operations				**(3,522,805)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(ii) Segment assets

	Exploration USA	Exploration Australia	Administration	Total
	$	$	$	$
30-Jun-20				
Total segment asset	**-**	**1,583,396**	**1,476,393**	**3,059,789**

	Exploration USA	Exploration Australia	Administration	Total
	$	$	$	$
30-Jun-19				
Total segment asset	**-**	**1,157,648**	**4,335,779**	**5,493,427**

(iii) Segment liabilities

	Exploration USA	Exploration Australia	Administration	Total
	$	$	$	$
30-Jun-20				
Total segment liabilities	**-**	**23,949**	**328,872**	**352,821**

	Exploration USA	Exploration Australia	Administration	Total
	$	$	$	$
30-Jun-19				
Total segment liabilities	**-**	**444**	**371,839**	**372,283**

23. RELATED PARTY AND KEY MANAGEMENT PERSONNEL

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

Key management personnel compensation
Key management personnel comprise Directors and other persons having authority and responsibility for planning, directing and controlling the activities of the Consolidated Entity.

	30-Jun-20	30-Jun-19
	$	$
Short-term benefits	829,943	1,066,051
Long-term benefits	16,133	16,867
Post-employment benefits	56,510	80,752
Share-based payments	(19,109)	531,242
	883,477	**1,694,912**

Detailed remuneration disclosures are provided in the Remuneration Report in the Director Report.

Transactions with Related Parties
Drumrock Capital Ltd, an entity associated with Mr Charles Whitfield, provided consulting services totaling $85,000 to the Company during the financial year (2019: $85,000).

During the year ended 30 June 2020 Garry Plowright provided consulting services at no charge (2019: $20,547).

There were no other transactions with KMP during the financial year ended 30 June 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

24. PARENT ENTITY INFORMATION

The Parent Entity of the Consolidated Entity is Hexagon Energy Materials Limited.

	30-Jun-20	30-Jun-19
	$	$
Current assets	1,224,096	4,209,029
Non-current assets	1,835,696	1,193,069
Total assets	**3,059,792**	**5,402,098**
Current liabilities	1,317,591	298,644
Non-current liabilities	24,283	-
Total liabilities	**1,341,874**	**298,644**
Net assets	**1,717,918**	**5,103,454**
Issued capital	58,857,850	58,857,850
Reserves	2,410,850	2,500,485
Accumulated losses	(59,550,782)	(56,254,881)
Total equity	**1,717,918**	**5,103,454**
Loss after income tax	(1,859,171)	(2,035,417)
Other comprehensive income	(71,296)	3,756
Total comprehensive income	**(1,930,467)**	**(2,031,661)**

Commitments, Contingencies and Guarantees of the Parent Entity
The Parent Entity has no contractual commitments for the acquisition of property, plant and equipment.

The Parent Entity's exposure to contingent liabilities is detailed in Note 25. The Parent Entity has no contingent assets or guarantees at balance date.

Controlled Entities of the Parent Entity	**Percentage Owned**		
	2020	**2019**	**Country of Incorporation**
Halls Creek Resources Pty Ltd	100%	100%	Australia
McIntosh Resources Pty Ltd	100%	100%	Australia
Advanced Particle Group Pty Ltd	100%	100%	Australia
Hexagon Graphite Pty Ltd	100%	100%	Australia
Hexagon Graphene Pty Ltd	100%	100%	Australia
Hexagon Holdings USA Inc	100%	100%	United States of America
Energy Materials of America LLC	100%	100%	United States of America
Charge Minerals LLC	80%	80%	United States of America

25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. 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.

	30-Jun-20	30-Jun-19
	$	$
Exploration obligations to be undertaken:		
Payable within one year	1,098,268	114,236
Payable within one year and five years	2,634,418	117,782
	3,732,686	**232,018**

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

27. DIVIDENDS & FRANKING CREDITS

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

28. AUDITOR'S REMUNERATION

	30-Jun-20	30-Jun-19
BDO Audit (WA) Pty Ltd	$	$
Remuneration paid or payable for:		
- Auditing and reviewing the financial reports	39,328	34,838
Non-audit services:		
- Taxation services - BDO Tax (WA) Pty Ltd	11,378	30,485
- Technical advice including R&D claims - BDO Tax (WA) Pty Ltd	12,631	51,812
Total auditors' remuneration	**63,337**	**117,135**

29. EVENTS AFTER END OF FINANCIAL YEAR

The directors are not aware of any 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

The directors of the company declare that:

1. The financial statements, comprising the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity, accompanying notes, are in accordance with the *Corporations Act 2001* and:

   (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and

   (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date.

2. The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

4. The remuneration disclosures included in pages 14 to 21 of the directors' report (as part of audited Remuneration Report), for the year ended 30 June 2020, comply with section 300A of the *Corporations Act 2001.*

5. The directors have been given the declarations by the Managing Director and Chief Commercial Officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

Michael Rosenstreich
Managing Director
23 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 Hexagon Energy Materials Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Hexagon Energy Materials Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated 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 the Group, is in accordance with the Corporations Act 2001, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2020 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 Group 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.

Material uncertainty related 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 opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Capitalised Exploration and Evaluation Expenditure

Key audit matter	How the matter was addressed in our audit
The carrying value of exploration and evaluation expenditure represents a significant asset of the Group and judgement is applied in considering whether facts and circumstances indicate that the exploration expenditure should be tested for impairment. As a result, the asset was required to be assessed for impairment indicators in accordance with AASB 6: Exploration for and Evaluation of Mineral Resources. In particular whether facts and circumstances indicate that the capitalised exploration and evaluation expenditure should be tested for impairment. Refer to note 2(e) and note 12 of the financial report for a description of the accounting policy, the significant estimates and judgements and disclosures applied to exploration and evaluation assets.	Our procedures included, but were not limited to: • obtaining a schedule of areas of interest held by the Group and assessing whether the Group had rights to tenure over those areas of interest by comparing the schedule to supporting documentation including tenement licenses; • holding discussions with management with respect to the status of ongoing exploration programmes in the respective areas of interest and assessing the Group's cash flow budget for the level of budgeted spend on exploration projects; • considering whether any areas of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed; • considering whether any other facts or circumstance existed to indicate impairment testing was required; and • Assessing the adequacy of the related disclosures in note 2(e) and note 12 to the financial report.

Change of Accounting Policy of Exploration and Evaluation Expenditure on Graphite Projects

Key audit matter	How the matter was addressed in our audit
During the year ended 30 June 2020, the Group changed its accounting policy of its graphite exploration and evaluation expenditure in accordance with the accounting standard AASB 6 Exploration and Evaluation Expenditure (AASB 6) and AASB 108 Accounting policies (AASB 108), Changes in Accounting Estimates and Errors. The result of this accounting policy change means that the Group will expense all graphite exploration and evaluation expenditure until such time where an asset is in development. We considered this to be a key audit matter due to the significance of the amount of capitalised exploration and evaluation expenditure previously capitalised.	Our audit procedures to address the key audit matter included, but were not limited to: • Understanding and assessing the change in accounting policy in accordance with AASB 108; • Obtaining and reviewing management's workings relating to the change in accounting policy and how the change has been retrospectively effected on 1 July 2018; • Testing on a sample basis the exploration and evaluation expenditure, relating to Graphite projects, incurred during the year ended 30 June 2020 has been expensed to the Statement of Profit and Loss and Other Comprehensive Income; and • Reviewing the adequacy of the related disclosure in note 12 of the financial report as at 30 June 2020.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's director report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and 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 that we 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.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

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 ability of the group 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 Group 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 21 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Hexagon Energy Materials Limited, for the year ended 30 June 2020, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

BDO

Jarrad Prue

Director

Perth, 23 September 2020

SHAREHOLDER INFORMATION

The following additional information was applicable as at 15 September 2020.

1. Fully paid ordinary shares

- There are a total of 292,433,397 ordinary fully paid shares on issue which are listed on the ASX.
- The number of holders of fully paid ordinary shares is 1,617.
- Holders of fully paid ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company.
- There are no preference shares on issue.

2. Distribution of fully paid ordinary shareholders is as follows:

Spread of Holdings	Holders	Securities	% of Issued Capital
1 - 1,000	62	12,639	0.00%
1,001 - 5,000	235	867,361	0.30%
5,001 - 10,000	307	2,499,085	0.85%
10,001 - 100,000	749	28,307,016	9.68%
100,001 - 9,999,999,999	264	260,747,296	89.16%
Totals	**1,617**	**292,433,397**	**100.00%**

3. Distribution of unquoted options - exercisable at $0.15 expiring 16 October 2020 – is as follows:

Spread of Holdings	Holders	Securities	% of Option Series
1 - 1,000	0	0	0.00%
1,001 - 5,000	0	0	0.00%
5,001 - 10,000	0	0	0.00%
10,001 - 100,000	4	170,000	2.12%
100,001 - 9,999,999,999	3	7,862,500	97.88%
Totals	**7**	**8,032,500**	**100.00%**

4. Distribution of unquoted options - exercisable at $0.17 expiring 16 October 2020 – is as follows:

Spread of Holdings	Holders	Securities	% of Option Series
1 - 1,000	0	0	0.00%
1,001 - 5,000	0	0	0.00%
5,001 - 10,000	0	0	0.00%
10,001 - 100,000	4	170,000	2.12%
100,001 - 9,999,999,999	3	7,862,500	97.88%
Totals	**7**	**8,032,500**	**100.00%**

5. Distribution of unquoted options - exercisable at $0.20 expiring 16 October 2020 -– is as follows:

Spread of Holdings	Holders	Securities	% of Option Series
1 - 1,000	0	0	0.00%
1,001 - 5,000	0	0	0.00%
5,001 - 10,000	0	0	0.00%
10,001 - 100,000	4	170,000	2.12%
100,001 - 9,999,999,999	3	7,862,500	97.88%
Totals	**7**	**8,032,500**	**100.00%**

SHAREHOLDER INFORMATION

6. Holders of Performance Rights

There are no performance rights on issue.

7. Holders of non-marketable parcels

Holders of non-marketable parcels are deemed to be those who shareholding is valued at less than $500.

There are 466 shareholders who hold less than a marketable parcel of shares, amounting to 2,035,219 shares or 0.70% of issued capital.

8. Substantial shareholders of ordinary fully paid shares

The Substantial Shareholders of the Company are:

Rank	Holder Name	Securities	% of Issued
1	Tribeca Investment Partners Pty Limited	32,375,517	11.07%

9. Share buy-backs

There is no current on-market buy-back scheme.

10. Voting Rights

Subject to any rights or restrictions for the time being attached to any class or classes (at present there are none) at general meetings of shareholders or classes of shareholders:

(a) each shareholder is entitled to vote and may vote in person or by proxy, attorney or representative;

(b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and

(c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held, or in respect of which he/she has appointed a proxy, attorney or representative, is entitled to one vote per share held.

Options do not entitle the holder to vote.

SHAREHOLDER INFORMATION

11. Top 20 Shareholders of ordinary fully paid shares

The top 20 largest fully paid ordinary shareholders together held 52.2% of the securities in this class and are listed below:

Rank	Holder Name	Securities	% of Issued
1	CITICORP NOMINEES PTY LIMITED	21,655,205	7.41%
2	UBS NOMINEES PTY LTD	19,679,845	6.73%
3	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	13,622,141	4.66%
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,396,083	3.90%
5	CUSTODIAL SERVICES LIMITED <BENEFICIARIES HOLDING A/C>	10,827,553	3.70%
6	MINERAL RESOURCES LIMITED	10,526,316	3.60%
7	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	9,846,600	3.37%
8	INVESTORLINK GROUP LIMITED	8,994,378	3.08%
9	PATHFINDER EXPLORATION PTY LTD	6,800,301	2.33%
10	MR ROBERT SIMEON LORD	6,000,000	2.05%
11	MR ANDREW MURRAY GREGOR	4,101,400	1.40%
12	SCHENK INVESTMENTS PTY LTD <SCHENK SUPERFUND A/C>	3,575,000	1.22%
13	INVESTORLINK SUPER PTY LIMITED	3,491,267	1.19%
14	MASFEN SECURITIES LIMITED	3,421,053	1.17%
15	MR RICHARD HOPETOUN BITCON	3,400,000	1.16%
16	MR ANTHONY LIONEL PATTERSON <PATTERSON FAMILY A/C>	3,366,666	1.15%
17	NORVALE PTY LTD	3,040,738	1.04%
18	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	2,998,900	1.03%
19	MR MARK PETER DAVIE	2,900,000	0.99%
20	MRS MIN YOUNG KANG	2,492,643	0.85%
	Total	**152,136,089**	**52.02%**