Quantum Graphite Limited
ABN 41 008 101 979

2020

ANNUAL FINANCIAL REPORT

for the year ended
30 June 2020

Competent Persons Statement

Quantum Graphite Ltd confirms that it is not aware of any new information or data that materially affects the information included in this announcement and that all material assumptions and technical parameters underpinning the estimates in this announcement continue to apply and have not materially changed since the announcements previously released as "Valence Doubles Existing ROM Stockpiles" (6/8/14), "Uley Graphite Grade Increases to 11.7%" (17/11/14), "Maiden High Grade Graphite Ore Reserve" (17/12/2014, "VXL Feasibility Study Expansion and Adv Manufacturing" (2/1/15), "High Grade Mineralisation Extended at Uley Graphite" (12/3/15), "50% Increase in Uley Graphite Resource" (5/5/15) and "Major Increase to Graphite Ore Reserve and Mine Life" (14/5/15), "Production Update" (21/9/15).

Contents

This Annual Financial Report covers Quantum Graphite Ltd **(Quantum, QGL or the Company)** as a Group consisting of Quantum Graphite Ltd and its subsidiaries, collectively referred to as the "Group". The financial report is presented in the Australian currency.

Quantum is a company limited by shares, incorporated and domiciled in Australia. Its offices are:

Principal Place of Business
Quantum Graphite Ltd
349 Collins Street
Melbourne VIC 3000

Registered Office
Quantum Graphite Ltd
349 Collins Street
Melbourne VIC 3000

Website
quantumgraphite.com

Corporate Directory

Directors:

Sal Catalano
Executive Director and Company Secretary
Bruno Ruggiero
Chairman and Independent Non-Executive Director
Steven Chadwick
Executive Director
Robert Osmetti
Independent Non-Executive Director
David Trimboli
Independent Non-Executive Director

Company Secretary:

Sal Catalano

Principal Business Office:

349 Collins Street
Melbourne VIC 3000
Telephone: + 61 3 8614 8400

Auditors:

Grant Thornton Audit Pty Ltd
Level 3
170 Frome Street
Adelaide SA 5000

Solicitors:

PwC Legal
Level 19
2 Riverside Quay
Southbank VIC 3006

Home Stock Exchange:

Australian Securities Exchange
Rialto Tower, 525 Collins Street
MELBOURNE VIC 3000

ASX Codes:

QGL – fully paid ordinary shares

Share Registry:

Link Market Services Ltd
Tower 4, 727 Collins Street
Docklands VIC 3008

DIRECTORS' REPORT

The Directors of Quantum Graphite Ltd present their report on the Company and its subsidiaries, for the year ended 30 June 2020.

Director details including relevant personal information is included in the Remuneration report.

PRINCIPAL ACTIVITIES

The Company's principal activities are the exploration, mining and processing natural flake graphite and the manufacture of flake graphite products. The Company has historically supplied high purity large flake graphite powders from its Uley 1 mine operation and processing facility to the refractories markets in Europe and North Asia. It has now completed all necessary technical work, including feasibility study, for the construction of the new process plant and related facilities to process material from Uley 2, the next stage of development of the Company's flagship Uley large flake, natural graphite mine. The Company's commercial activities are now focused on securing the necessary offtake arrangements to support the funding of Uley 2. The Company's first offtake arrangement has been concluded with The Sunlands Co. Pty Ltd (Sunlands Co.) for the supply of high purity flake graphite required for Sunlands Co.'s thermal energy storage cells.

OPERATING AND FINANCIAL REVIEW

During the FY2020 year, Quantum Graphite Limited ("Company") achieved critical milestones essential to the completion of the Uley 2 project Definitive Feasibility Study (DFS) and the development of the project. The DFS and the Company's exploration commitments were fully funded.

The net loss for the Group for the year was $960,529 (2019: $3,543,394) after providing for income tax. The Company's financial performance is broadly in line with plan.

Definitive Feasibility Study (DFS)

During the first half of the reporting year, the update to the Company's JORC Ore Reserves Statement was released (see JORC 2012 Uley 2 Mining Study and Ore Reserve Estimate, ASX announcements of 27 November and 11 December 2019 respectively). The update represented the last of the key studies required for finalisation of the DFS and included a detailed sensitivity analysis which demonstrated a positive net present value NPV even with a 20% decline in revenues and a simultaneous 20% increase in all operating and corporate costs.

The Company is reviewing the likely production demands from the early deployment of the Sunlands Co. technology and considers it prudent to prepare the Company for significant production demands at short notice from Sunlands Co. To ensure the Company is better positioned to respond to such demands, the Company expects to announce an expansion of the DFS before the end of 2020 for the purposes of targeting Uley 2 project opportunities beyond the base case and will include specific recommendations for further work to increase production project economics.

COVID-19 Impact: Marketing and the Flake Graphite Market

The Company's marketing plan rests on a diversification strategy that targets the Company's historical and traditional customer base, the European and North Asian refractories whilst diversifying to the non-traditional, non-market correlated energy storage industry.

The Company's offtake agreement with Sunlands Co. is summarised separately in the proceeding section.

European and North Asian refractories markets represent the bulk of the demand for medium, large and extra-large flake graphite (i.e., > 95%, >+100 mesh). European market prices for this product firmed significantly by the end of the March 2020 quarter due to tightening Chinese supply as the effects of COVID 19 swept through Chinese industrial capacity. Prices continued to average significantly more than the Company's projected basket price of US$919.

By the end of the June 2020 quarter, the higher European prices for refractory grade medium, large and extra-large flake graphite weakened, narrowing the European price premium over onshore Chinese prices and reflecting the general global slowdown caused by COVID-19. However, prices remain strong and are expected to remain at or above 2019 prices. In contrast, the market for electric vehicle (EV) feedstock, i.e., fine flake graphite (94%, -100 mesh), continues to be sluggish and the outlook is not expected to change until the slowdown in EV penetration and growth resumes.

DIRECTORS' REPORT (CONTINUED)

The Company's planned pan European visit to its major refractory target customers was deferred twice in the March 2020 quarter and abandoned by the end of this quarter due to the impact of COVID-19. The Company continues to progress its discussions and negotiations and will schedule target customer visits when travel restrictions are lifted. In light of this delay, the Company announced its plans to commence pre-qualification trials with target customers utilising its existing warehoused products prior to face to face meetings taking place. These trials are subject to customer readiness which is presently detrimentally impacted by COVID-19 and will be dependent on the return of industrial capacity. This is expected to resume slowly in the second half of 2020. The Company closely monitors developments in the European markets and is prepared to move quickly as market conditions improve.

The Sunlands Company Pty Ltd Collaboration Renewal and Offtake Arrangements

On 21 November 2019 the Company announced the terms of the Memorandum of Understanding (MOU) concluded with Sunlands Co. in connection with the commercialisation of Sunlands' thermal battery technologies.

The MOU provides a framework within which the parties will collaborate in three key areas:

(a) Technical - the processing path necessary to deliver natural flake graphite, firstly with the minimum specifications required by Sunlands Co. and secondly the downstream advanced processing and manufacturing of flake graphite needed for final assembly of Sunlands Co.'s thermal battery cells;

(b) Offtake - negotiation of the offtake and related commercial arrangements that will govern the company's supply of flake graphite to Sunlands Co., offtake pricing structure and the provision of downstream services; and

(c) Commercialisation - The company will support Sunlands in its various commercialisation activities including contributing to Sunlands Co.'s tender submissions and providing technical information and support.

The MOU between the Company and Sunlands Co. expired in May 2020 and was renewed for a further year on the same terms save and except all matters relating to offtake arrangements.

In respect of Offtake, the Company expects to conclude an agreement for the exclusive supply of flake graphite to Sunlands Co. for use in its thermal energy storage (TES) cells. Critically, the main and highest cost input of TES cells is flake graphite. This agreement will be a key element of the Company's strategy to diversify from traditional markets that are not correlated to the existing markets for natural flake graphite. Based on the MOU, the terms of the agreement's terms has been the subject of a separate announcement to the market, and includes the following: (i) a term of three years with an option for an additional three years; (ii) the Company will be the exclusive supplier of Sunlands Co.'s flake graphite requirements; and (iii) the price will be based on the market price as determined by the parties but shall not be less than the US$ basket price if Sunlands Co. elects to purchase all or substantially all of the Company's production.

Sunlands Co. has finalised its Commercialisation Study and has begun the planning of the construction of a commercial pilot facility that will demonstrate the technology's performance with Uley 2 flake product. The successful operation of the commercial pilot is expected to result in the Company receiving its first orders of product from Sunlands Co.

Share Consolidation

On 29 October 2019, the Company announced the consolidation of the Company's share capital on the basis of 1 for 35 for all of the Company's issued securities. The consolidation was completed on 2 December 2019, with post consolidation fully paid shares and options on issue of 218,874,240 and 28,571,429 respectively.

Mining Titles

All mining titles are current and remain in good standing. The Company's exploration licence, EL6224 is due for renewal in October 2020.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company that occurred during the reporting period and that has not otherwise been disclosed in this report or the financial statements.

DIRECTORS' REPORT (CONTINUED)

DIVIDENDS

There were no dividends paid or declared during the reporting period or to the date of this report.

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

There were no events that have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in subsequent financial years.

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on page 11 of this financial report and forms part of this Directors' Report.

Other Matters

No other matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years.

LIKELY DEVELOPMENTS

The likely developments for the Company include the completion of the definitive feasibility study.

DIRECTORS' MEETINGS

Directors held six meetings during the reporting period and all Directors attended all meetings.

There are no separate Board committees, other than the audit committee whose members are Bruno Ruggiero and Sal Catalano. There were three audit committee meetings during the reporting period and both committee members attended all meetings.

UNISSUED SHARES UNDER OPTION

There are 28,571,429 options over ordinary shares in Quantum Graphite Limited held by Chimaera Capital Limited in which Mr Catalano has an indirect shareholding during the financial year and at the reporting date.

DIRECTORS' REPORT (CONTINUED)

The Directors details including special responsibilities and interests in securities are summarised in the table below.

NAME	EXPERIENCE & EXPERTISE	SPECIAL RESPONSIBILITIES	INTEREST IN SHARES	INTEREST IN OPTIONS
Sal Catalano BJuris., LLB, FITA, Executive Director and Company Secretary	Mr Catalano has extensive experience across business, the law and investment banking. He brings strong leadership skills and international business experience to the Board. He was a former Principal of Paloma Partners' securities financing group, Head of Donaldson Lufkin & Jenrette's (Pershing Division) Asian securities business and a Director of Credit Suisse's Alternative Capital Group. He is a Principal of the Chimaera Financial Group.	Chairman of audit committee.	Indirect interest in 41,116,752 shares via an indirect interest in Chimaera Capital Ltd and SC Capital Pty Ltd.	Indirect interest in 28,571,429 options.
Bruno Ruggiero BE (Mech), Grad Dip MinSc (Ext. Met), Grad Cert Eng Tech (Struct) Chairman and Independent Non-Executive Director	Bruno has multiple degrees in engineering and over 30 years' global experience in the minerals industry, crossing all facets from scoping to operations, and is a founding partner of the publicly listed Lycopodium Ltd. Currently Technical Director with Lycopodium Minerals, Bruno sets the technical direction and standards for new project initiatives that Lycopodium Minerals undertakes globally.	Member of audit committee.	Direct interest of 514,286 shares and indirect interest in 12,486,836 shares.	Nil
Steven Chadwick BASc (Metallurgy) Executive Director	Mr Chadwick is a Metallurgical Graduate of the WA School of Mines with 40 years' experience in the mining industry, incorporating technical, operating and management roles, as well as a strong metallurgical background. Mr Chadwick is now a metallurgical consultant specialising in project management and feasibility studies for a range of local and international clients. He was a founding director of BC Iron and a former managing director of Coventry Resources, PacMin Mining and Northern Gold. He was a director and consulted to major Canadian miner Teck Resources Australian subsidiary company for 10 years. He currently serves as a non-executive director.	Member of audit committee.	Direct interest in 1,028,571 shares and indirect interest of 1,857,143 shares.	Nil
Robert (Bob) Osmetti BE (Civ), MIE Aust, CPEng, Independent Non-Executive Director	Mr Osmetti is a Civil Engineer with over 39 years' experience in project management and construction management of projects globally in an EPCM role including for major contractors in the minerals and construction sectors. He brings direct experience in all aspects of project implementation, estimating, scheduling and construction management as well as the management of a number of feasibility studies for major resource projects in Australia and overseas. Mr Osmetti is one of the founding partners of Lycopodium and has held diverse senior positions within the Lycopodium group including as founding Managing Director of the Lycopodium joint venture between Monadelphous and Lycopodium, Mondium Pty Ltd. He currently serves as a non-executive director of Lycopodium Limited.	Nil	Indirect interest of 9,472,951 shares.	Nil

DIRECTORS' REPORT (CONTINUED)

NAME	EXPERIENCE & EXPERTISE	SPECIAL RESPONSIBILITIES	INTEREST IN SHARES	INTEREST IN OPTIONS
David Trimboli BCom, Independent Non-Executive Director	Mr Trimboli is an experienced global investor with significant experience in commodities financing and trading. He was formerly a long serving senior coal trader at the world's largest commodities trading group, Glencore International AG, and was a key member of the Glencore team when the group successfully completed its IPO in London and Hong Kong. Mr Trimboli has undertaken significant investments activities and holds diverse interests in commodities, industrial minerals, real estate and technology in Australia and internationally. Mr Trimboli is the founder of Seefeld Investments, with offices in London, Zug and Perth and has been an integral part of the rapid growth of the Seefeld Investments business. He brings a wealth of experience in cultivating partnerships and key commercial relationships globally.	Nil	Direct interest in 514,286 shares and indirect interest of 12,878,256 shares.	Nil

REMUNERATION REPORT (AUDITED)

The Directors of Quantum Graphite Ltd present the Remuneration Report in accordance with the Corporations Act 2001 and the Corporations Regulations 2001.

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

A. Principles used to determine the nature and amount of remuneration
B. Details of remuneration
C. Service agreements
D. Share-based remuneration

A. Principles used to determine the nature and amount of remuneration

The Company's remuneration policy has been designed to align objectives of key management personnel with objectives of shareholders and the business, by providing a fixed remuneration component and offering specific long-term incentives through the issue of options and / or performance rights. The Board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel and Directors to run and manage the Company. The key management personnel of the Company are the Board of Directors and Executive Officers.

The Board's policy for determining the nature and amount of remuneration for its members and key management personnel of the Company is as follows:

- The remuneration policy, setting the terms and conditions for the executive Directors and key management personnel, is developed by the Board. All key management personnel are remunerated on a consultancy or salary basis based on services provided by each person. The Board annually reviews the packages of key management personnel by reference to the Group's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

- The Board may exercise discretion in relation to approving incentives, bonuses, options and performance rights. The policy is designed to attract the highest calibre of key management personnel and reward them for performance that results in long-term growth in shareholder wealth.

- Key management personnel were also entitled to participate in the Company's Performance Rights and Option Plan as approved by shareholders at the 2013 AGM.

- The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the Company, except in relation to KPI options. Additionally, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company and are able to participate in the Performance Rights and Option Plan.

During the reporting year, performance reviews of senior executives were not conducted.

Performance based remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and other key management personnel. This has been facilitated through the issue of options and/or performance rights to key management personnel to encourage the alignment of personal and shareholder interests. The Company believes this policy will be effective in increasing shareholder wealth.

B. Details of remuneration

Details of the nature and amount of each element of the remuneration of the Company's key management personnel ("KMP") are shown below:

REMUNERATION REPORT (AUDITED) (CONTINUED)

2020 Director and other Key Management Personnel Remuneration

	Short term benefits - Salary and fees $	Post-employment benefits - Superannuation $	Share-based payments - Options and Performance Rights $	Share-based payments - Shares issued $	Total $	% of remuneration that is equity based	Salary and Fees Owing $
Directors							
S Catalano	72,000	-	-	-	72,000	100%	144,000
B Ruggiero	72,000	-	-	-	72,000	100%	144,000
S Chadwick	72,000	-	-	-	72,000	100%	144,000
R Osmetti	72,000	-	-	-	72,000	100%	96,000
D Trimboli	72,000	-	-	-	72,000	100%	96,000
Total	360,000	-	-	-	360,000	100%	624,000

2019 Director and other Key Management Personnel Remuneration

	Short term benefits Salary and fees $	Post-employment benefits - Superannuation $	Share-based payments - Options and Performance Rights $	Share-based payments Shares issued[1]$	Total $	% of remuneration that is equity based	Salary and Fees Owing[4] $
Directors							
S Catalano	72,000	-	-	18,000	90,000	100%	72,000
B Ruggiero	72,000	-	-	18,000	90,000	100%	72,000
S Chadwick	72,000	-	-	18,000	90,000	100%	72,000
R Osmetti	24,000	-	-	18,000	42,000	100%	24,000
D Trimboli	24,000	-	-	18,000	42,000	100%	24,000
R. Mencel	18,000	-	-	18,000	18,000	100%	-
Total	282,000	-	-	108,000	372,000	100%	264,000

Transactions with KMP

Transactions with key management personnel are made on normal commercial terms and conditions and at market rates. Outstanding balances are unsecured and are repayable in cash.

Chimaera Capital Limited ("CCL") (an entity related to Sal Catalano) provided corporate, administrative, technical and asset management services to the Company including provision of the registered and main business office. There was $921,750 charged by CCL during the year (2019: $861,078) and there was $412,835 payable as at 30 June 2020 (2019: $Nil) in relation to these services.

SC Capital Pty Ltd (an entity related to Sal Catalano) provided consultancy services to the Company including services in respect of the Company's R&D program. There was $94,500 charged by SC Capital Pty Ltd during the year (2019: $90,000) and there was $Nil payable as at 30 June 2020 (2019: $Nil) in relation to these services.

C. Share-based remuneration

Unlisted options

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the terms of the agreements.

There were no options over ordinary shares in the Company that were granted as remuneration to each KMP during the year ending 30 June 2020.

Performance Rights

There were no performance rights over ordinary shares in the Company granted as compensation during the reporting period.

Share holdings of key management personnel

The number of ordinary shares of Quantum Graphite Limited held, directly, indirectly or beneficially, by each KMP, including their personally-related entities as at the reporting date are set out below:

2020 KMP	Held at 30 June 2019	Issued in lieu of Director fees	Appointment or Resignation	Security Consolidation	Held directly or indirectly at 30 June 2020
S Catalano	1,439,086,321	-	-	(1,397,969,569)	41,116,752
B Ruggiero	455,039,273	-	-	(442,038,151)	13,001,122
S Chadwick	101,000,000	-	-	(98,114,286)	2,885,714
R Osmetti	331,553,268	-	-	(322,080,317)	9,472,951
D Trimboli	468,738,944	-	-	(455,346,403)	13,392,541
Total	2,795,417,806	-	-	(2,715,548,726)	79,869,080

Option holdings of key management personnel

There are 28,571,429 options over ordinary shares in Quantum Graphite Limited issued on 20 July 2018 and held by Chimaera Capital Limited in which Mr Catalano has an indirect shareholding during the financial year and at the reporting date.

END OF AUDITED REMUNERATION REPORT

ENVIRONMENTAL LEGISLATION

The Directors believe that the Company has, in all material respects, complied with all particular and significant environmental regulations relevant to its operations.

The Company's operations are subject to various environmental regulations under the Commonwealth and State Laws of Australia. Approvals, licences, hearings and other regulatory requirements are performed, as required, by the Company's management for each permit or lease in which the Company has an interest.

INDEMNITIES GIVEN, AND INSURANCE PREMIUMS PAID TO AUDITORS AND OFFICERS

During the year, the Company did not pay a premium to insure officers of the Group.

The Group has not otherwise, during or since the end of the reporting period, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

NON-AUDIT SERVICES

During the year Grant Thornton did not perform services in addition to its statutory duties.

Details of the amounts paid to the auditors of the Company and its related practices for audit and non-audit services provided during the reporting period are set out in note 18 to the Financial Statements.

A copy of the Auditor's Independence Declaration as required under s307C of the Corporations Act 2001 is included on page 11 of this Financial Report and forms part of this Directors' Report.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

CORPORATE GOVERNANCE

The Board has adopted the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations - 3rd Edition" (ASX Recommendations). The Board continually monitors and reviews its existing and required policies, charters and procedures with a view to ensuring its compliance with the ASX Recommendations to the extent deemed appropriate for the size of the Company and its development status.

A summary of the Company's ongoing corporate governance practices is set out annually in the Company's Corporate Governance Statement and can be found on the Company's website at quantumgraphite.com/responsibilities.

Signed in accordance with a resolution of the Directors.

Bruno Ruggiero	**Sal Catalano**
Chairman	Executive Director and Company Secretary

30 September 2020

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Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666

Auditor's Independence Declaration

To the Directors of Quantum Graphite Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Quantum Graphite Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B K Wundersitz
Partner – Audit & Assurance

Adelaide, 30 September 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2020

	Notes	2020 $	2019 $
Other income	2	536,605	-
Corporate and asset management expenses	3	(1,472,435)	(1,619,676)
Commercialisation expenses	3	(24,980)	(27,033)
Pre-commissioning expenses	3	-	(346,916)
Miscellaneous assets write-off		-	(1,434,019)
Total operating loss		(960,810)	(3,427,644)
Interest revenue		281	6,500
Interest expense		-	(122,250)
Net financing expense		281	(115,750)
Loss before tax		**(960,529)**	**(3,543,394)**
Income tax benefit / (expense)	4	-	-
Loss for the year attributable to owners of the parent entity		**(960,529)**	**(3,543,394)**
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to owners of the parent entity		**(960,529)**	**(3,543,394)**
Loss per share from continuing operations			
Basic and diluted loss – cents per share (restated)	5	(0.44)	(1.75)

This statement should be read in conjunction with the notes to the financial statements.

Quantum Graphite

Consolidated Statement of Financial Position
As at 30 June 2020

	Notes	2020 $	2019 $
ASSETS			
Current assets			
Cash and cash equivalents	6	13,436	400,500
Trade and other receivables	7	142,977	321,953
Prepayments		-	23,258
Total current assets		156,413	745,711
Security deposit with the Department of State Development	8	1,073,863	1,073,863
Intangible assets		7,189	7,189
Development assets	9	13,748,705	13,624,681
Exploration and evaluation assets	10	1,754,371	1,538,421
Plant and equipment	11	383,601	439,366
Total non-current assets		16,967,729	16,683,520
TOTAL ASSETS		17,124,142	17,429,231
LIABILITIES			
Current liabilities			
Trade and other payables	12	1,170,213	514,773
Total current liabilities		1,170,213	514,773
Non-current liabilities			
Rehabilitation provisions	13	558,369	558,369
Total non-current liabilities		558,369	558,369
TOTAL LIABILITIES		1,728,582	1,073,142
NET ASSETS		15,395,560	16,356,089
EQUITY			
Issued capital	14	54,249,795	54,249,795
Reserves	15	2,520,000	2,520,000
Accumulated losses		(41,374,235)	(40,413,706)
TOTAL EQUITY		15,395,560	16,356,089

This statement should be read in conjunction with the notes to the financial statements.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2020

2020	Share capital $	Option / Rights reserve $	Accumulated losses $	Total equity/(deficit) $
Balance at 1 July 2019	**54,249,705**	**2,520,000**	**(40,413,706)**	**16,356,089**
Comprehensive income:				
Total comprehensive income for the year	-	-	(960,529)	(960,529)
Balance 30 June 2020	**54,249,795**	**2,520,000**	**(41,374,235)**	**15,395,560**

2019	Share capital $	Option / Rights reserve $	Accumulated losses $	Total equity/(deficit) $
Balance at 1 July 2018	**37,555,718**	**-**	**(36,870,312)**	**685,406**
Shares issued in lieu of director fees	108,000	-	-	108,000
Share options issued pursuant to the interlocking DOCA	16,064,699	2,520,000	-	18,584,699
Proceeds from Rights Issue	521,378	-	-	521,378
Transactions with owners	16,694,077	2,520,000	-	19,214,077
Comprehensive income:				
Total comprehensive income for the year	-	-	(3,543,394)	(3,543,394)
Balance 30 June 2019	**54,249,795**	**2,520,000**	**(40,413,706)**	**16,356,089**

Consolidated Statement of Cash Flows
For the year ended 30 June 2020

	Notes	2020 $	2019 $
Operating activities			
Payments to suppliers and employees		(562,590)	(1,887,762)
Interest paid		(1,256)	(122,250)
Interest received		370	6,406
R&D tax concession received		276,386	-
Net cash used in operating activities	16	(287,090)	(2,003,606)
Investing activities			
Payments for exploration expenditure		(183,326)	(121,601)
Payments for development expenditure		(81,648)	(395,137)
Proceeds from sale of development assets		165,000	-
Net cash used in investing activities		(99,974)	(516,738)
Financing activities			
Drawdown of Loan		-	2,366,570
Proceeds from issue of share capital		-	521,378
Net cash from financing activities		-	2,887,948
Net change in cash and cash equivalents		(387,064)	367,604
Cash and cash equivalents - beginning of year		400,500	32,896
Cash and cash equivalents - end of year	6	13,436	400,500

This statement should be read in conjunction with the notes to the financial statements.

Notes to the consolidated financial statements
For the year ended 30 June 2020

1. Basis of preparation

a) Nature of operations

Quantum Graphite Ltd principal activity is the manufacture of high-grade flake graphite products and the mining of and exploration for graphite deposits in South Australia.

b) General information and basis of preparation

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Quantum Graphite Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements have been prepared on a going concern basis.

Going concern basis of accounting

The consolidated entity has prepared an assessment of its ability to continue as a going concern, taking into account all available information for a period of 12 months from the date of issuing the financial statements including the effects of the COVID-19 pandemic which has had a material impact on the Company progressing the development of Uley 2.

With the conclusion of the definitive feasibility study, the Company initiated its marketing plan. This plan rests on a diversification strategy that targets, firstly, the Company's historical and traditional customer base, the focus of the early offtake arrangements essential to secure funding for the development of Uley 2. Secondly, and in the medium to long term, the Company is developing alternative markets in the non-traditional, non-market correlated energy storage industry. The Sunlands Co. Pty Ltd (Sunlands Co.) collaboration is a key part of this alternative markets strategy.

The Company's planned pan European visits to its target customers was deferred twice in the second half of the reporting period and abandoned by the end of the financial year due to the impact of COVID-19. This has resulted in the unavoidable delay to the funding of the development of Uley 2.

In light of these developments the Company has adopted the following plan to mitigate the impact of COVID-19:

(a) in respect of its traditional target customer base:

- the progressing of discussions and negotiations with major refractory target customers with visits to customers to occur immediately following the lifting of travel; and
- seeking the commencement of pre-qualification trials with customers utilising the Company's existing warehoused products. These trials are subject to customer readiness which is presently detrimentally impacted by COVID-19 and dependent on the return of industrial capacity. This is expected to resume slowly in the second half of 2020. The Company closely monitors developments its product markets and is prepared to move quickly as market conditions improve.

(b) in respect of its alternative markets strategy:

- the Company renewed the Memorandum of Understanding (MOU) with Sunlands Co. for a further period ending December 31, 2021. Under the MOU the Company is significantly increasing its collaboration including critical support to Sunlands Co.'s commercialisation activities; and
- the concluding of the Company's first offtake agreement with Sunlands Co.; and
- requesting Lycopodium to undertake a further review of the Company's definitive feasibility to examine opportunities for an expansion of production beyond the definitive feasibility base case of 55,000 tonnes per annum to ensure the Company's rapid response to the commercialisation of the Sunlands Co. technology.

Notes to the consolidated financial statements (Continued)

Notwithstanding the impact of COVID-19, European market prices for the Company's products firmed significantly during the reporting period with prices continued to average significantly more than the Company's projected basket price of US$919. The Company will continue to maintain its key strengths including low operating costs, lean overhead structure and ungeared capital structure.

On the basis of the above, the Company remains confident that the Company will be able to continue as a going concern and continue trading and realising assets and discharging liabilities in the ordinary course of business for at least 12 months form the date of the consolidated financial statements.

The Company has determined that it will be able to meet its debts as and when they fall due for at least a period of 12 months from the date of the consolidated financial statements.

The consolidated entity incurred a net loss after tax from continuing operations of $960,529 for the year ended 30 June 2020 and had a net cash outflow of $387,064 from operating and investing activities. The consolidated entity is reliant upon completion of capital raising for continued operations and the provision of working capital. The directors believe they will be successful in attracting additional capital and have hence prepared the financial statements on a going concern basis. If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

The consolidated financial statements have therefore been prepared on a going concern basis.

c) Changes in accounting policies

New standards adopted as at 1 July 2019

AASB 16 Leases

AASB 16 supersedes AASB 17 and Interpretation 4 Determining whether an Arrangement contains a Lease and became effective for reporting periods beginning on or after 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

AASB 16 Leases became effective for period beginning on or after 1 January 2019. Accordingly, the Group applied AASB 16 for the first time from 1 July 2019. Changes to the Group's accounting policies arising from these standards are summarised below.

Total operating lease commitments to 30 June 2020 was $nil as the Group currently occupies its office space on a month by month basis. As a result, the leases held by the Group satisfied the relevant criteria of a short-term lease under AASB 16, therefore this standard has no impact on the Group.

d) Statement of compliance

This consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards ("AASB's") and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board ("IASB"). Quantum Graphite Ltd is a listed company, registered and domiciled in Australia. Quantum Graphite Ltd is a for profit entity for the purpose of preparing the financial statements.

The consolidated financial statements for the reporting period ended 30 June 2020 were approved and authorised by the Board of Directors on 30 September 2020.

Notes to the consolidated financial statements

e) Significant accounting policies

The significant policies which have been adopted in the preparation of this financial report are summarised below.

f) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Quantum Graphite Ltd as at 30 June 2020 and the results of all subsidiaries for the year then ended.

Subsidiaries
The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 30 June 2020. Subsidiaries are all entities (including structured entities) over which the Group has

i) the power to direct the relevant activities;
ii) exposure to significant variable returns; and
iii) the ability to utilise power to affect the Group's own returns.

Subsidiaries are fully consolidated from the date on which control is fully transferred to the Group. They are deconsolidated from the date that control ceases. All subsidiaries have a reporting date of 30 June.

A list of controlled entities is contained in Note 17 to the Financial Statements.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted, where necessary, to ensure consistency with the accounting policies adopted by the Group.

g) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the Board.

The Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted.

Operating segments that meet the quantitative criteria, as prescribed by AASB 8 Operating Segments, are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

The Directors have considered the requirements of AASB 8 Operating Segments and the internal reports that are reviewed by the Board in allocating resources have concluded that at this time there are no separately identifiable segments.

h) Finance income and expense

Finance income comprises interest income on funds invested, gains on disposal of financial assets and changes in fair value of financial assets held at fair value through profit or loss.

Interest income is recognised as it accrues in the profit or loss, using the effective interest rate method.

i) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the items. Repairs and maintenance are charged to the profit or loss during the reporting period in which they were incurred.

Notes to the consolidated financial statements

Plant and equipment under construction is accumulated until it is installed and ready for use at which time the costs are transferred to plant and equipment and depreciated.

Depreciation is calculated using the diminishing value method to allocate asset costs over their estimated useful lives, as follows:

Plant and equipment	3-20 years

The assets residual values and useful lives are reviewed and adjusted at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

j) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that right of tenure is current, and those costs are expected to be recouped through the successful development of the area (or, alternatively by its sale) or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and operations in relation to the area are continuing.

Accumulated costs, in relation to an abandoned area, are written off in full against profit in the period in which the decision to abandon the area is made.

k) Development expenditure

Development expenditure represents the accumulation of all acquired exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest being prepared for mining or in which economic processing of a mineral reserve has commenced. Amortisation of costs is provided on the unit of production method, with separate calculations being made for each mineral resource. The unit of production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral reserves. The net carrying value is reviewed regularly and, to the extent to which this value exceeds its recoverable amount that excess is fully provided against in the financial year in which this is determined.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

The Group records the present value of the estimated cost of legal and constructive obligations (such as those under the consolidated entity's Environmental Policy) to restore operating locations in the period in which the obligation is incurred. Site restoration costs include the dismantling and removal of plant and equipment, waste removal and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs and current legal requirements and technology.

Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly, the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

l) Financial instruments

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the provisions to the instrument. For financial assets, this is equivalent to date that the Group commits itself to either the purchase or sale of the asset.

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified as 'fair value through profit and loss', in which case the costs are expensed to the profit or loss immediately.

Notes to the consolidated financial statements

Classification and subsequent measurement
Financial instruments are subsequently measured at either fair value or amortised cost using the effective interest method. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, quoted prices in an active market are used to determine fair value.

The Group does not designate any interest in subsidiaries as being subject to the requirements of accounting standards specifically applicable to financial instruments:

(i) Financial assets at fair value through profit or loss (equity investments)
Financial assets at fair value through profit or loss include financial assets held for trading, e.g., financial assets designated upon initial recognition at fair value through profit or loss, e.g., debt or equity instruments, or financial assets mandatorily required to be measured at fair value, i.e., where they fail the SPPI test. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that do not pass the SPPI test are required to be classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

(ii) Financial liabilities
Non-derivative financial liabilities are subsequently measured at amortised cost.

Impairment
The group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

m) Impairment of assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to profit or loss.

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

n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method, less provision for impairment. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss.

Notes to the consolidated financial statements (Continued)

o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at their fair value and subsequently amortised cost using the effective interest rate method.

Trade and other payables are stated at amortised cost.

p) Income Tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered, or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entity's which intend to settle simultaneously.

To the extent that research and development costs are eligible under the “Research and development tax incentive” programme, a 43.5% refundable tax offset is available for companies with annual turnover of less than $20 million. The Group recognises refundable tax offsets received in the financial year as other income, in profit or loss.

q) Leases

When a contract is entered into, the Group assesses whether the contract contains a lease. A lease arises when the Group has the right to direct the use of an identified asset where the lessor does not have a substantive substitution right and to obtain substantially all economic benefits from the use of the asset throughout the period of use.

The Group separates the lease and non-lease components of the contract and accounts for these separately. The Group allocates the consideration in the contract of each component on the basis of their relative stand-alone prices.

Leases as a lessee

Lease assets and lease liabilities are recognised at the lease commencement date, which is when the assets are available for use. The assets are initially measured at cost, which is the present value of future lease payments for any lease payments made at or before the commencement date, plus any makegood obligations and initial direct costs incurred.

Lease assets are depreciated using the straight-line method over the shorter of their useful life and the lease term. Periodic adjustments are made for any re-measurements of lease liabilities and for impairment losses, assessed in accordance with the Group’s impairment policies disclosed at note 1.

Notes to the consolidated financial statements (Continued)

Lease liabilities are initially measured at the present value of future minimum lease payments, discounted using the Group's incremental borrowing rate if the rate implicit in the lease cannot be readily determined, and are subsequently measured at amortised cost using an effective interest rate. Minimum lease payments are fixed payments or index-based variable payments incorporating the Group's expectations of extension options and do not include non-lease components of a contract. A portfolio approach was taken when determining the implicit discount rate for leased assets with similar terms and conditions on transition.

The lease liability is remeasured when there are changes in future lease payments arising from a change in rates, index or lease terms from exercising an extension or termination option. A corresponding adjustment is made to the carrying amount of the lease assets, with any excess recognised in the consolidated statement of profit or loss and other comprehensive income.

Short-term leases and leases of low value assets

Short-term leases (i.e. lease term of 12 months or less) and leases of low value assets are recognised as incurred as an expense to the consolidated statement of profit or loss and other comprehensive income. Low value assets comprise of plant and equipment.

Leases as a lessor

As a lessor the Group classifies its leases as either operating or finance leases. The accounting policies applicable to the Group as a lessor are not different from those under AASB 117 Leases. However, when the Group is an intermediate lessor, the sub-leases are classified with reference to the ROU asset arising from the head lease, not with reference to the underlying asset. Operating lease income is recognised in other revenue in the consolidated statement of profit or loss and other comprehensive income.

r) Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

s) Earnings per share

- Basic earnings per share
  Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

- Diluted earnings per share
  Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-tax effect and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

t) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

u) Share-based payments

The Company operates equity-settled based remuneration plans for its directors. None of the Company plans features any options for a cash settlement.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employee' services are determined indirectly by reference to the fair value of the equity instruments granted. The fair value is appraised at the grant dates and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets s and performance conditions.

Notes to the consolidated financial statements (Continued)

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimated are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. Non-adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

v) Employee benefits

The Group provides post-employment benefits through various defined contribution plans.

A defined contribution plan is a superannuation plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. The Group contributes to several plans and insurances for individual employees that are considered defined contribution plans. Contributions to the plans are recognised as an expense in the period that relevant employee services are received.

Employee benefits, including annual leave entitlement, are included in 'employee provisions', measured at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

w) Goods and services tax ("GST")

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

x) Parent entity

The financial information of the parent entity, Quantum Graphite Limited (formerly Valence Industries Limited), disclosed in the notes to the financial report has been prepared on the same basis as the consolidated financial statements, other than investments in controlled entities which are carried at cost less impairment.

y) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends of economic data, obtained both externally and within the Group.

Key estimates

Impairment

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

Decommissioning provision

Estimates and assumptions of the appropriate discount rate at which to discount the liability, the timing of cash flows, the application of relevant environmental legislation and the future expected costs of decommissioning are all used in determining the carrying value of the decommissioning provision. The carrying amount of the provision is set out in Note 14.

Notes to the consolidated financial statements (Continued)

R&D Tax Concession

To the extent that research and development costs are eligible under the 'Research and development tax incentive' programme, a 43.5% refundable offset is available for companies with annual turnover of less than $20million. Research and development tax incentive income is recognised at fair value when there is a reasonable expectation that the income will be received. The expected future R&D tax incentive for qualifying R&D expenditure has been accrued and is also recognised as other income in the statement of profit or loss. The Company has estimated the amount of future R&D incentive receivable on ongoing projects on the basis that the expected amount of the incentive can be reliably measured and receipted.

Key judgements

Development expenditure and plant and equipment

The future recoverability of fixed assets and capitalised development expenditure has been assessed by the directors and is dependent on a number of factors, including commodity prices, the level of reserves and resources, foreign currency rates and future technological changes that could impact the costs of mining and processing and future legal changes.

Significant judgements and assumptions are required in making assessments regarding the presence of impairment indicators. This is particularly so in the assessment of long-life assets.

After assessing external and internal sources for the presence of impairment indicators for the Uley Graphite project, no impairment triggers were identified and therefore impairment testing was not required at the reporting date.

Exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with management and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Board of Directors with reference to quoted market prices or using the Black-Scholes valuation method or the Monte Carlo valuation method as appropriate taking into account the terms and conditions upon which the equity instruments were granted. The assumptions in relation to the valuation of the equity instruments are detailed in Note 22. 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 expenses and equity.

z) Quarterly cash flows

Payments for exploration and evaluation assets reported in the consolidated statement of cash flows is reported as an investing activity in accordance with AASB 107 *Statement of Cash Flows*. This varies from the reporting in the Appendix 5B Quarterly Cash Flow Reports in which these payments are included in operating activities. Going forward, capitalised expenditure on exploration and development assets will be classified as investing activities in the Appendix 5B.

Notes to the consolidated financial statements (Continued)

aa) Accounting standards issued but not yet effective and not adopted early by the Group

AASB 2018-7 Definition of Material

This standard is applicable to annual reporting periods beginning on or after 1 January 2020. AASB 2018-7 amends AASB 101 Presentation of Financial Statements to clarify the definition of material as applied across all reporting standards.

The intention of the amendment is to reduce and declutter financial reports and focus the user's attention on the key material items, the Group would look to review the disclosure in respect of non-material items.

AASB 2020-4 COVID-19-Related Rent Concessions

This standard is applicable to annual reporting periods beginning on or after 1 June 2020. AASB 2020-4 amends AASB 16 to provide a practical expedient that permits lessees not to assess whether rent concessions that occur as a direct consequence of the Covid-19 pandemic and meet specified conditions are lease modifications and, instead, to account for those rent concessions as if they were not lease modifications.

As the Group currently is not entered into any operating leases, there will be no impact to the financial statements next year when this new standard is adopted.

AASB 2020-1 Classifications of Liabilities as Current or Non-Current

This standard is applicable to annual reporting periods beginning on or after 1 January 2022. AASB 2020-1 amends AASB 101 Presentation of Financial Statements to clarify for the presentation of liabilities in the statement of financial position as current or non-current.

For example, the amendments clarify that a liability is classified as non-current if an entity has the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period. The meaning of settlement of a liability is also clarified.

Little impact expected but we will consider the appropriate classification of liabilities as current or non-current.

2. OTHER INCOME

	30 June 2020 $	30 June 2019 $
R&D tax incentive[1]	**386,605**	-
Gain on sale of development assets	**150,000**	-
Other income	**536,605**	-

1. R&D tax incentive income consists of $276,386 received from the 30 June 2019 claim, and an accrual of $110,219 that relates to costs included in the 2019-20 R&D tax incentive claim.

3. EXPENSES

2020	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Director's salary expense	360,000	-	-	360,000
Depreciation	55,765	-	-	55,765
Research & Development	287,220	-	-	287,220
Rental Expense	202,785	-	-	202,785
Data & Communications Equipment	165,915	-	-	165,915
Sundry Service Fees	184,350	-	-	184,350
Corporate Administration Costs	64,523	-	-	64,523
Other	151,877	24,980	-	176,857
Total	1,472,435	24,980	-	1,497,415

2019	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Director's salary expense	312,718	-	-	312,718
Depreciation	31,024	-	17,732	48,756
Rental Expense	106,535	-	-	106,535
Data & Communications Equipment	87,165	-	-	87,165
Trustee & Nominee Fee	343,863	-	-	343,863
Bank Fees & Charges	109,354	-	-	109,354
Sundry Service Fees	286,344	-	-	286,344
Miscellaneous Operating Costs	137,352	-	-	137,352
Corporate Administration Costs	96,850	-	-	96,850
Other	108,471	27,033	329,184	464,688
Total	1,619,676	27,033	346,916	1,993,625

Commercialisation expenses include sales and marketing and other expenses directed towards the development of value-added products and associated markets. Pre-commissioning expenses include costs of establishing operational readiness at Uley and pre-production testing of the plant.

4. INCOME TAX EXPENSE

	2020 $	2019 $
(a) The components of income tax expense comprise:		
Current income tax (expense) / benefit	-	-
(b) The prima facie tax loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Net loss	(960,529)	(3,543,394)
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5% (2019: 27.5%)	(264,145)	(974,433)
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	1,877	5,318
Deferred tax asset not realised as recognition criteria not met	262,268	969,115
Income tax (expense) / benefit	-	-

	2020 $	2019 $
(c) Deferred tax assets have not been recognised in respect of the following:		
Tax losses	42,820,307	41,866,602
Deferred tax asset has not been recognised	11,775,585	11,513,316

Future utilisation of the tax losses will be subject to the satisfaction of continuity of ownership or continuity of business test. The assessment regarding the utilisation has not yet been completed and tax losses are not recognised as deferred tax assets.

5. EARNINGS PER SHARE

The weighted average number of shares for the purpose of diluted earnings per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2020 #	2019 #
Weighted average number of shares used in basic earnings per share	218,874,240	202,715,524
Loss per share (cents) (restated)	(0.44)	(1.75)

In accordance with AASB 133 ‘Earnings per Share’ there cannot be any dilutive securities as the Company made a loss for the year.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	2020 $	2019 $
Cash at hand and in bank.		
Cash at bank[1]	13,436	400,500
Cash and cash equivalents	13,436	400,500

Reconciliation of cash at the end of the year.

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash and cash equivalents	13,436	400,500

[1] The amount of $4,029 are funds held in trust with Chimaera Custody Services, a related party.

7. TRADE AND OTHER RECEIVABLES

	2020 $	2019 $
Other receivables	20,000	20,000
GST receivable	12,758	301,953
R&D Tax Incentive receivable	110,219	-
Total receivables	142,977	321,953

8. SECURITY DEPOSIT WITH THE DEPARTMENT OF STATE DEVELOPMENT ("DSD")

	2020 $	2019 $
Opening balance	1,073,863	1,073,863
DSD expenses incurred	-	-
Closing balance	1,073,863	1,073,863

The funds held in a term deposit as security for the rehabilitation bond were transferred to the DSD during the year ending 30 June 2017. During the year ending 30 June 2017 the DSD incurred expenses in relation to remedial works at the site and drew down funds from the rehabilitation bond to meet these expenses.

The current provision for remediation and rehabilitation is $558,369 (Note 13) and was originally raised to meet estimated liabilities mainly connected with the original process plant. The other component (unspecified quantum but estimated at less than 15%) covers the rehabilitation of the tailings storage facility. The rehabilitation provision is matched with a cash deposit bond of $1,073,863 held in favour of the SA Department of Energy and Mines. The company does not propose to revise the rehabilitation provision or seek a reduction in the cash deposit bond.

9. DEVELOPMENT ASSETS

	2020 $	2019 $
Gross carrying amount		
Opening balance	13,624,681	6,753,775
Additions/Disposals during the year	124,024	725,196
Transfer from plant and equipment (Note 11)	-	6,145,710
Closing balance	13,748,705	13,624,681

All development expenditure relates to the Company's Uley Graphite operation. Assets previously reported as plant under construction within Plant and Equipment were transferred to Development Assets. These assets are necessarily connected with the Uley 2 Project and included within the feasibility study. These assets are not yet ready for use and are not currently being amortised.

10. EXPLORATION AND EVALUATION ASSETS

	2020 $	2019 $
Opening balance	1,538,421	1,415,705
Expenditure on exploration during the year	215,950	122,716
Closing balance	1,754,371	1,538,421

11. PLANT AND EQUIPMENT

2020	Plant & Equipment $	Plant under construction $	Motor vehicles $	Office equipment $	Total $
Gross carrying amount					
Opening balance	797,454	-	39,566	-	837,020
Balance 30 June 2020	797,454	-	39,566	-	837,020
Depreciation and impairment					
Opening balance	(358,088)	-	(39,566)	-	(397,654)
Depreciation	(55,765)	-	-	-	(55,765)
Balance 30 June 2020	(413,853)	-	(39,566)	-	(453,419)
Carrying amount 30 June 2020	383,601	-	-	-	383,601

PLANT AND EQUIPMENT (Continued)

2019	Plant & Equipment $	Plant under construction $	Motor vehicles $	Office equipment $	Total $
Gross carrying amount					
Opening balance	824,611	7,744,565	39,566	20,520	8,629,262
Additions/(Disposals)/Transfers	312,584	(312,584)	-	-	-
Transfer to development assets (Note 8)	-	(6,308,148)	-	-	(6,308,148)
Write off assets	(339,741)	(1,123,833)	-	(20,520)	(1,484,094)
Balance 30 June 2019	797,454	-	39,566	-	837,020
Depreciation and impairment					
Opening balance	(509,770)	(162,438)	(39,566)	(15,849)	(727,623)
Depreciation	(48,756)	-	-	-	(48,756)
Transfer to development assets (Note 8)	127,036	162,438	-	-	289,474
Write off assets	73,402	-	-	15,849	89,251
Balance 30 June 2019	(358,088)	-	(39,566)	-	(397,654)
Carrying amount 30 June 2019	439,366	-	-	-	439,366

12. TRADE AND OTHER PAYABLES

Trade and other payables, which are all current, recognised in the statement of financial position can be analysed as follows:

	2020 $	2019 $
Trade and other payables[1]	1,170,213	514,773
Total	1,170,213	514,773

[1]Trade and other payables includes:
- A total of $412,835 payable to Chimaera Capital Limited, of which Chimera Capital Limited has agreed to defer the current amount outstanding together with all invoices relating to future services in respect of the Technical and Administration Services Arrangement to the earlier of QGL's next capital raise or 1 July 2021.
- Directors' fees of $624,000, whereby Directors control the timing of payment of Directors' fees, and the Directors intend to continue to take settlement in shares subject to approval at the AGM.

13. REHABILITATION PROVISION

	2020 $	2019 $
Decommissioning provision	558,369	558,369
	558,369	558,369

The provision represents the present value of estimated future decommissioning costs of the Uley mine site which at the reporting date was restricted to removal of the Phase I processing plant and associated infrastructure and rehabilitation of a portion of the Uley Pit 2 and water treatment areas. The estimated provision brought to account is reflective of the stage of development of the Uley project.

14. ISSUED CAPITAL

	Number of shares	2020 $
(a) Issued and paid up capital		
Fully paid ordinary shares	218,874,240	54,249,795
	218,874,240	54,249,795
(b) Movements in fully paid shares		
Opening balance	7,660,580,941	54,249,795
Security consolidation – 1 for 35 shares on issue	(7,441,706,701)	-
Balance as at 30 June 2020	218,874,240	54,249,795

	Number of shares	2019 $
(a) Issued and paid up capital		
Fully paid ordinary shares	7,660,580,941	54,249,795
	7,660,580,941	54,249,795
(b) Movements in fully paid shares		
Opening balance	1,003,907,007	37,555,718
Issue of shares on 23 July 2018 – pursuant to the interlocking DOCAs	6,197,638,425	15,618,049
Issue of shares on 28 August 2018 – in lieu of director fees	108,000,000	108,000
Issue of shares on 28 August 2018 – pursuant to the interlocking DOCAs	177,243,000	446,650
Rights issue on 13 March 2019 – pursuant to Offer Information Statement	75,639,176	226,918
Shortfall notification on 13 March 2019 – notification under the Rights issue Offer	98,153,333	294,460
Balance as at 30 June 2019	7,660,580,941	54,249,795

The share capital of Quantum Graphite Limited consists only of fully paid ordinary shares. All shares are eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Company.

The shares do not have a par value and the Company does not have a limited amount of authorised capital.

In the event of winding up the Group, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

15. RESERVES

Balance of share-based payments reserve

	2020 $	2019 $
Opening balance	2,520,000	2,520,000
Balance at 30 June 2020	2,520,000	2,520,000

Share based payments are in line with the Quantum Graphite Ltd (formerly Valence Industries Limited) remuneration policy, details which are outlined in the director's report. Listed below are summaries of options and performance rights granted:

Share Option Reserve 2020	**Number of options**	**2020 $**	**Weighted average exercise price**
Opening balance	1,000,000,000	2,520,000	$0.00252
Security consolidation (1 for 35 options)	(971,428,571)	-	-
Balance at 30 June 2020	28,571,429	2,520,000	$0.08820

Share Option Reserve 2019	**Number of options**	**2019 $**	**Weighted average exercise price**
Opening balance	-	-	-
Share options issued on 23 July 2018 – pursuant to the interlocking DOCA	1,000,000,000	2,520,000	$0.00252
Balance at 30 June 2019	1,000,000,000	2,520,000	$0.00252

<u>Nature and purpose of reserves</u>

The share-based payments reserve is used to recognise the fair value of all equity issued pursuant to share based payments.

16. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES

Operating activities

	2020 $	2019 $
Loss after tax	(960,529)	(3,543,394)
Interest expense	-	122,250
Depreciation expense	55,765	48,756
Impairment – other assets	-	39,176
Write-off of plant and equipment	-	1,394,843
Share based payments	-	108,000
Gain on sale of development assets	(150,000)	-
Decrease/(increase) in other assets	23,258	(16,978)
Decrease/(increase) in receivables	178,976	(159,385)
Increase/(decrease) in payables	565,440	3,126
Net cash used in operating activities	(287,090)	(2,003,606)

17. INVESTMENTS IN CONTROLLED ENTITIES

The Company has the following subsidiaries:

Name of Subsidiary	Country of Registration	Class of Shares	Percentage held 2020	Percentage held 2019
Quantum Graphite Operations Pty Ltd	Australia	Ordinary	100%	100%

18. AUDITOR REMUNERATION

	2020 $	2019 $
Audit services		
Auditors of Quantum Graphite Ltd – Grant Thornton		
- Audit and review of Financial Reports	44,300	38,000
Audit services remuneration	44,300	38,000

19. COMMITMENTS AND CONTINGENCIES

Exploration commitments

On 24 December 2018, the company was notified of the renewal of EL6224 to 12 October 2020. The requirement to expend an amount of no less than $280,000 on exploration in the area comprised in the Licence during the term of this licence has been met.

Contingent liabilities

The Group has no contingent assets or liabilities.

20. RELATED PARTY TRANSACTIONS

The Group's related party transactions include its subsidiaries and key management personnel.

(a) Transactions with subsidiary

Loans between entities in the wholly owned Group are not interest bearing, unsecured and are payable upon reasonable notice having regard to the financial stability of the Company.

(b) Transactions with key management personnel

Key Management Personnel remuneration includes the following which are disclosed in detail in the remuneration report:

	2020 $	2019 $
Short-term benefits	360,000	372,000
Total remuneration	360,000	372,000

The Outstanding balances with key management personnel included in Trade and Other Payables at 30 June 2020 total $624,000 (2019: $264,000).

(c) Transactions with Chimaera Capital Limited and SC Capital Pty Ltd

During FY2018-19, Chimaera Capital Limited became a substantial shareholder of the Group. The Group exited administration in July 2018 and Chimaera Capital Limited assumed responsibility for corporate, administrative, technical and asset management services. In respect of FY2019-20, the Company incurred expenditure of $921,750 (2019: $861,078) for occupancy costs, IT services, accounting services, and other corporate administration charges. SC Capital Pty Ltd provides consultancy services to the Company including oversight of its R&D program. In FY2019-20 the Company incurred expenditure of $94,500 (2019: $90,000).

21. EMPLOYEE REMUNERATION

(a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:	2020 $	2019 $
Salaries / contract payments for Directors	360,000	372,000
	360,000	372,000

(b) Post-employment benefits expense

Expenses recognised for post-employment employee benefits are analysed below:	2020 $	2019 $
Superannuation payments for Directors and employees	-	-

(c) Share based employee remuneration

As at 30 June 2020 the Group maintained a performance rights and option plan for employee and director remuneration. There were nil unlisted options granted to Directors as remuneration during the financial year.

Share options and weighted average exercise prices are as follows:

2020	Number of options	Weighted average exercise price ($)
Opening balance	1,000,000,000	0.00252
Security consolidation (1 for 35 options)	(971,428,571)	-
Outstanding as at 30 June 2020	28,571,429	0.02857

2019	Number of options	Weighted average exercise price ($)
Opening balance	-	-
Share options issued on 23 July 2018 – pursuant to the interlocking DOCAs	1,000,000,000	0.00252
Outstanding as at 30 June 2019	1,000,000,000	0.00252

Fair value of options granted

The fair value at grant date of the Director options has been determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

22. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The total for each category of financial instruments are as follows:

	Note	2020 $	2019 $
Financial assets			
Cash and cash equivalents	6	13,436	400,500
Trade and other receivables	7	142,977	321,953
		156,413	722,453
Financial liabilities			
Trade and other payables	12	1,170,213	514,773
		1,170,213	514,773

Financial risk management policy
Risk management is carried out by the Executive Director under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as interest rate and credit risk.

a) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate working capital is maintained for the coming months. Upcoming capital needs and the timing of equity and debt raisings are assessed by the Board.

Financial liabilities are expected to be settled within 12 months.

b) Interest rate risk

The Group's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. Cash is the only asset affected by interest rate risk as cash is the Group's only financial asset exposed to fluctuating interest rates.

23. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

The Group is exposed to interest rate risk on cash balances and term deposits held in interest bearing accounts. The Board constantly monitors its interest rate exposure and attempts to maximise interest income by using a mixture of fixed and variable interest rates, whilst ensuring sufficient funds are available for the Group's operating activities. The Group's net exposure to interest rate risk at 30 June 2020 approximates the value of cash and cash equivalents.

c) Sensitivity analysis

Interest rate
The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

2020		**Effect on:**	
	Sensitivity*	**Profit $**	**Equity $**
Interest rate	+ 1.50%	+0	+0
	- 1.50%	-0	-0

2019		**Effect on:**	
	Sensitivity*	**Profit $**	**Equity $**
Interest rate	+ 1.50%	+6,000	+6,000
	- 1.50%	-6,000	-6,000

*The method used to arrive at the possible change of 150 basis points was based on the analysis of the absolute nominal change of the Reserve Bank of Australia (RBA) monthly issued cash rate. Historical rates indicate that for the past five financial years, interest rate movements ranged between 0 to 150 basis points. It is considered that 150 basis points a 'reasonably possible' estimate as it accommodates for the maximum variations inherent in the interest rate movement over the past five years.

The fair values of all financial assets and liabilities of the Group approximate their carrying values.

d) Net fair values of financial assets and financial liabilities

AASB 13 Fair Value Measurement: Disclosures requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The carrying amounts of all financial assets and liabilities approximate their net fair values and are disclosed as level 3 fair values.

24. PARENT ENTITY INFORMATION

Information relating to Quantum Graphite Limited (the parent entity).

	2020 $	2019 $
Statement of financial position		
Total assets	16,515,564	16,698,843
Total liabilities	654,000	343,000
Issued capital	54,249,795	54,195,795
Accumulated losses	(40,908,231)	(40,359,952)
Share option reserve	2,520,000	2,520,000
Statement of profit of loss and other comprehensive income		
Loss for the period	548,279	15,440,548

The parent entity has not entered into a deed of cross guarantee nor are there any contingent liabilities at the end of the reporting period.

25. OPERATING SEGMENTS

The Directors have considered the requirements of AASB 8 – Operating Segments and the internal reports that are reviewed by the chief operating decision maker (the Board) in allocating resources have concluded that at this time there are no separately identifiable segments.

26. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

There were no events that have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company in subsequent financial years.

Directors' Declaration

In the opinion of the Directors of Quantum Graphite Limited:

a) the consolidated financial statements and notes of Quantum Graphite Limited are in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of its financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and

ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b) there are reasonable grounds to believe that Quantum Graphite Limited will be able to pay its debts when they become due and payable.

The directors have been given the declaration required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2020.

The consolidated financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Bruno Ruggiero
Director

Sal Catalano
Director

Melbourne
30 September 2020

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Independent Auditor's Report

To the Members of Quantum Graphite Limited

Report on the audit of the financial report

Disclaimer Opinion

We were engaged to audit the financial report of Quantum Graphite 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 comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

We do not express an opinion on the accompanying financial report of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on this financial report.

Basis for Disclaimer Opinion

The Group's non-current assets at 30 June 2020 include Development assets of $13,748,705 (2019: $13,624,681) and Plant and equipment of $383,601 (2019: 439,366) attributable to the Uley Project. In accordance with the requirements of AASB 136 *Impairment of Assets* the Company is required to perform an annual impairment test to determine if:

a there are triggers for impairment; and
b determine the recoverable amount of the assets.

As disclosed in note 1 m) *Impairment of assets* and y) *Development Expenditure and plant and equipment* of the financial statements, the Company assesses, when indicators of impairment are present, the recoverable amount of the Uley Project through a value in use model. The Company has assessed there are no triggers for impairment at 30 June 2020, and therefore no formal recoverable amount assessment has been undertaken in line with AASB 136. The model utilised by the Company to assess the recoverable amount and assist in their determination that no impairment indicators are present, is a model prepared for the purposes of the Definitive Feasibility Level Study ("DFS"). In addition to the inherent uncertainty in inputs in such models, of which COVID-19 has impacted, there is insufficient appropriate audit evidence regarding the availability of the funding and funding structure adopted within the model to determine the recoverable amount for Uley Project

Consequently, we were unable to determine whether any adjustments were necessary as a result of the determination of an AASB 136 compliant recoverable amount, in respect of the accompanying consolidated statement of financial position of the Group as at 30 June 2020, and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity for the year ended 30 June 2020.

Responsibilities of the Directors' for the financial report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

Our responsibility is to conduct an audit of the financial report in accordance with Australian Auditing Standards and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial report.

We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (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.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Quantum Graphite 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.

Grant Thornton.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

B K Wundersitz
Partner – Audit & Assurance

Adelaide, 30 September 2020

ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 29 September 2020.

The Company is listed on the Australian Securities Exchange.

Substantial shareholders

The substantial shareholders whom have notified the Company in accordance with Section 671B of the Corporations Act at the date of this report are:

- Chimaera Capital Ltd – 25.08%
- Ziziphus Pty Ltd – 5.47%

Voting rights

Ordinary shares	On a show of hands, every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
Options	No voting rights.

Distribution of equity by security holders

The following information was current at 29 September 2020.

Holding	Ordinary Shares (Quoted)
1 – 1,000	242
1,001 – 5,000	134
5,001 – 10,000	224
10,001 – 100,000	256
100,001 and over	134
Number of Holders	**990**

Unmarketable parcels

There were 584 holders of less than a marketable parcel of ordinary shares ($500 amounts to 4,348 shares at 11.5 cents per share).

Business objectives

The Company has used its cash and assets readily convertible to cash in a way consistent with its business objectives.

On-market buy-back

There is no current on-market buy-back.

Twenty largest holders of All Ordinary Shares on issue

Rank	Name	A/C designation	29 Sep 2020	%IC
1	CHIMAERA CAPITAL LIMITED		54,898,666	25.08
2	ZIZIPHUS PTY LTD		11,972,551	5.47
3	SELSO PTY LTD	<OSMETTI FAMILY NO 2 A/C>	9,472,951	4.33
4	INSYNC INVESTMENTS PTY LTD	<WEEKLEY SUPER FUND NO 1 A/C>	8,633,578	3.94
5	LYCOPODIUM LIMITED		7,315,167	3.34
6	MICHAEL JAMES MADDOX		5,667,646	2.59
7	GOLDER ASSOCIATES PTY LTD		4,830,974	2.21
8	ACN 112 940 057 PTY LTD		4,737,932	2.16
9	G & N LORD SUPERANNUATION PTY LTD	<GNR SUPERANNUATION FUND A/C>	4,707,719	2.15
10	FUDDY PTY LTD	<PATTISON SUPER FUND A/C>	4,680,000	2.14
11	NEXT AUSTRALIA PTY LTD	<NEXT SUPER FUND A/C>	4,123,192	1.88
12	PETER FAULKNER INVESTMENTS PTY LTD	<FAULKNER TUKE SUPERFUND A/C>	4,104,407	1.88
13	CELTIC CAPITAL PTY LTD	<CELTIC CAPITAL NO 2 A/C>	3,875,331	1.77
14	MRS ROCHELLE JANE PATTISON & MS KATHERINE MARGARET FORREST	<SYLVAN S/F A/C>	2,995,001	1.37
15	GETCO PTY LTD		2,833,823	1.29
16	MR DAVID JOHN HEBBERMAN & MS JOSEPHINE NORA HALL	<DAVID HEBBERMAN FAM S/F A/C>	2,671,159	1.22
17	R&M SINCLAIR HOLDINGS PTY LTD	<R&M SINCLAIR SUPER FD A/C>	2,380,572	1.09
18	TUKE INVESTMENTS PTY LTD	<THE DAVID TUKE S/FUND A/C>	2,298,336	1.05
19	AGENS PTY LTD	<THE MARK COLLINS S/F A/C>	2,297,337	1.05
20	ESPAG PTY LTD	<ESPAG PROPERTY>	2,267,059	1.04
		Total	**146,763,401**	**67.05**
		Balance of register	**72,110,839**	**32.95**
		Grand total	**218,874,240**	**100.00**