Quantum Graphite Limited
ABN 41 008 101 979

2018

ANNUAL FINANCIAL REPORT

for the year ended
30 June 2018

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
www.quantumgraphite.com

Corporate Directory

Directors:

Bruno Ruggiero

Non-Executive Chairman

Steven Chadwick

Executive Director

Sal Catalano

Executive Director

Robert Osmetti

Non-Executive Director

David Trimboli

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:

Dentons Australia Pt Ltd

Level 21

567 Collins Street

Melbourne VIC 3000

Home Stock Exchange:

Australian Securities Exchange

20 Bridge Street

SYDNEY NSW 2000

ASX Codes:

QGL – fully paid ordinary shares

Share Registry:

Link Market Services Ltd

Tower 4, 727 Collins Street

Docklands VIC 3008

DIRECTOR'S REPORT

The Directors of Quantum Graphite Ltd present their report on the Company and its subsidiaries, for the year ended 30 June 2018.

DIRECTORS

The following persons were directors of Quantum Graphite Ltd during the financial year and up to the date of this report, unless otherwise stated:

- Bruno Ruggiero – Chairman and Independent Non-Executive Director (resigned 16 March 2018 and reappointed 22 June 2018)
- Steven Chadwick– Executive Director (resigned 16 March 2018 and reappointed 22 June 2018)
- Sal Catalano – Executive Director (resigned 16 March 2018 and reappointed 22 June 2018)
- Robert Mencel – Former Independent Non-Executive Director (appointed 15 March 2018 and resigned 6 July 2018)
- Robert Osmetti – Independent Non-Executive Director (appointed 15 March 2018)
- David Trimboli – Independent Non-Executive Director (appointed 15 March 2018)

At the 2016 Annual General Meeting **(2016 AGM)** held on 18 December 2017 the Company received a second strike against the resolution on the Remuneration Report. The Company is required to hold a meeting at which all Directors (other than the Managing Director) who were in office at the date of the approval of the applicable Director's Report must stand for re-election.

The meeting was not held within 90 days of the 2016 AGM and the directors Mr Chadwick, Mr Ruggiero and Mr Catalano stepped down as directors on 16 March 2018. Mr Mencel, Mr Osmetti and Mr Trimboli were appointed as directors on 15 March 2018 with the approval of the Deed Administrators to form an interim board for the purposes of completing the outstanding matters under the interlocking Deeds of Company Arrangement **(Interlocking DOCAs)**, including the holding of the 2017 Annual General Meeting **(2017 AGM)**.

The 2017 AGM was held on 22 June 2018 and Mr Chadwick, Mr Ruggiero and Mr Catalano were reappointed as directors and subsequently on 6 July 2018 Mr Mencel resigned as a director of the company.

Bruno Ruggiero BE (Mech), Grad Dip MinSc (Ext. Met), GradCertEng Tech (Struct)
Chairman and Independent Non-Executive Director (Resigned 16 March 2018 and reappointed 22 June 2018)

EXPERIENCE AND EXPERTISE

Bruno has multiple degrees in engineering and over 30 years' experience in the minerals industry, both nationally and internationally 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 the Lycopodium Minerals undertakes.

SPECIAL RESPONSIBILITIES
Member of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Executive Director of Lycopodium Limited (ASX: LYL from 25 October 2001)

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil.

INTEREST IN SHARES
Direct interest of 36,000,000 shares and indirect interest in 675,070,094 shares (256,030,821 shares as an Executive Director of Lycopodium Ltd and 419,039,273 shares via an interest in Ziziphus Pty Ltd).

INTEREST IN OPTIONS
Nil.

DIRECTORS' REPORT (CONTINUED)

Steven Chadwick BASc (Metallurgy)
Executive Director (Resigned 16 March 2018 and reappointed 22 June 2018)

EXPERIENCE AND EXPERTISE
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.

SPECIAL RESPONSIBILITIES
Member of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Non-Executive Director of Lycopodium Limited (ASX: LYL from 13 January 2016).

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil.

INTEREST IN SHARES
Direct interest of 36,000,000 shares and indirect interest in 321,030,821 shares (256,030,821 shares as a Non-Executive Director of Lycopodium Ltd and 65,000,000 shares via an interest in Spectrum Metallurgical Consultants Pty Ltd).

INTEREST IN OPTIONS
Nil.

Sal Catalano B.Juris., LLB, FITA
Executive Director and Company Secretary (Resigned as a director on 16 March 2018 and reappointed 22 June 2018)

EXPERIENCE AND EXPERTISE
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.

SPECIAL RESPONSIBILITIES
Chairman of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Chairman and Chief Executive Officer of DIGGA Australian Mining Fund (ASX: DGA) (30 January 2012 - 27 March 2015).

INTEREST IN SHARES
Direct interest of 36,000,000 shares and indirect interest in 1,385,086,321 shares via an indirect interest in Chimaera Capital Ltd.

INTEREST IN OPTIONS
Indirect interest in 1,000,000,000 options.

DIRECTORS' REPORT (CONTINUED)

Robert Mencel, BEng Mining, MBA GDM
Former Independent Non-Executive Director (Appointed 15 March 2018 and resigned 6 July 2018)

EXPERIENCE AND EXPERTISE
Mr Mencel held various positions with the Company before being appointed the Company's Managing Director from 1 December 2015 to June 2016. He has extensive experience in the resources sector, with over 20 years developing a wide range of engineering, mining and mineral processing operations, translating strategic management objectives into operable practices. He has proven leadership abilities in developing cohesive teams to achieve stated outcomes within specific time frames. He holds a Bachelor Degree in Engineering (Mining), as well as post graduate qualifications from Deakin University of an MBA (Technology Management) and a Graduate Diploma in Management.

He was previously Managing Director of Ironclad Mining Limited and prior to that his roles have included General Manager at Mount Gibson, Deputy Project Manager at Tenix and senior operational management roles with Normandy Mining Limited and WMC Limited.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Managing Director Ironclad Mining Limited (ASX: IFE, from 1 January 2013 to 20 November 2014).

INTEREST IN SHARES
Direct interest in 19,990,160 shares.

INTEREST IN OPTIONS / PERFORMANCE RIGHTS
Nil.

Robert (Bob) Osmetti BE (Civ), MIE Aust, CPEng
Independent Non-Executive Director (Appointed 18 March 2018)

EXPERIENCE AND EXPERTISE
Mr Osmetti is a Civil Engineer with over 39 years' experience in the project management and construction management of projects in an EPCM role and has worked for major construction contractors in the mining sector.

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 positions within the group. Bob is currently the Managing Director of Mondium Pty Ltd, a fully incorporated JV between Monadelphous and Lycopodium, established to provide fully integrated engineering, procurement and construct services to the minerals sector.

SPECIAL RESPONSIBILITIES
Nil.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Executive Director of Lycopodium Limited (ASX: LYL from August 1992)

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil.

INTEREST IN SHARES
Direct interest in 18,000,000 shares and indirect interest in 587,584,089 shares (256,030,821 shares as an Executive Director of Lycopodium Ltd and 331,553,268 shares via an interest in Selso Pty Ltd (Osmetti Family Account)).

INTEREST IN OPTIONS
Nil.

DIRECTORS' REPORT (CONTINUED)

David Trimboli BCom
Independent Non-Executive Director (Appointed 18 March 2018)

EXPERIENCE AND EXPERTISE
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 Seefeld's business. He brings a wealth of experience in cultivating partnerships and key commercial relationships.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

OTHER DIRECTORSHIPS HELD IN LISTED COMPANIES IN THE LAST THREE YEARS
Nil.

INTEREST IN SHARES
Direct interest in 18,000,000 shares.

INTEREST IN OPTIONS
Nil.

PRINCIPAL ACTIVITIES

The Company's principal activities are the exploration, mining, processing and manufacture of graphite and associated products.

OPERATING AND FINANCIAL REVIEW

During the current financial year, the Company pursued the finalisation of the Interlocking DOCA and its recapitalisation.

The expiry date for a total of 1,500,000 unlisted options with an exercise price of $1.10 was 31 July 2017. These options were not exercised and lapsed.

On 29 September 2017 the Company issued pursuant to ASX Listing Rule 7.1 29,852,400 shares to the parties below in consideration for services provided in connection with:

- Compliance with the Uley Mine's Approved Program for Environment Protection and Rehabilitation;
- Ongoing maintenance at the Uley Mine site;
- Government relations including in respect of the Company's participation in the Quantum Energy Partnership battery tender submitted to the South Australian Government; and
- Geological and drill data management.

The shares were issued at a deemed price of $0.0252 as follows:

- 24,877,000 Shares (ranking equally with all existing Shares) issued to Tony Harbrow (or his nominee);
- 2,985,240 Shares (ranking equally with all existing Shares) issued to Thornton Group (Australia) Pty Ltd (or its nominee);
- 1,990,160 Shares (ranking equally with all existing Shares) issued to Robert Mencel.

DIRECTORS' REPORT (CONTINUED)

A concurrent creditor meeting for QGL and Quantum Graphite Operations Pty Ltd **(QGO)** was held on 5 October 2017 which approved a variation to the Interlocking DOCAs for each company which was executed on 20 October 2017, and varied on 22 December 2017 to reflect the following:

- Removal of the requirement to establish a creditors' trust.
- Milestones for completing prescribed tasks deferred
- Removing the election for the secured creditor to accept convertible notes rather than ordinary equity.
- Inclusion of provisions restricting any single investor holding more than 20% in ordinary equity of the total issued capital of the Group upon implementation of the Interlocking DOCAs. Any entitlement to an interest greater than 20% shall be satisfied by the issue of options.
- The disclosure to the Administrators of all recipients of shares obtained through the conversion of secured and unsecured debt to ordinary equity.
- Streamlining the process for the issuance of shares and options.
- The Deed Administrators to ensure that the 'Implementation Board' remains in place for the duration and implementation of the Interlocking DOCA's and to exercise such powers under sections 437A and 442A of the Act as is necessary to ensure expeditious implementation of the Interlocking DOCA's.
- Security interest of Chimaera Capital Limited to be satisfied once shareholder approval is obtained and shares and options have been issued.

The 2016 Annual General Meeting of the Company was held on 18 December 2017 and approved the following:

- The election of Mr Chadwick, Mr Ruggiero and Mr Catalano as directors of the Company;
- Approval to issue shares to unsecured creditors in relation to the conversion of their debt into equity in accordance with the terms of the Interlocking DOCAs up to a maximum of 500,000,000 shares.
- Approval of the issue of shares up to a maximum of 7,000,000,000 shares and 800,000,000 unlisted options to the Secured Creditor Beneficiaries in accordance with the Interlocking DOCAs: The entitlements of individual Secured Creditor Beneficiaries shall be determined by the Trustee and the Deed Administrators pursuant to the terms of the Trust and the Interlocking DOCAs.
- Approval of the issue to Directors each quarter in advance commencing on 1 January 2018 of shares equivalent in value to one quarter of the Directors Entitlement. The deemed issue price of the Shares is the higher of $0.001 (0.1 cent) or the monthly VWAP for the month immediately preceding the month of issue of the Shares. The table below illustrates the minimum issue price of $0.001 (0.1 cent) which represents the maximum dilution.

Director	**Foregone quarterly remuneration**	**Minimum Issue Price**	**Maximum no. of shares per quarter**	**Maximum no. of shares for the year**
Steven Chadwick	$18,000	$0.001	18,000,000	72,000,000
Sal Catalano	$18,000	$0.001	18,000,000	72,000,000
Bruno Ruggiero	$18,000	$0.001	18,000,000	72,000,000

At the AGM the Company received 37.6% votes against the resolution to adopt the 2016 Remuneration Report being a "Second Strike" despite the appointment of a new board (and management team) following the approval of the Interlocking DOCAs in November 2016.

Consequently, the Company was required to hold a meeting at which all Directors (other than the Managing Director) who were in office at the date of the approval of the applicable Director's Report must stand for re-election.

DIRECTORS' REPORT (CONTINUED)

The meeting was not held within 90 days of the 2016 AGM and the existing Directors Mr Chadwick, Mr Ruggiero and Mr Catalano stepped down as directors on 16 March 2018. Mr Mencel, Mr Osmetti and Mr Trimboli on 15 March 2018 were appointed as directors with the approval of the Deed Administrators to form an interim board for the purposes of completing the outstanding matters under the Interlocking DOCAs, including the holding of the 2017 AGM.

The 2017 AGM was held on 22 June 2018 and Mr Chadwick, Mr Ruggiero and Mr Catalano were reappointed as directors and subsequently on 6 July 2018 Mr Mencel resigned as a director of the company.

Resolutions passed at the 2017 AGM included a refreshing of the shareholder approvals passed at the 2016 AGM in respect of shares and options to be issued to the Secured Creditor Beneficiaries

Pursuant to the 2017 AGM shareholder approvals (and ASX Listing Rule 7.1), the Company issued 775,038,393 shares on 16 March 2018 as follows:

- 54,000,000 at $0.001 per share with a value of $54,000 to the directors (Mr Chadwick, Mr Catalano and Mr Ruggiero) in lieu of director fees
- 428,538,393 at $0.016 per share with a value of $6,856,614 were issued to unsecured creditors in respect of the full extinguishment of the debts due to them in accordance with the Interlocking DOCAs; and
- 292,500,000 at $0.0252 per share with a value of $737,100 to Secured Creditors Beneficiaries in accordance with the Interlocking DOCAs.

The net loss for the Group for the year was $7,390,538 (2017: $2,666,773) after providing for income tax.

Strategy & Outlook

As set out in the Interlocking DOCA's approved by Creditors on 27 October 2016, the funds advanced to the Company under the secured facility (and subsequent recapitalisation upon full implementation of the Interlocking DOCAs) enabled it to execute its plan to build the framework for the increase of the Uley production capacity to a level that is commercially sustainable. This plan includes the following key elements:

- The preparation of a revised mine plan together with the completion of any necessary metallurgical test work and drilling;
- The review and possible extension of the Company's existing resources and reserves; and
- The completion of a revised definitive feasibility study **(DFS)** to be undertaken by Lycopodium Minerals.

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 that has not otherwise been disclosed in this report or the financial statements.

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

Full Implementation of the Interlocking DOCAs

On 14 August 2018 the Company announced that the Interlocking DOCAs had been fully implemented with all conditions satisfied including the recapitalisation of the Company and the issue of all securities. Accordingly:

a. the Deed Administrators, Mr Laurence Fitzgerald and Mr Michael Humphris, resigned and notified ASIC that the Interlocking DOCAs had been fully effectuated; and

b. the Company exited external administration.

In connection with the implementation of the Interlocking DOCAs (including the issue of shares pursuant to shareholder approvals obtained at the 2017 AGM) the Company prepared a proforma balance sheet **(the Pro Forma Balance Sheet)** based on the balance sheet as at 31 December 2017 to reflect the impact of the changes on its financial position following the recapitalisation of the Company.

The Proforma Balance Sheet was the subject of review by the Company's Auditors, Grant Thornton, resulting in them issuing an Independent Limited Assurance Report on the Historical Pro Forma Financial Information **(Grant Thornton Report)** dated 5 September 2018.

DIRECTORS' REPORT (CONTINUED)

As required by the ASX for the purposes of reinstatement of quotation of the Company's securities, the Company announced its new capital structure on 5 September 2018 together with its opening cash balance and a statement of estimated quarterly cash flows (Cash Flow Statements) for the period September 2018 to December 2019. Details of the new capital structure, the Grant Thornton Report and the Cash Flow Statements were lodged with the ASX on 5 September 2018.

Issue of Shares and Options relating to Implementation of the Interlocking DOCAs

Following shareholder approvals obtained at the 2017 AGM, the Company issued the following securities pursuant to ASX Listing Rule 7.1

a. On 21 July 2018,6,197,638,425 shares at $0.0252 per share to the Secured Creditor Beneficiaries;

b. On 21 July 2018,1,000,000,000 options to acquire ordinary shares, exercise price $0.00, expiry date 20 July 2023;

c. On 28 August 2018, 177,243,000 shares at $0.0252 per share to the Secured Creditor Beneficiaries in accordance with the Interlocking DOCAs; and

d. On 28 August 2018, 108,000,000 shares at $0.001 per share to the directors in lieu of their quarterly director fees as follows:

Directors	Shares	Quarterly Director Fees ($)
S Chadwick	18,000,000	18,000
B Ruggiero	18,000,000	18,000
S Catalano	18,000,000	18,000
R Mencel	18,000,000	18,000
R Osmetti	18,000,000	18,000
D Trimboli	18,000,000	18,000
Total	108,000,000	108,000

Commencement of works relating to Definitive Feasibility Study

On 3 August 2018 the Company announced that work had commenced on the definitive feasibility study (DFS). Lycopodium Minerals' fee was capped at $450,000 and payment has been satisfied in full by the issue of shares in the Company.

Renewal of Mining Titles

On 9 May 2017, the Company announced the renewal of Mining Leases ML5561 and ML5562 to 16 March 2024 and renewal of Retention Leases RL66 and RL67 to 16 March 2024.

On 14 August 2018, the Company announced that the Exploration Licence known as EL4778 was terminated and the area represented by the former EL4778 became the subject of the grant of a new Exploration Licence EL6224 to the Company.

Other Matters

Since the end of the financial year Mr Robert Mencel resigned (effective 6 July 2018) as a director.

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 works described below:

- The preparation of a revised mine plan including the completion of metallurgical test work and drilling works that may be required;
- The extension of the Company's existing resources and reserves; and
- The completion of the definitive feasibility study to be undertaken by Lycopodium Minerals.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' MEETINGS

The number of Directors' meetings held during the reporting period and the number of meetings attended by each Director is as follows:

	Board Meetings		Audit Committee Meetings	
Directors	**Attended**	**Entitled to attend**	**Attended**	**Entitled to attend**
S Chadwick[1]	3	3	-	-
B Ruggiero[1]	3	3	-	-
S Catalano[1]	3	3	-	-
R Mencel[2]	-	-	1	1
R Osemtti[2]	-	-	1	1
D Trimboli[2]	-	-	1	1

[1] Resigned 16 March 2018 and reappointed 22 June 2018
[2] Appointed 15 March 2018

At this time, there are no separate Board committees, other than the audit committee as disclosed above, as all matters usually delegated to such committees are handled by the Board as a whole.

UNISSUED SHARES UNDER OPTION

There are no unissued ordinary Shares of Quantum under option as at the date of this report.

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.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Voting at the Company's 2015, 2016 and 2017 Annual General Meeting's

The Company received 34% votes against the resolution to adopt the 2015 Remuneration Report being a "First Strike" at the Company's AGM held on 25 November 2015.

The Company received a 37.6% vote against the resolution to adopt the 2016 Remuneration Report being a "Second Strike" at the Company's 2016 AGM held on 18 December 2017, even though a new board and management team was appointed following the unanimous approval by Creditors of the Interlocking DOCAs on 19 October 2016. Further there was no remuneration paid to the new board and management nor was any of board member or management team personnel entitled to remuneration. There were no questions or issues raised by shareholders regarding remuneration at that meeting.

A meeting of shareholders was not held within 90 days of the 2016 AGM. The Directors - Mr Chadwick, Mr Ruggiero and Mr Catalano, resigned on 16 March 2018. Mr Mencel, Mr Osmetti and Mr Trimboli were appointed as directors on 15 March 2018 with the approval of the Deed Administrators to form an interim board for the purposes of completing the outstanding matters under the Interlocking DOCAs, including the holding of the 2017 AGM.

The 2017 AGM was held on 22 June 2018 and Mr Chadwick, Mr Ruggiero and Mr Catalano were reappointed as directors and in addition the company received a vote in favour of the resolution to adopt the 2017 Remuneration Report.

The Company did not engage remuneration consultants during the reporting period.

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:

Director and other Key Management Personnel Remuneration

2018	Short term benefits	Post-employment benefits	Share-based payments	Share-based payments		% of remuneration that is equity based	
	Salary and fees $	Super-annuation $	Options and Performance Rights $	Shares issued $	Total $		Salary and Fees Owing[4] $
Non-Executive Directors							
S Chadwick[1]	1,761	-	-	18,000	19,761	100%	1,761
B Ruggiero[1]	1,761	-	-	18,000	19,761	100%	1,761
S Catalano[1]	1,762	-	-	18,000	19,761	100%	1,761
R Mencel[2,3]	18,000	-	-	-	18,000	0%	18,000
D Trimboli[2]	18,000	-	-	-	18,000	0%	18,000
R Osmetti[2]	18,000	-	-	-	18,000	0%	18,000
Total	**59,283**	**-**	**-**	**54,000**	**113,283**	**100%**	**59,283**

(1) Mr Chadwick, Mr Ruggiero and Mr Catalano resigned on 16 March 2018 and was reappointed on 22 June 2018.
(2) Mr Mencel, Mr Trimboli and Mr Osmetti were appointed on 15 March 2018.
(3) Mr Mencel resigned on 6 July 2018.
(4) The outstanding directors' salaries and fees were settled by the issue of shares in the year ending 30 June 2019.

REMUNERATION REPORT (AUDITED) (CONTINUED)

2017	Short term benefits	Post-employment benefits	Share-based payments		% of remuneration that is equity based	Salary, fees and superannuation owing at year end[9]
	Salary and fees $	Super-annuation $	Options and Performance Rights $	Total $		
Non-Executive Directors						
S Chadwick[5]	-	-	-	-	0%	-
B Ruggiero[5]	-	-	-	-	0%	-
S Catalano[5]	-	-	-	-	0%	-
G Spurling[6]	-	-	-	-	0%	56,250
G Lamont[6]	-	-	-	-	0%	33,333
I Pattison[6]	-	-	-	-	0%	33,333
Executive Directors						
R Mencel[6]	-	-	-	-	0%	100,631
Other Key Management Personnel						
J Kopias[6,7]	-	-	-	-	0%	17,506
C Whiteley[8]	-	-	-	-	0%	102,792
Total	**-**	**-**	**-**	**-**	**0%**	343,845

(5) Mr Chadwick, Mr Ruggiero and Mr Catalano were appointed on 18 November 2016.
(6) Mr Spurling, Mr Lamont, Mr Pattison, Mr Mencel and Mr Kopias resigned on 18 November 2016.
(7) Fees paid to Kopias Consulting for CFO, Company secretarial and accounting services – an entity associated with Mr Kopias.
(8) Mr Whitely resigned July 2016.
(9) Salary, fees and superannuation owing at year end to Mr Spurling, Mr Lamont, Mr Pattison, Mr Mencel, Mr Kopias and Mr Whitely are creditors subject to the Interlocking DOCAs.

C. Details of remuneration (continued)

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.

Sal Catalano
Chimaera Capital Limited ("CCL") (an entity related to Sal Catalano) provided corporate and accounting services to the Company including provision of the registered and main business office. There was $148,800 paid to CCL during the year (2017: $Nil) and there were no amounts payable as at 30 June 2018 (2017: $Nil) in relation to these services.

D. 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 2018.

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

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:

2018

KMP	Held at 30 June 2017	Issued in lieu of Director fees	Appointment or Resignation	Issued pursuant to Interlocking DOCAs	Held directly or indirectly at 30 June 2018
S Chadwick[1]	-	18,000,000	-	142,500,000	160,500,000
B Ruggiero[1]	-	18,000,000	-	77,500,000	95,500,000
S Catalano[1]	-	18,000,000	-	150,000,000	168,000,000
R Mencel[2, 3]	-	-	1,990,160	-	1,990,160
D Trimboli[2]	-	-	-	-	-
R Osemtti[2]	-	-	-	77,500,000	77,500,000
Total	-	54,000,000	1,990,160	447,500,000	503,490,160

(1) Mr Chadwick, Mr Ruggiero and Mr Catalano resigned 16 March 2018 and were reappointed on 22 June 2018.
(2) Mr Mencel, Mr Trimboli and Mr Osmetti were appointed on 15 March 2018.
(3) Mr Mencel resigned on 6 July 2018.

Option holdings of key management personnel

There are 1,000,000,0000 options over ordinary shares in Quantum Graphite Limited issued post 30 June 2018 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

DIRECTORS' REPORT (CONTINUED)

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 19 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 15 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 www.quantumgraphite.com/responsibilities.

Signed in accordance with a resolution of the Directors.

Bruno Ruggiero
Chairman
25 September 2018

Sal Catalano
Director and Company Secretary

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5000

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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 2018, 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

J L Humphrey
Partner – Audit & Assurance

Adelaide, 25 September 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2018

	Notes	2018 $	2017 $
Other income		-	33
Corporate expenses	2	(1,271,251)	(859,157)
Commercialisation expenses	2	(160,695)	(306,278)
Pre-commissioning expenses	2	(587,695)	(152,364)
Total operating loss		(2,019,641)	(1,317,766)
Interest revenue		36	22,706
Interest expense		(1,974,268)	(1,642,402)
Debt raising costs		(2,575,000)	(552,951)
Net financing expense		(4,549,232)	(2,172,647)
Deemed disposal of Valence Industries Services Pty Ltd (In Liquidation)		(821,665)	-
Loss before tax		(7,390,538)	(3,490,413)
Income tax benefit / (expense)	3	-	823,640
Loss for the year attributable to owners of the parent entity		**(7,390,538)**	**(2,666,773)**
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to owners of the parent entity		**(7,390,538)**	**(2,666,773)**
Loss per share from continuing operations			
Basic and diluted loss – cents per share	4	(1.66)	(1.34)

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

Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	2018 $	2017 $
ASSETS			
Cash and cash equivalents	5	32,896	13,877
Receivable from the Department of State Development	6	1,073,863	1,073,863
Trade and other receivables	7	162,568	55,684
Inventory		6,280	6,280
Intangible assets		7,189	7,189
Development expenditure	8	6,753,775	6,753,775
Exploration and evaluation expenditure	9	1,415,705	1,415,705
Property, plant and equipment	10	7,901,639	7,982,325
TOTAL ASSETS		17,353,915	17,308,698
LIABILITIES			
Trade and other payables	11	511,647	5,914,389
Employee provisions	12	-	59,242
Borrowings	13	15,598,493	11,100,748
Rehabilitation provision	14	558,369	558,369
TOTAL LIABILITIES		16,668,509	17,632,748
NET ASSETS / (LIABILITIES)		685,406	(324,050)
EQUITY			
Issued capital	15	37,555,718	29,155,724
Reserves	16	-	40,762
Accumulated losses		(36,870,312)	(29,520,536)
TOTAL EQUITY/(DEFICIT)		685,406	(324,050)

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 2018

2018	**Share capital** $	**Option / Rights reserve** $	**Accumulated losses** $	**Total equity/(deficit)** $
Balance at beginning of year	**29,155,724**	**40,762**	**(29,520,536)**	**(324,050)**
Shares issued in lieu of director fees	54,000	-	-	54,000
Partial conversion of secured debt for equity pursuant to the Interlocking DOCA	752,281	-	-	752,281
Full conversion of unsecured creditors for equity pursuant to the Interlocking DOCA	7,593,713	-	-	7,593,713
Lapse of listed/unlisted options and performance rights	-	(40,762)	40,762	-
Transactions with owners	8,399,994	(40,762)	40,762	8,399,994
Comprehensive income:				
Total loss for the year	-	-	(7,390,538)	(7,390,538)
Total other comprehensive income for the year	-	-	-	-
Balance 30 June 2018	**37,555,718**	**-**	**(36,870,312)**	**685,406**

2017	**Share capital** $	**Option / Rights reserve** $	**Accumulated losses** $	**Total equity/(deficit)** $
Balance at beginning of year	**29,155,724**	**734,965**	**(27,547,966)**	**2,342,723**
Lapse of listed/unlisted options and performance rights	-	(694,203)	694,203	-
Transactions with owners	-	(694,203)	694,203	-
Comprehensive income:				
Total loss for the year	-	-	(2,666,773)	(2,666,773)
Total other comprehensive income for the year	-	-	-	-
Balance 30 June 2017	**29,155,724**	**40,762**	**(29,520,536)**	**(324,050)**

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

Consolidated Statement of Cash Flows
For the year ended 30 June 2018

	Notes	2018 $	2017 $
Operating activities			
Receipts from customers		-	33
Payments to suppliers and employees		(31,018)	(1,169,940)
Interest received		37	22,707
Interest payment		-	(23,504)
R&D Tax concession received		-	823,640
Net cash used in operating activities	17	(30,981)	(347,064)
Investing activities			
Net cash used in investing activities		-	-
Financing activities			
Drawdown of Loan		50,000	314,147
Net cash from financing activities		50,000	314,147
Net change in cash and cash equivalents		19,019	(32,917)
Cash and cash equivalents - beginning of year		13,877	46,794
Cash and cash equivalents - end of year	5 (a)	32,896	13,877

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 2018

1. Basis of preparation

a) Realisation basis of preparation

Based on current forecasts and existing financing arrangements, there is significant uncertainty as to the Company's ability to meet its ongoing operating and financing commitments over the foreseeable future. Consequently, the financial statements have not been prepared on a "going concern" basis but rather have been prepared on an "alternate" basis representing a planned orderly realisation of assets and settlement of liabilities.

As at 30 June 2018 the Company had accumulated losses of $36.87 million, and net assets of $0.685 million. In addition, the Company had operating cash outflows of $30,981 for the year with cash and cash equivalents of $32,896 at 30 June 2018.

From 13 November 2015 the Company had been suspended from trading on the Australian Securities Exchange ("ASX") and at a meeting of creditors of the Company held on 27 October 2016, it was resolved that the Company, and its subsidiary Quantum Graphite Operations Pty Ltd, enter into Interlocking Deeds of Company Arrangements ("Interlocking DOCAs").

Realisation basis of accounting

The "realisation basis" of accounting adopted by the Company in the preparation of its financial statements continues to apply the requirements of Australian Accounting Standards taking into account that the Company is not expected to continue as a going concern in its present form in the foreseeable future.

As the non-current assets do not meet the requirements for held for sale or discontinued operations under AASB 5 Non-current Assets Held for Sale and Discontinued Operations, they continue to be recognised as assets at cost, less impairment losses. However, the adoption of the alternative basis of accounting representing a planned orderly realisation of assets and settlement of liabilities has resulted in a change in the method of assessing the recoverable value of certain intangible and non-monetary assets which have required impairments in accordance with AASB 136 Impairment of Assets. The carrying value of assets at 30 June 2018 reflects the directors' assessment of recoverable value (or amortised cost if lower than recoverable value).

No additional provisions or liabilities have been recognised as a result of adopting the alternate basis of accounting as the Directors have not incurred any additional legal or contractual obligations.

The valuation of assets and liabilities included in these financial statements have been shown to reflect the subsequent event transactions that are known.

b) 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 2018 were approved and authorised by the Board of Directors on 25 September 2018.

Notes to the consolidated financial statements (Continued)

2. Significant accounting policies

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

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Quantum Graphite Ltd as at 30 June 2018 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 2018. 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 18 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.

b) 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.

c) Revenue

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration received or receivable, excluding sales taxes, rebates, and trade discounts. The Group often enters sales transactions involving a range of the Group's products. The Group applies the revenue recognition criteria set out below.

Notes to the consolidated financial statements (Continued)

Sale of products
Sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership, generally when the customer has taken undisputed delivery of the goods. Revenue from the sale of goods with no significant service obligation is recognised on delivery.

All income is stated net of goods and services tax.

Interest and dividend income
Interest income and expenses are reported on an accrual basis using the effective interest method. Dividends, other than those from investments in associates, are recognised at the time the right to receive payment is established.

d) 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.

e) 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.

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. When revalued assets are sold, it is the Group's policy to transfer any amounts included in other revenues in respect of those assets to retained earnings.

f) 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.

g) 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.

Notes to the consolidated financial statements (Continued)

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.

h) 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.

Classification and subsequent measurement
Financial instruments are subsequently measured at either fair value or amortised cost using the effective interest method or cost. 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) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets except for those not expected to mature within twelve (12) months after the end of the reporting period.

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

Impairment
At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

i) 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 the statement of profit or loss and other comprehensive income.

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.

j) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivables.

Notes to the consolidated financial statements (Continued)

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.

k) 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.

l) 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% 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 an income tax benefit, in profit or loss, resulting from the monetisation of available tax losses that otherwise would have been carried forward.

m) Leases

The economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is then recognised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the lease payments plus incidental payments, if any. A corresponding amount is recognised as a finance leasing liability, irrespective of whether some of these lease payments are payable up-front at the date of inception of the lease. Leases of land and buildings are classified separately and are split into a land and a building element, in accordance with the relative fair values of the leasehold interests at the date the asset is recognised initially.

Notes to the consolidated financial statements (Continued)

n) 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.

o) 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.

p) 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.

q) 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.

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.

r) 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.

Notes to the consolidated financial statements (Continued)

s) 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.

t) 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.

u) 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.

i) 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.

Rehabilitation 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.

ii) 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 estimates of recoverable amounts. This is particularly so in the assessment of long-life assets.

After assessing the recoverable amount of the Uley Graphite project against its carrying value, no impairment charges were recognised for the current financial year.

Notes to the consolidated financial statements (Continued)

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.

iii) 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.

v) Adoption of the new and revised accounting standards

The revisions and amendments to AASB's issued by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2017, Management has reviewed the requirements of the standards and has concluded that there was no effect on the classification or presentation of balances.

w) Recently issued accounting standards to be applied in future accounting periods

The accounting standards that have not been early adopted for the year ended 30 June 2018 but will be applicable to the Group in future reporting periods are detailed below. Apart from these standards, we have considered other accounting standards that will be applicable in future reporting periods, however they have been considered insignificant to the Group.

(1) AASB 9 Financial Instruments (December 2014)
AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changes approach to hedge accounting.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Notes to the consolidated financial statements (Continued)

- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - the change attributable to changes in credit risk are presented in Other Comprehensive Income ("OCI"); and
  - the remaining change is presented in profit or loss.

  If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

  Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:
  - classification and measurement of financial liabilities; and
  - derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

(2) AASB 16 Leases

AASB 16:

- replaces AASB 117 Leases and come lease-related interpretations:
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases;
- provides new guidance on the application of the definition of lease and on sale and lease back accounting;
- largely retains the existing lessor accounting requirements in AASB 17; and
- requires new and different disclosures about leases.

When this Standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

(3) AASB 2016-5 Amendments to Australian Accounting Standards- Classification and Measurement of Share-based Payment Transactions

The Standard amends AASB 2 Share-based Payment to address:

- The accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- The classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and
- The accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

When these amendments are first adopted for the year ending 30 June 2020, there will be no material impact on the financial statements.

Other standards not yet issued and not expected to impact on the Group:

- AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. EXPENSES

2018	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	113,283	-	-	113,283
Depreciation	55,211	2,769	22,706	80,686
Other	1,102,757	157,926	564,989	1,825,672
Total	1,271,251	160,695	587,695	2,019,641

2017	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	148,883	-	-	148,883
Depreciation	79,507	6,488	29,102	115,097
Other	630,767	299,790	123,262	1,053,819
Total	859,157	306,278	152,364	1,317,799

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.

3. INCOME TAX EXPENSE

	2018 $	2017 $
(a) The components of income tax expense comprise:		
Current income tax (expense) / benefit	-	823,640
(b) The prima facie tax loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Net loss	(7,390,538)	(3,490,413)
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5% (2017: 27.5%)	(2,032,398)	(959,864)
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	(2,981)	(2,981)
Deferred tax asset not realised as recognition criteria not met	2,035,379	962,845
Subtotal	-	-
Research and Development Tax Concession	-	823,640
Income tax (expense) / benefit	-	823,640

3. INCOME TAX EXPENSE (CONTINUED)

	2018 $	2017 $
(c) Deferred tax assets have not been recognised in respect of the following:		
Tax losses	38,342,549	30,962,310
Deferred tax asset has not been recognised	10,544,201	8,514,635

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.

4. 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:

	2018 #	2017 #
Weighted average number of shares used in basic earnings per share	446,505,604	199,016,214
Loss per share - basic and diluted (cents)	(1.66)	(1.34)

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

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	2018 $	2017 $
Cash at hand and in bank.		
Cash at bank	32,896	13,877
Cash and cash equivalents	32,896	13,877

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	32,896	13,877

6. RECEIVABLE FROM THE DEPARTMENT OF STATE DEVELOPMENT ("DSD")

	2018 $	2017 $
Opening balance	1,073,863	-
Drawn down/transfer of funds held on Term Deposit	-	1,080,000
DSD expenses incurred	-	(6,137)
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.

7. TRADE AND OTHER RECEIVABLES

Trade and other receivables include the following:

	2018 $	2017 $
Other receivables	162,568	55,684
Total receivables	162,568	55,684

No receivables are considered past due and / or impaired.

8. DEVELOPMENT EXPENDITURE

	2018 $	2017 $
Opening balance	6,753,775	6,753,775
Additions during the year:	-	-
Closing balance	6,753,775	6,753,775

All development expenditure relates to the Company's Uley Graphite operation.

9. EXPLORATION AND EVALUATION EXPENDITURE

	2018 $	2017 $
Opening balance	1,415,705	1,415,705
Expenditure on exploration during the year	-	-
Closing balance	1,415,705	1,415,705

10. PLANT AND EQUIPMENT

2018	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)	-	-	-	-	-
Balance 30 June 2018	824,611	7,744,565	39,566	20,520	8,629,262
Depreciation and impairment					
Opening balance	(430,523)	(162,438)	(39,566)	(14,410)	(646,937)
Depreciation	(79,247)	-	-	(1,439)	(80,686)
Balance 30 June 2018	(509,770)	(162,438)	(39,566)	(15,849)	(727,623)
Carrying amount 30 June 2018	314,841	7,582,127	-	4,671	7,901,639

2017	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)	-	-	-	-	-
Balance 30 June 2017	824,611	7,744,565	39,566	20,520	8,629,262
Depreciation and impairment					
Opening balance	(317,941)	(162,438)	(39,566)	(12,082)	(532,027)
Depreciation	(112,582)	-	-	(2,328)	(114,910)
Balance 30 June 2017	(430,523)	(162,438)	(39,566)	(14,410)	(646,937)
Carrying amount 30 June 2017	394,088	7,582,127	-	6,110	7,982,325

11. TRADE AND OTHER PAYABLES

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

	2018 $	2017 $
Trade and other payables (1)	-	5,854,569
Accrued expenses	511,647	59,820
Total trade and other payables	511,647	5,914,389

(1) The trade and other payables balance at 30 June 2017 were subject to the Interlocking DOCAs and the liquidation of VIS and accordingly the trade and other payables balance were converted to equity on 16 March 2018. Further any amount owing to VIS was deconsolidated because of VIS being placed in liquidation.

12. EMPLOYEE PROVISIONS

All provisions are considered current. The carrying amounts may be analysed as follows:

	2018 $	2017 $
Opening balance	-	58,619
Additions / (Reductions) provisions – employee entitlements	-	623
Closing balance (1)	-	59,242

(1) The employee provisions balance at 30 June 2017 was attributable to VIS and was deconsolidated at the point control was lost.

13. BORROWINGS

The Group's borrowings represent working capital funding and funding of annual insurance premiums.

	2018 $	2017 $
Secured loan – Chimera Capital Limited	15,598,493	11,088,554
Insurance premium funding	-	12,194
Total borrowings	15,598,493	11,100,748

Assets pledged as security
The financing loan is secured by rights to the Mining Tenements owned. The Insurance Premium funding loan is secured by the refund proceeds of cancelled policies.

14. REHABILITATION PROVISION

	2018 $	2017 $
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.

15. ISSUED CAPITAL

	Number of shares	2018 $
(a) Issued and paid up capital		
Fully paid ordinary shares	1,003,907,007	37,555,718
	1,003,907,007	37,555,718
(b) Movements in fully paid shares		
Opening balance	199,016,214	27,155,714
Issue of shares on 21 September 2017 – in lieu of operating costs	29,852,400	752,280
Issue of shares on 16 March 2018 – full conversion of unsecured creditors per the Interlocking DOCAs	428,538,393	6,856,614
Issue of shares on 16 March 2018 – partial conversion of secured creditors per the Interlocking DOCAs	292,500,000	737,100
Issue of shares on 16 March 2018 – in lieu of director fees	54,000,000	54,000
Balance as at 30 June 2018	1,003,907,007	37,555,718

	Number of shares	2017 $
(a) Issued and paid up capital		
Fully paid ordinary shares	199,016,214	29,155,724
	199,016,214	29,155,724
(b) Movements in fully paid shares		
Opening balance	199,016,214	29,155,724
Balance as at 30 June 2017	199,016,214	29,155,724

15. ISSUED CAPITAL (CONTINUED)

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.

None of the parent's shares are held by any company in the Group.

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.

16. RESERVES

Balance of share-based payments reserve

	2018 $	**2017 $**
Opening balance	40,762	734,965
Lapse of options	(40,762)	(694,203)
Closing balance	-	40,762

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 2018	**Number of options**	**2018 $**	**Weighted average exercise price**
Opening balance	1,500,000	40,762	$1.10
Cancelled / lapsed	(1,500,000)	(40,762)	$1.10
Balance at 30 June 2018	-	-	-

Share Option Reserve 2017	**Number of options**	**2017 $**	**Weighted average exercise price**
Opening balance	21,250,000	734,965	$0.31
Cancelled / lapsed	(19,750,000)	(694,203)	$0.25
Balance at 30 June 2017	1,500,000	40,762	$1.10

<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.

17. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES

Operating activities

	2018 $	2017 $
Loss after tax	(7,390,538)	(2,666,773)
Debt raising costs	2,575,000	557,723
Interest expense	2,029,639	1,623,943
Depreciation expense	80,686	115,097
Shares issued for work completed	806,281	-
Deemed loss of deconsolidation of Valence Industries Services Pty Ltd (In Liquidation)	821,665	-
Additional provided claims subject to the Interlocking DOCAs	67,320	-
Decrease/(increase) in receivables	-	53,225
Increase/(decrease) in payables	371,567	(30,279)
Increase/(decrease) in borrowings	607,399	-
Net cash used in operating activities	(30,981)	(347,064)

18. INVESTMENTS IN CONTROLLED ENTITIES

(a) Controlled Entities

The Company has the following subsidiaries:

			Percentage held	
Name of Subsidiary	**Country of Registration**	**Class of Shares**	**2018**	**2017**
Quantum Graphite Operations Pty Ltd (Subject to Deed of Company Arrangement)	Australia	Ordinary	100%	100%
Valence Industries Services Pty Ltd (In Liquidation) (1)	Australia	Ordinary	100%	100%
Valence Industries Commercialisation Pty Ltd	Australia	Ordinary	100%	100%
Valence Industries USA Ltd	USA	Ordinary	100%	100%

(1) On 19 October 2016 VIS was placed into liquidation. On 1 July 2017 the Group ceased to control VIS and as such it was deconsolidated from the group with effect as and from this date and a loss of $821,665 recognised in the statement of Profit and Loss.

19. AUDITOR REMUNERATION

	2018 $	2017 $
Audit services		
Auditors of Quantum Graphite Ltd – Grant Thornton		
- Audit and review of Financial Reports	28,840	28,840
Audit services remuneration	28,840	28,840
Other services		
Auditors of Quantum Graphite Ltd – Grant Thornton		
- Taxation compliance	-	-
Total other services remuneration	-	-
Total remuneration received by Grant Thornton	28,840	28,840

20. COMMITMENTS AND CONTINGENCIES

Exploration commitments

In order to maintain rights of tenure to exploration permits, the Group has certain obligations to perform minimum exploration work and expend minimum amounts of money.

It will be necessary for the Group to incur a minimum expenditure requirement of $140,000 per annum in order to retain present interests in exploration licences.

Lease commitments

The Company has entered into two, four-year operating leases in relation to office equipment. Minimum lease payments recognised as an expense during the period amount to $nil. Remaining amounts due are:

	2017 $	2016 $
Within one year	-	15,629
After one year but not more than five years	-	-
Longer than five years	-	-
	-	15,629

The prior year commitments related to office and rental property operating leases which are now on a month to month basis.

The Group's operating lease agreements do not contain any contingent rent clauses.

Contingent liabilities

The Group has no contingent assets or liabilities.

21. RELATED PARTY TRANSACTIONS

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

(a) Transactions with subsidiaries

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:

	2018 $	**2017 $**
Short-term benefits	113,283	133,827
Post-employment benefits	-	-
Total remuneration	113,283	133,827

The following transactions occurred with KMP:

	2018 $	**2017 $**
Payment for professional services to entities associated with related parties	-	7,329
Payables for professional services at reporting date	-	118,347

Chimaera Capital Limited ("CCL") (an entity related to Sal Catalano) provided corporate and accounting services to the Company including provision of the registered and the main business office. There were $148,800 in expenses paid to CCL during the year (2017: $Nil) there were no amounts payable as at 30 June 2018 (2017: $Nil) in relation to these services.

22. EMPLOYEE REMUNERATION

(a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:	**2018 $**	**2017 $**
Salaries / contract payments for Directors and employees	113,283	148,883
Employee entitlement provisions	-	623
	113.283	149.506

22. EMPLOYEE REMUNERATION (CONTINUED)

(b) Post-employment benefits expense

Expenses recognised for post-employment employee benefits are analysed below:	2018 $	2017 $
Superannuation payments for Directors and employees	-	9,842

(c) Share based employee remuneration

As at 30 June 2018 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.

In the prior period, the value of options with a market condition granted in the year is the fair value calculated at grant date using a Black-Scholes option-pricing model. The value of each option with a non-market condition such as the achievement of strategic objectives is based on the underlying share price at the grant date. The total value attached to these options takes into account the Company's best estimate at the grant date of the number of rights that will vest.

Share options and weighted average exercise prices are as follows:

2018	Number of options	Weighted average exercise price ($)
Opening balance - remuneration options	1,500,000	1.10
Exercised / Forfeited / expired	(1,500,000)	1.10
Outstanding as at 30 June 2018	-	-

2017	Number of options	Weighted average exercise price ($)
Opening balance - remuneration options	5,000,000	0.51
Exercised / Forfeited / expired	(3,500,000)	0.25
Outstanding as at 30 June 2017	1,500,000	1.10

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.

23. 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	2018 $	2017 $
Financial assets			
Cash and cash equivalents	5	32,896	13,877
Receivable from the Department of Energy and Mining	6	1,073,863	1,073,863
Trade and other receivables	7	162,568	55,684
		1,269,327	1,143,424
Financial liabilities			
Trade and other payables	11	511,647	5,914,389
Borrowings	13	15,598,493	11,100,748
		16,110,140	17,015,137

Financial risk management policy
Risk management is carried out by the Managing Director and CEO 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 pursuant to the Interlocking DOCAs.

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 2018 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.

2018		**Effect on:**	
	Sensitivity*	**Profit $**	**Equity $**
Interest rate	+ 1.50%	+183,000	+183,000
	- 1.50%	-183,000	-183,000

2017		**Effect on:**	
	Sensitivity*	**Profit $**	**Equity $**
Interest rate	+ 1.50%	+144,700	+144,700
	- 1.50%	-144,700	-144,700

*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).

	2018 $	2017 $
Statement of financial position		
Total assets	28,746,455	23,930,660
Total liabilities	16,110,141	11,830,213
Issued capital	37,555,718	29,155,724
Accumulated losses	(24,919,404)	(17,098,039)
Share based payment reserve	-	40,762
Statement of profit of loss and other comprehensive income		
Loss for the period	6,740,933	3,275,752

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

Full Implementation of the Interlocking DOCAs

On 14 August 2018 the Company announced that the Interlocking DOCAs had been fully implemented with all conditions satisfied including the recapitalisation of the Company and the issue of all securities. Accordingly:

a. the Deed Administrators, Mr Laurence Fitzgerald and Mr Michael Humphris, resigned and notified ASIC that the Interlocking DOCAs had been fully effectuated; and

b. the Company exited external administration.

The Company's recapitalisation enables it to execute its plan to build the framework for the increase of the Uley production capacity to a level that is commercially sustainable. This plan includes the following key elements:

- The preparation of a revised mine plan together with the completion of any necessary metallurgical test work and drilling;
- The review and possible extension of the Company's existing resources and reserves; and
- The completion of a revised definitive feasibility study **(DFS)** to be undertaken by Lycopodium Minerals (see below).

Pro Forma Balance Sheet, Cash Flow Statements and New Capital Structure

In connection with the implementation of the Interlocking DOCAs the Company prepared a proforma balance sheet **(Pro Forma Balance Sheet)** based on the balance sheet as at 31 December 2017 to reflect the impact of the changes on its financial position following the recapitalisation of the Company.

The Proforma Balance Sheet was the subject of review by the Company's Auditors, Grant Thornton, resulting in them issuing an Independent Limited Assurance Report on the Historical Pro Forma Financial Information **(Grant Thornton Report)** dated 5 September 2018.

As required by the ASX for the purposes of reinstatement of quotation of the Company's securities, the Company announced its new capital structure on 5 September 2018 together with its opening cash balance and a statement of estimated quarterly cash flows **(Cash Flow Statements)** for the period September 2018 to December 2019. Details of the new capital structure, the Grant Thornton Report and the Cash Flow Statements were lodged with the ASX on 5 September 2018.

26. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD (CONTINUED)

Issue of Shares and Options relating to Implementation of the Interlocking DOCAs

Following shareholder approvals obtained at the 2017 AGM, the Company issued the following securities pursuant to ASX Listing Rule 7.1

a. On 21 July 2018,6,197,638,425 shares at $0.0252 per share to the Secured Creditor Beneficiaries;

b. On 21 July 2018,1,000,000,000 options to acquire ordinary shares, exercise price $0.00, expiry date 20 July 2023;

c. On 28 August 2018, 177,243,000 shares at $0.0252 per share to the Secured Creditor Beneficiaries in accordance with the Interlocking DOCAs; and

d. On 28 August 2018, 108,000,000 shares at $0.001 per share to the directors in lieu of their quarterly director fees as follows:

Directors	Shares	Quarterly Director Fees ($)
S Chadwick	18,000,000	18,000
B Ruggiero	18,000,000	18,000
S Catalano	18,000,000	18,000
R Mencel	18,000,000	18,000
R Osmetti	18,000,000	18,000
D Trimboli	18,000,000	18,000
Total	108,000,000	108,000

Commencement of works relating to DFS

On 3 August 2018 the Company announced that work had commenced on the DFS. Lycopodium Minerals' fee was capped at $450,000 and payment has been satisfied in full by the issue of shares in the Company.

Renewal of Mining Titles

On 9 May 2017, the Company announced the renewal of Mining Leases ML5561 and ML5562 to 16 March 2024 and renewal of Retention Leases RL66 and RL67 to 16 March 2024.

On 14 August 2018, the Company announced that the Exploration Licence known as EL4778 was terminated and the area represented by the former EL4778 became the subject of the grant of a new Exploration Licence EL6224 to the Company.

Other Matters

Since the end of the financial year Mr Robert Mencel resigned (effective 6 July 2018) as a director.

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.

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 2018 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) due to the uncertainty outlined in note 1, the directors are unable to conclude whether Quantum Graphite will be a going concern or whether it will be able to pay its debts as and when they fall due for the next 12 months.

As a consequence of the company being in Administration for a significant portion of the reporting period, the Directors have not been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer and the chief financial officer for the year ended 30 June 2018.

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
25 September 2018

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Independent Auditor's Report

To the Members of Quantum Graphite Limited

Report on the audit of the financial report

Opinion

We have audited 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 2018, the consolidated statement of profit or loss and other 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.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Emphasis of Matter: Realisation Basis of Accounting

We draw attention to Note 1(a) in the financial statements, which indicates at reporting date that there was significant uncertainty about the Group's ability to meet its ongoing operating and financing commitments over the foreseeable future. Consequently the financial statements have not been prepared on a going concern basis but have been prepared on a realisation basis representing a planned orderly realisation of assets and settlement of debts. At reporting date the Group was in administration and its ability to continue as a going concern was contingent on successfully raising additional capital in connection with the full implementation of the Interlocking Deeds of Company Arrangement. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

There are no other key audit matters in addition to the matter described in the Emphasis of Matter: Realisation Basis of Accounting section.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the financial report

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

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 10 to 13 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Quantum Graphite Limited, for the year ended 30 June 2018 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

J L Humphrey
Partner – Audit & Assurance

Adelaide, 25 September 2018

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 18 September 2018.

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 – 19.5%
- Seefeld Investments Pty Ltd – 6.26%
- Ziziphus Pty Ltd – 6.07%

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.

Distribution of equity by security holders

Holding	Ordinary Shares (Quoted)
1 – 1,000	173
1,001 – 5,000	1,268
5,001 – 10,000	761
10,001 – 100,000	1,574
100,001 and over	461
Number of Holders	**4,237**

Unmarketable parcels

There were 1,169 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

		No. of Shares Held	% Held
1	Chimaera Capital Ltd (Custodian)	1,776,339,123	23.73%
2	Ziziphus Pty Ltd	419,039,273	5.60%
3	Selso Pty Ltd (Osmetti Family A/c)	331,553,268	4.43%
4	Insync Investments Pty Ltd (Weekley Super Fund No 1 A/c)	325,470,262	4.35%
5	Lycopodium Limited	256,030,821	3.42%
6	Michael James Maddox	198,367,579	2.65%
7	ACN 112 940 057 Pty Ltd (Canci Investments A/c)	194,364,157	2.60%
8	Golder Associates Pty Ltd	169,084,069	2.26%
9	G & N Lord Superannuation Pty Ltd (GNR Superannuation Fund A/c)	164,770,131	2.20%
10	Asymmetric Credit Partners Pty Ltd	161,970,131	2.16%
10	Russell Howard Pty Ltd (Russell Howard S/F A/c)	161,970,131	2.16%
11	Fuddy Pty Ltd (Pattison Super Fund A/c)	155,605,664	2.08%
12	Chimaera Capital Ltd	150,000,000	2.00%
13	Peter Faulkner Investments Pty Ltd (Faulkner Tuke S/fund A/c)	143,654,232	1.92%
14	Next Australia Pty Ltd (Next Superannuation Fund)	143,600,943	1.92%
15	Valence Industries Services Pty Ltd (In Liquidation)	115,388,438	1.54%
16	Getco Pty Ltd (Gregory Robert O'Neil and Karen Margaret O'Neil)	99,183,789	1.32%
17	Mr Ian David Pattison + Ms Katherine Margaret Forrest (Sylvan S/f A/c)	96,680,306	1.29%
18	Mr David John Hebberman + Ms Josephine Nora Hall (David Hebberman Fam S/f A/c)	93,312,422	1.25%
19	Hatch Eggs Pty Ltd (The Hatch Super Fund A/c)	81,697,218	1.09%
20	Tuke Investments Pty Ltd (The David Tuke S/fund A/c)	80,266,745	1.07%
		5,318,348,702	71.04%
	Total Ordinary Shares on issue	7,486,788,432	100.00%