



Quantum Graphite

MARKET RELEASE
For Immediate Release
5 September 2018

Auditor Review of Historical and Pro Forma Financial Information

In connection with the reinstatement of re-quotation of the Company's securities, the Company provides the Auditor Review of Historical and Pro Forma Financial Information prepared by the Company's Auditors, Grant Thornton (attached). Further the Company has prepared a statement of the estimated quarterly cash flows for the period ending December 2019 (also attached).

Sal Catalano
Company Secretary
e: scatalano@qgraphite.com

The Directors
Quantum Graphite Limited
349 Collins Street
MELBOURNE VIC 3000

Grant Thornton Audit Pty Ltd
Grant Thornton House
Level 3
170 Frome Street
Adelaide SA 5000
5000
T +61 8 8372 6666
F +61 8 8372 6677

5 September 2018

Dear Directors

Independent Limited Assurance Report on the Historical and Pro Forma Financial Information

Introduction

We have been engaged by Quantum Graphite Limited (“Quantum Graphite” or the “Company”) to report on the historical and pro forma financial information of the Company in connection with the ASX letter dated 4 May 2018 relating to the Recapitalisation Proposal.

Scope

You have requested Grant Thornton Audit Pty Ltd to review the following Historical Financial Information of the Company included in the attached pro-forma:

Historical Financial Information

The Historical Financial Information, as set out in the Pro-forma comprises the:

- reviewed consolidated historical statement of financial position as at 31 December 2017; and
- pro forma consolidated statement of financial position of Quantum Graphite as at 31 December 2017, which assumes completion of the transactions outlined in note to the pro-forma (the “Pro Forma Transactions”) as though they had occurred on that date.

(Hereafter the “Historical Financial Information”).

The Historical Financial Information other than the Pro Forma Transactions and the results of the associated adjustments to the consolidated pro forma statement of financial position has been extracted from the reviewed financial statements for 1HY18 which were reviewed by Grant Thornton Audit Pty Ltd. Grant Thornton Audit Pty Ltd issued an unqualified review report in relation to 1HY18 including an emphasis of matter which indicates that there is significant uncertainty about the Group’s ability to meet its ongoing operating and financing commitments over the foreseeable future.

ACN-130 913 594

Grant Thornton Audit Pty Ltd ACN 130 913 594 a subsidiary or related entity of Grant Thornton Australia Limited ABN 41 127 556 389 ‘Grant Thornton’ refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Limited is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another’s acts or omissions. In the Australian context only, the use of the term ‘Grant Thornton’ may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. Liability limited by a scheme approved under Professional Standards Legislation.

www.grantthornton.com.au

The stated basis of preparation is the recognition and measurement principles contained under Australian Generally Accepted Accounting Principles (“AGAAP”) and Quantum Graphite adopted accounting principles applied to the Historical and Pro forma Financial Information.

The Historical Financial Information is presented in an abbreviated form insofar as it does not include all of the presentation and disclosures required and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in Australia in accordance with the Corporations Act 2001.

Grant Thornton Audit Pty Ltd disclaim any assumption of responsibility for any reliance on this report or on the Historical Financial Information to which this report relates for any purpose other than the purposes for which it was prepared.

Directors’ Responsibility

The Directors of Quantum Graphite are responsible for the preparation and presentation of the Historical Financial Information. The Directors are also responsible for the determination of the Pro Forma Transactions and the basis of preparation of the Historical Financial Information.

This responsibility also includes compliance with applicable laws and regulations and for such internal controls as the Directors determine necessary to enable the preparation of the Historical Financial Information that are free from material misstatement.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information based on the procedures performed and evidence we have obtained. We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450: “*Assurance Engagements involving Corporate Fundraisings and/or Prospective Historical Financial Information*” and ASAE 3420: “*Assurance Engagements to Report on the Compilation of Pro Forma Historical Financial Information*”. Our procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and review procedures applied to the accounting records in support of the Historical and Pro Forma Financial Information. These procedures are substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently do not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.

Our engagement did not involve updating or reissuing any previously issued audit reports on any historical financial information used as a source of the Historical Financial Information.

Conclusion

Historical Financial Information

Based on our independent review, which is not an audit, nothing has come to our attention which causes us to believe that:

- The Historical Financial Information as outlined in the attached pro-forma does not present fairly the:
 - reviewed consolidated historical statement of financial position as at 31 December 2017; or
 - pro forma consolidated historical statement of financial position of Quantum Graphite as at 31 December 2017;

- The pro forma consolidated statement of financial position of Quantum Graphite as at 31 December 2017 has not been properly prepared on the basis of the Pro Forma Transactions or the Pro Forma Transactions do not set out a reasonable basis for it;

in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of applicable Accounting Standards and other mandatory professional reporting requirements under AGAAP.

Restriction on Use

Without modifying our conclusion, we draw attention to the introduction above, which describes the purpose of the Historical Financial Information, being to satisfy the ASX requirements relating to recapitalisation process. As a result, the Historical Financial Information may not be suitable for use for another purpose.

Independence or Disclosure of Interest

Grant Thornton Audit Pty Ltd does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Grant Thornton Audit Pty Ltd will receive a professional fee for the preparation of this Independent Limited Assurance Report.

Yours faithfully
GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Justin Humphrey
Partner

Financial information

The reviewed pro-forma balance sheet as at 31 December 2017 shown below has been prepared on the basis of the accounting policies adopted by Quantum Graphite Limited and its controlled entities (the Group) as outlined in the annual financial statements for the year ended 30 June 2017 and reflect the changes to its financial position. The pro-forma balance sheet has been prepared assuming completion of the Deed of Company Arrangement ("DOCA") outlined in announcements dated 14 August 2018 and 3 September 2018 and reflecting extensions to the loans provided by the secured creditor up until that date. The pro-forma balance sheet has been prepared to provide the Australian Securities Exchange with information on the assets and liabilities of the Group and pro-forma assets and liabilities of the Group as noted below.

The historical and pro-forma reviewed financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

	Notes	Reviewed 31 December 2017 \$	Proforma Adjustments \$	Reviewed Proforma 31 December 2017 \$
ASSETS				
Cash and cash equivalents	1	12,709	1,713,746	1,726,455
Receivable from the Department of State Development		1,073,863	-	1,073,863
Trade and other receivables		32,128	(2,540)	29,588
Inventory		6,280	-	6,280
Development expenditure		6,753,775	-	6,753,775
Plant and equipment		7,941,763	-	7,941,763
Prepayments		13,750	-	13,750
Intangible assets		7,189	-	7,189
Exploration and evaluation expenditure		1,415,705	-	1,415,705
TOTAL ASSETS		17,257,162	1,711,206	18,968,368
LIABILITIES				
Trade, other payables and employee provisions	2	5,983,930	(5,948,435)	35,495
Borrowings	3	12,158,337	(12,158,337)	-
Rehabilitation provision		558,369	-	558,369
TOTAL LIABILITIES		18,700,636	(18,106,772)	593,864
NET ASSETS / (LIABILITIES)		(1,443,474)	19,817,978	18,374,504
EQUITY				
Issued capital	4	29,908,004	26,340,415	56,248,419
Accumulated losses	5	(31,351,478)	(6,522,437)	(37,873,915)
TOTAL EQUITY/(DEFICIT)		(1,443,474)	19,817,978	18,374,504

Subsequent events

The Directors note the following events have occurred subsequent to 31 December 2017 that have materially impacted the Group's financial position:

- Further drawdown of funds provided by the secured creditor to meet the operating costs of the Group and to fund ongoing operations.
- The issue of shares to the directors in lieu of their directors' fees on 16 March 2018 as approved at the AGM held on 18 December 2017.
- The first and final conversion of the unsecured creditors who proved debts in the Administration to shares pursuant to the DOCA on 16 March 2018.
- The first and partial conversion of the secured creditors which were converted to shares pursuant to the DOCA on 16 March 2018.
- The deconsolidation of Valence Industries Services Pty Ltd (In Liquidation) ("VIS") from the Quantum Graphite Limited Group reflecting its deemed disposal.
- The second and partial conversion of the secured creditors which were converted to shares and options pursuant to the DOCA on 21 July 2018.
- The issue of shares to the directors in lieu of their directors' fees on 29 August 2018, as approved at the AGM held on 18 December 2017.
- The third and final conversion of the secured creditors which were converted to shares pursuant to the DOCA on 29 August 2018.

Proforma adjustments

Note 1	Cash and cash equivalents	
	Balance as at 31 December 2017	12,709
	Further funds provided by secured creditor	1,713,746
	Proforma Closing Balance	<u>1,726,455</u>
Note 2	Trade, other payables and employee provisions	
	Balance as at 31 December 2017	5,983,930
	Reclassified from secured to unsecured creditors	27,194
	Converted to equity pursuant to DOCA on 16 March 2018	(4,951,079)
	Deconsolidation of Valence Industries Services (In Liquidation)	<u>(1,024,550)</u>
	Proforma Closing Balance	<u>35,494</u>
Note 3	Secured debt (Borrowings)	
	Balance as at 31 December 2017	12,158,337
	Further funds provided by secured creditor	7,190,658
	Reclassified from secured to unsecured creditors	(27,194)
	Converted to equity pursuant to DOCA - 16 March 2018	(737,100)
	Converted to equity pursuant to DOCA - 21 July 2018 and 29 August 2018	<u>(18,584,701)</u>
	Proforma Closing Balance	<u>-</u>
Note 4	Equity	
	Balance as at 31 December 2017	29,908,004
	Converted unsecured creditors to equity pursuant to DOCA - 16 March 2018	5,010,399
	Converted unsecured creditor - VIS to equity pursuant to DOCA - 16 March 2018	1,846,215
	Converted secured creditors to equity pursuant to DOCA - 16 March 2018	737,100
	Shares issued in lieu of director fees - 16 March 2018	54,000
	Converted to equity pursuant to DOCA - 21 July 2018 and 29 August 2018	18,584,701
	Shares issued in lieu of director fees - 29 August 2018	<u>108,000</u>
	Proforma Closing Balance	<u>56,248,419</u>
Note 5	Retained earnings (Accumulated Losses)	
	Balance as at 31 December 2017	(31,351,478)
	Net expenditure funded by the secured creditor	(5,479,452)
	Additional proved claims subject to DOCA	(59,320)
	Deconsolidation of Valence Industries Services (In Liquidation)	(821,665)
	Directors remuneration satisfied through shares issued	<u>(162,000)</u>
	Proforma Closing Balance	<u>(37,873,915)</u>

Effect on capital structure

The effect of the Offer on the capital structure of the Group, following completion of the DOCA, is set out below.

Number of shares on issue

Balance as at 31 December 2017	228,868,614
Converted unsecured creditors to equity pursuant to DOCA - 16 March 2018	313,149,956
Converted unsecured creditor - VIS to equity pursuant to DOCA - 16 March 2018	115,388,438
Converted secured creditors to equity pursuant to DOCA - 16 March 2018	292,500,000
Shares issued in lieu of director fees - 16 March 2018	54,000,000
Shares issued pursuant to DOCA - 21 July 2018	6,197,638,425
Shares issued in lieu of director fees - 29 August 2018	108,000,000
Shares issued pursuant to DOCA - 29 August 2018	177,243,000
Total shares on issue after completion of the DOCA	<u>7,486,788,432</u>

Number of options on issue

Balance as at 31 December 2017	-
Shares issued pursuant to DOCA - 21 July 2018	1,000,000,000
Total shares on issue after completion of the DOCA	<u>1,000,000,000</u>

Quarterly Cash flows to December 2019

	Period End Calendar Year Quarter	Sep-18 2018 Q3	Dec-18 2018 Q4	Mar-19 2019 Q1	Jun-19 2019 Q2	Sep-19 2019 Q3	Dec-19 2019 Q4	2018	2019
	SUM								
Cash inflows									
Graphite Sales	-								
GST Refund	135,000		135,000						
Interest	12,961	2,158	1,103	821	622	379	122	6,022	6,939
Total Inflow		2,158	136,103	821	622	379	122	141,022	6,939
Administration Costs									
Staff & Consultants	152,000	9,500	9,500	9,500	9,500	9,500	9,500	38,000	114,000
Serviced Offices & Support	492,500	25,000	27,500	37,500	25,000	37,500	37,500	115,000	377,500
Audit	62,500	15,000				15,000		25,000	37,500
Company Secretarial									
Company Secretarial	16,000	1,000	1,000	1,000	1,000	1,000	1,000	4,000	12,000
Share Registry	104,000	6,500	6,500	6,500	6,500	6,500	6,500	26,000	78,000
General Meetings	40,000								
ASX Fees	27,500							-	27,500
								-	-
Site & Plant expenditure									
BFS & Technical	800,000	450,000	85,000					695,000	105,000
Site Maintenance	108,000	6,750	6,750	6,750	6,750	6,750	6,750	27,000	81,000
Cashflow									
Opening Cash		1,726,455	882,129	656,518	497,516	302,935	97,549		
Revenue	147,961	2,158	136,103	821	622	379	122	141,022	6,939
G&A and Other	(707,000)	(49,500)	(37,000)	(47,000)	(34,500)	(62,000)	(47,000)	(178,000)	(529,000)
Company Secretarial	(187,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(50,000)	(137,500)
Site & Plant expenditure	(908,000)	(456,750)	(91,750)	(6,750)	(6,750)	(6,750)	(6,750)	(722,000)	(186,000)
Further loan drawdown (incl Lyco)									
Old Payables	(35,495)	(35,495)							
Net Cash Movements	(1,690,034)	(547,087)	(147)	(60,429)	(48,128)	(75,871)	(61,128)		
Closing Cash	1,726,455	1,179,368	881,982	596,089	449,388	227,064	36,421		

