# Archer Exploration Limited

(ABN 64 123 993 233)

# Financial Report

Half-year ended

31 December 2018

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# Important Notes

**Competent Person Statement**

The exploration results reported herein, insofar as they relate to mineralisation, are based on information compiled by Mr. Wade Bollenhagen, Exploration Manager and is a full-time employee of Archer Exploration Limited.

Mr. Bollenhagen is a Member of the Australasian Institute of Mining and Metallurgy who has more than twenty years' experience in the field of activity being reported. Mr Bollenhagen has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity that he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" relating to the reporting of Exploration Results. Mr. Bollenhagen consents to the inclusion in the report of matters based on his information in the form and context in which it appears.

**Rounding of amounts**

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 (Rounding in Financial/Director's Reports). Amounts in the Financial Statements and Director's Reports have been rounded off in accordance that Instrument to the nearest dollar, unless otherwise stated.

# Directors' Report

Your Directors present their report, together with the audited financial statements, on Archer Exploration Limited and its consolidated entities ("Group") for the half-year ended 31 December 2018.

**Directors**

The names of each person who has been a Director during the whole of the financial half-year and to the date of this report are:

Gregory David English (Executive Chairman)

Alice McCleary (Non-Executive Director)

Paul Rix (Non-Executive Director)

**Principal activities**

During the financial half year, the principal activities of the Group was:

- The development of the Group's advanced materials with a key focus on integrating graphite and graphene in three key growth areas of reliable energy, human health and quantum technology.

- The continued development of the Group's mineral deposits with a focus on the grant of the PEPR for the Campoona Graphite Mine and exploration of the Blue Hills Copper-gold Project.

There was no significant change in the nature of this activity during the relevant financial period.

**Dividends**

There were no dividends paid, recommended or declared during the current or previous financial year.

**Consolidated results**

During the half-year ended 31 December 2018 the Group incurred a loss of $1,037,307 (2017: loss $757,658).

The Group's income from continuing operations during the half-year ended 31 December 2018 increased to $40,703 (2017: $31,828) due primarily to an increase in bank interest received, which is reflective of a higher average bank balance during the six-month period to 31 December 2018, than was the case for six-month period to 31 December 2017.

**Review of Operations**

*Advanced Materials*

Archer's vision is to build a long term and viable mineral and advanced materials business focusing on the key areas related to quantum technology, human health, and reliable energy.

In December 2018, the Company executed a binding licence agreement (Agreement) with the University of Sydney Commercial Development and Industry Partnerships (CDIP) for exclusive rights to develop and commercialise intellectual property (IP) related to carbon-based quantum computing technology (Licenced IP). The technology to be developed is a device (chip) capable of electronically integrated quantum information processing at room-temperature, and the materials that would form the critical componentry of the chip are available in the inventory of Archer's wholly owned subsidiary Carbon Allotropes.

The Agreement gives Archer exclusive international rights to develop and commercialise the Licenced IP. The key terms of the Agreement remain confidential. The technology that is the basis of the Licenced IP will need to be realised through development. The Licenced IP has been filed through a patent cooperation treaty (PCT) application by the University of Sydney (University) in the geographic areas covered by a European Patent, Australia, United States of America, Japan, Republic of Korea, Hong Kong, and China. Archer has an option to acquire the Licensed IP, following the occurrence of commercial milestones linked to the technology development. Archer may sub-license its rights to the Licenced IP.

Archer is engaged in a collaboration agreement with The University of Adelaide as part of the Australian Research Council Research Hub for Graphene Enabled Industry Transformation. The collaboration seeks to target high value, high growth markets servicing human health applications by developing and implementing graphene and carbon-based materials for use in complex biosensing devices. As part of this work Archer has been developing graphene inks with The University of Adelaide and a leading German biotechnology company (the "Partner") with the aims of fabricating a proof-of-concept biosensor, comprising printable components capable of detecting disease state markers, such as antibodies.

Archer is engaged in a Collaboration Agreement and Research Service Agreement with the University of New South Wales ("UNSW") to focus on carbon-based energy storage technology. In August 2018, the Company announced that functional full-cell lithium ion batteries were successfully assembled and validated by UNSW for performance. The batteries were prepared with Archer's Campoona graphite at the anode, and commercially equivalent cathode materials and chemistries used in consumer electronics and electric vehicles.

The cathode materials used to construct the full-cells were lithium-nickel manganese-cobalt ("NMC"), lithium-iron phosphate ("LFP"), and lithium-cobalt oxide ("LCO"), and the batteries were prepared as coin-cells i.e. in a small-sized compact battery construction resembling a coin. Archer's 99% acid-leached graphite from Campoona was used with no further optimisation. The NMC and LCO cathode chemistries were prepared at UNSW, while the LFP cathode materials used were commercially sourced. All synthesis, fabrication, characterisation and testing were carried out at UNSW. Key battery performance parameters, including specific capacity and cycle stability, were in-line with industry state-of-art values, owing in part to the exceptional structural and chemical properties of Archer's Campoona graphite.

*Mineral exploration and development*

Work on the preparation of the Campoona Mine Program for Environment Protection and Rehabilitation (PEPR) continued. Whilst the Campoona mining lease and Sugarloaf and Pindari Bore miscellaneous purposes licences were granted late last year, no mining activities can commence until the PEPR has been lodged and approved by the South Australian Government.

Exploration of the Blue Hills copper gold project near Burra, South Australia has been ongoing. The Blue Hills Copper-gold Project is part of the larger North Burra project area which covers an area of more than 3,000km2. Blue Hills is located approximately 240 km north of Adelaide, South Australia and within 50 km of the Moomba to Adelaide Gas Pipeline, the Hallet 203 MW gas power station, the trans Australia railway line, Barrier Highway, high voltage power line, known aquifers and the established townships of Peterborough and Jamestown.

Archer has discovered three large gold and copper in-soils anomalies at Blue Hills, namely Hood, Hawkeye and Katniss. Regional exploration programs have identified multiple other targets. In early January 2019 Archer commenced a maiden reverse circulation drilling program at the Hood, Katniss and Hawkeye prospects. The first drill results from Hood were reported after the end of the half-year, with Archer reporting that drilling to date appears to confirm the conceptual model of Hood as an intrusive style copper gold mineralised system. The three holes drilled so far at Hood confirm that the rocks at Hood are different to the surrounding geology and that Hood has been subjected to a large-scale alteration event. The drill results confirm that the alteration at Hood is consistent with the type of alteration associated with intrusive style copper gold deposits.

In addition to the results from the three Hood RC drill holes, Archer has discovered albitite (a sodium rich rock) as float in the Hood area and also in situ between Hawkeye and Katniss. The vein nature of this material could be a "high level" type of rock/mineral, which exists above the actual granite intrusion. The presence of albitite supports the intrusive model being proposed for the large-scale mineralising system at Blue Hills.

**Significant changes to the state of affairs**

*Sale of Leigh Creek Magnesia Project*

In late April 2018, Archer announced that it was is undertaking a strategic review of its non-graphite assets which led to the sale of the Leigh Creek Magnesia Project (Magnesia Project) and the Sugarloaf farm land.

Sale of the Magnesia Project is facilitated by Archer agreeing to sell all of the shares in Leigh Creek Magnesite Pty Ltd (LCM) and CH Magnesite Pty Ltd (CHM). LCM and CHM are wholly owned subsidiaries of Archer which hold the mineral exploration licences that form the Magnesia Project. Completion under the sale agreement was conditional on satisfaction or waiver of three conditions precedent. These conditions have since been satisfied. The purchase price payable to Archer is $2.0 million (Base Payment) plus a Bonus. The Buyer has so far paid a $50,000 non-refundable deposit (Deposit) and a further non-refundable $200,000 (Additional Deposit) after the Buyer elected to proceed with the sale after the end of the due diligence period (i.e. 31 August 2018).

Completion of the sale of the Magnesia Project will take place on 31 December 2019 or such other date agreed by Archer and the buyer or its nominee. The date for Completion may be extended by buyer or its nominee for three months at a time (up to 30 June 2020) by paying to Archer $250,000 per extension (up to a total of $500,000) (Extension Payments). The Deposit, Additional Deposit and Extension Payments (if any) all form part of the Base Payment, the balance of which may be satisfied in cash or, if a listing has occurred, shares in the relevant listed entity (or a combination of both) at the election of the buyer or its nominee.

The Bonus is payable if the Buyer or a related entity of the Buyer or nominee lists on a regulated stock exchange either before or within 6 months of Completion. The Bonus amount is an additional payment calculated as 5.0% of an amount $2 million below the IPO market capitalisation of the listed entity.

*Sale of Sugarloaf Farmland*

In November 2018, Archer announced the sale of its Sugarloaf farmland for $1.35 million. Under the terms of the Land Sale Agreement ("Sale Agreement"), Archer will sell the entirety of the Sugarloaf farm land but maintains an option to buy back approximately 30% of the Sugarloaf farm land, which will be required for the construction of the Sugarloaf Graphite Processing Facility. The option to buy back part of the land can be exercised by Archer any time during the next 20 years.

The Sugarloaf farm land is contained within Archer tenement EL 5920 and hosts the Sugarloaf carbon deposit and the proposed site of the Sugarloaf Graphite Processing Facility, which will be used to process the graphite from the nearby Campoona mining lease.

Archer purchased the farm land in April 2013 and at the time of the acquisition, the final size of the Sugarloaf Graphite Processing Facility and associated tailings dam was unknown. Since 2013, Archer has finalised the design and areal extent of the Sugarloaf Graphite Processing Facility, and as a result, the Company has made the decision to sell the Sugarloaf farm land to release funds for drilling and technology development.

Settlement of the sale and purchase is scheduled to take place on 1 July 2019.

Changes in equity

The following changes in equity took place during the half-year period:

- 640,249 new shares were issued to shareholders who exercised unlisted SPP Options at 7.5 cents per new share. Shareholders who were allotted shares in November 2017 under the Share Purchase Plan (SPP) were also eligible to apply for one free option (SPP Options) for every two shares allotted under the SPP. The SPP Options have an exercise price of 7.5 cents and expiry date of 28 February 2019.

- 3,000,000 new shares were issued to Mohammad Choucair following the vesting of 3,000,000 performance rights previously issued to him as consideration for the Company's acquisition of Carbon Allotropes Pty Limited. The vesting of the performance rights was subject to the satisfaction of certain conditions precedent.

- 750,000 new shares were issued to employees of Archer as a result of the vesting of 100% of previously issued performance rights that met the performance conditions for the performance period 1 July 2017 to 30 June 2018.

- 450,000 performance rights were issued to employees of Archer. The performance rights are subject to meeting vesting criteria for the performance period 1 July 2018 to 30 June 2019 and expire on 31 July 2019. On vesting, the holder will be issued fully paid ordinary shares in the Company on a one for one basis and the holder will not pay for the shares. The performance rights are governed by the terms and conditions of the Company's Performance Rights Plan.

**Events subsequent to the end of reporting date**

- On 4 January 2019, the Company issued 107,054 new shares as a result of the exercise of unlisted SPP Options. SPP Options have an exercise price of $0.075 each and expire on 28 February 2019.

- 5,000,000 unlisted options with an exercise price of 15 cents, expired on 31 January 2019.

- On 8 February 2019, the Company announced that the condition precedent to settlement under the contract for the sale of the Sugarloaf farm land had been satisfied, with the buyer notifying Archer that they have obtained finance for the purchase. Settlement is scheduled to take place on 1 July 2019.

The Directors are not aware of any other matter or circumstance that has arisen since 31 December 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Auditor's Declaration**

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 8 and forms part of the director's report for the financial half-year ended 31 December 2018.

This report is signed in accordance with a resolution of the Board of Directors.

**Greg English**
**Executive Chairman**

**Adelaide**
Dated this 20th day of February 2019

## Auditor's Independence Declaration

GrantThornton

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# Auditor's Independence Declaration

## To the Directors of Archer Exploration Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Archer Exploration Limited for the half-year ended 31 December 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

B K Wundersitz
Partner – Audit & Assurance

Adelaide, 20 February 2019

# Statement of Profit or Loss and Other Comprehensive Income

(For the half-year ended 31 December 2018)

| | | CONSOLIDATED GROUP | |
|---|---|---|---|
| | NOTES | 31 December 2018 $ | 31 December 2017 $ |
| **INCOME** | | | |
| Income | 2 | 40,703 | 31,828 |
| **EXPENSES** | | | |
| Depreciation and amortisation expense | | (14,123) | (9,635) |
| Amortisation of intangibles | | (52,403) | - |
| Employee benefits expense | | (571,380) | (377,079) |
| ASX listing and share registry expense | | (76,895) | (92,208) |
| Consulting/Public Relations/Legal expense | | (168,382) | (35,587) |
| Occupancy expense | | (41,381) | (24,121) |
| Impairment of exploration assets | | (19,162) | (102,070) |
| Exploration expenditure expensed | | (72) | (909) |
| Other expenses | | (133,750) | (125,487) |
| **LOSS BEFORE INCOME TAX EXPENSE** | | **(1,036,845)** | **(735,268)** |
| Income tax benefit | | - | - |
| **LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS** | | **(1,036,845)** | **(735,268)** |
| **DISCONTINUED OPERATIONS** | | | |
| Loss after income tax for the period from discontinued operations. | | (462) | (22,390) |
| **LOSS ATTRIBUTED TO MEMBERS OF THE PARENT ENTITY** | | **(1,037,307)** | **(757,658)** |
| Other comprehensive income | | - | - |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO MEMBERS OF THE PARENT ENTITY** | | **(1,037,307)** | **(757,658)** |
| **EARNINGS PER SHARE** | | Cents | Cents |
| Basic and diluted loss per share | | (0.55) | (0.54) |
| **EARNINGS PER SHARE FOR CONTINUING OPERATIONS** | | | |
| Basic and diluted loss per share | | (0.55) | (0.52) |

The accompanying notes form part of the financial statements.

# Statement of Financial Position

(As at 31 December 2018)

| | NOTES | CONSOLIDATED GROUP 31 December 2018 | 30 June 2018 |
|---|---|---|---|
| **ASSETS** | | **$** | **$** |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | 1,604,506 | 2,749,586 |
| Trade and other receivables | | 75,432 | 110,107 |
| Inventory | | 76,800 | 76,800 |
| Assets of disposal groups classified as held for sale | 9 | 1,534,138 | 3,661,551 |
| Non-current assets classified as held for sale | 4 | 1,205,786 | - |
| Total current assets | | 4,496,663 | 6,598,044 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | 69,267 | 1,247,806 |
| Exploration and evaluation expenditure | 3 | 14,033,430 | 11,638,439 |
| Intangible assets | | - | 52,403 |
| Total non-current assets | | 14,102,697 | 12,938,648 |
| **TOTAL ASSETS** | | 18,599,359 | 19,536,692 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | 143,401 | 227,090 |
| Deposit received in advance for the sale of the Leigh Creek Magnesite Project | | 250,000 | - |
| Short-term provisions | | 80,847 | 143,829 |
| Liabilities of disposal groups classified as held for sale | | - | 140,528 |
| Total current liabilities | | 474,248 | 511,447 |
| **NON-CURRENT LIABILITIES** | | | |
| Long-term provisions | | 14,521 | 11,454 |
| Total non-current liabilities | | 14,521 | 11,454 |
| **TOTAL LIABILITIES** | | 488,769 | 522,901 |
| **NET ASSETS** | | **18,110,590** | **19,013,791** |
| | | | |
| **EQUITY** | | | |
| Issued capital | 5 | 23,537,206 | 23,249,187 |
| Reserves | | 349,719 | 503,632 |
| Retained losses | | (5,776,335) | (4,739,1028 |
| **TOTAL EQUITY** | | **18,110,590** | **19,013,791** |

The accompanying notes form part of the financial statements.

# Statement of changes in equity

(For the half-year ended 31 December 2018)

| | Issued Capital | Retained Earnings | Share Based Payments Reserve | Acquisition Reserve | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **BALANCE AT 1 JULY 2017** | 19,519,325 | (2,891,281) | 102,589 | - | 16,730,633 |
| Shares issued during the period (net of costs) | 3,000,026 | - | - | - | 3,000,026 |
| Fair value of performance rights issued in prior period(s) | - | - | 43,908 | - | 43,908 |
| Fair value of performance rights issued as consideration for acquisition of Carbon Allotropes Pty Ltd | - | - | - | 240,000 | 240,000 |
| Transactions with owners | 22,519,351 | (2,891,281) | 146,497 | 240,000 | 20,014,567 |
| Transfer of share-based payments reserve to retained earnings [1] | - | 6,773 | (6,773) | - | - |
| Total comprehensive loss for the period | - | (757,658) | - | - | (757,658) |
| **BALANCE AT 31 DECEMBER 2017** | **22,519,351** | **(3,642,166)** | **139,724** | **240,000** | **19,256,909** |

[1] – *Relates to the prior year(s) share-based payments expense associated with forfeited performance rights.*

| | Issued Capital | Retained Earnings | Share Based Payments Reserve | Acquisition Reserve | Total |
|---|---|---|---|---|---|
| **BALANCE AT 1 JULY 2018** | 23,249,187 | (4,739,028) | 263,632 | 240,000 | 19,013,791 |
| Shares issued during the period (net of costs) | 288,019 | | (240,000) | - | 48,019 |
| Fair value of performance rights issued in current and prior period(s) | | | 86,087 | - | 86,087 |
| Transactions with owners | 23,537,206 | (4,739,028) | 109,719 | 240,000 | 19,147,897 |
| Total comprehensive loss for the period | - | (1,037,307) | - | - | (1,037,307) |
| **BALANCE AT 31 DECEMBER 2018** | **23,537,206** | **(5,776,335)** | **109,719** | **240,000** | **18,110,590** |

The accompanying notes form part of the financial statements.

# Statement of Cash Flows

(For the half-year ended 31 December 2018)

| | CONSOLIDATED GROUP | |
|---|---|---|
| | **31 December 2018** | **31 December 2017** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | **$** | **$** |
| Payments to suppliers and employees | (1,049,137) | (610,962) |
| Interest received | 18,555 | 11,862 |
| Research & development tax concession | 58,642 | 157,790 |
| Other income | 1,033 | - |
| **NET CASH (USED IN) OPERATING ACTIVITIES** | **(970,907)** | **(441,310)** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Payments for exploration expenditure | (480,221) | (716,523) |
| Payment for plant and equipment | - | (39,620) |
| Deposit received for sale of Leigh Creek Magnesia Project | 250,000 | - |
| **NET CASH (USED IN) INVESTING ACTIVITIES** | **(230,221)** | **(756,143)** |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issue of shares [1] | 56,048 | 3,000,026 |
| **NET CASH PROVIDED BY FINANCING ACTIVITIES** | **56,048** | **3,000,026** |
| | | |
| Net increase / (decrease) in cash held | (1,145,080) | 1,802,573 |
| Cash at beginning of period | 2,749,586 | 1,528,634 |
| **CASH AT THE END OF THE PERIOD** | **1,604,506** | **3,331,207** |

[1] New shares issued in respect of $8,029 received for the exercise of SPP Options, were allotted subsequent to period end, on the 4 January 2019.

The accompanying notes form part of the financial statements.

# Notes to the Financial Statements

(For the half-year ended 31 December 2018)

**NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Preparation**

These general purpose interim financial statements for the half-year reporting period ended 31 December 2018 have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Archer Exploration Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2018, together with any public announcements made during the half-year.

**Significant Accounting Policies**

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2018, except as described below. Note that the changes in accounting policies specified below only apply to the current period. The accounting policies included in the Group's last annual financial statements for the year ended 30 June 2018 are the relevant policies for the purposes of comparatives.

AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments (2014) became effective for periods beginning on or after 1 January 2018. Accordingly, the Group applied AASB 15 and AASB 9 for the first time to the interim period ended 31 December 2018. Changes to the Group's accounting policies arising from these standards are summarised below:

**New standards adopted as at 1 July 2018**

***AASB 15 Revenue from Contracts with Customers***

AASB 15 replaces AASB 118 Revenue, AASB 111 Construction Contracts and several revenue-related Interpretations. The new Standard has been applied as at 1 July 2018. Given the entity is a Junior Explorer and does not have any material revenue streams the introduction of the new standard does not have a significant impact on the timing or amount of revenue recognized by the group during the period and therefore has been applied using the modified approach and no prior period restatements were required.

Revenue arises mainly from the commercial rent and interest.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Group enters into transactions involving a range of the Group's products and services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

***AASB 9 Financial Instruments***

AASB 9 Financial Instruments replaces AASB 139's 'Financial Instruments: Recognition and Measurement' requirements. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for impairment of financial assets.

The Group has adopted AASB 9 as at 1 July 2018, the Group elected not to restate prior periods as the Group does not hold any material financial instruments.

**Recognition and derecognition**

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

**Classification and initial measurement of financial assets**

Financial assets are classified according to their business model and the characteristics of their contractual cash flows. Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

**Subsequent measurement of financial assets**

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following four categories:

- Financial assets at amortised cost
- Financial assets at fair value through profit or loss (FVTPL)
- Debt instruments at fair value through other comprehensive income (FVTOCI)
- Equity instruments at FVTOCI

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses. Currently the Group only holds financial assets at amortised cost.

**Financial assets at amortised cost**

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of 'hold to collect' contractual cash flows are accounted for at amortised cost using the effective interest method. The Group's trade and most other receivables fall into this category of financial instruments as well as bonds that were previously classified as held-to-maturity under AASB 139.

**Impairment of financial assets**

AASB 9's new forward-looking impairment model applies to Group's investments at amortised cost and debt instruments at FVTOCI. The application of the new impairment model depends on whether there has been a significant increase in credit risk.

**Trade and other receivables and contract assets**

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

**Classification and measurement of financial liabilities**

As the accounting for financial liabilities remains largely unchanged from AASB 139, the Group's financial liabilities were not impacted by the adoption of AASB 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

| | **CONSOLIDATED GROUP** | |
|---|---|---|
| **NOTE 2 – INCOME** | **6 months to 31 December 2018** | **6 months to 31 December 2017** |
| | **$** | **$** |
| Interest income | 14,815 | 6,123 |
| Other income | 25,888 | 25,705 |
| **TOTAL INCOME** | **40,703** | **31,828** |

| NOTE 3 – EXPLORATION AND EVALUATION EXPENDITURE | CONSOLIDATED GROUP | |
|---|---|---|
| | **31 December 2018** | **30 June 2018** |
| | **$** | **$** |
| Balance at the beginning of the period | 11,638,439 | 13,970,106 |
| Amounts capitalised during the period | 344,967 | 1,504,526 |
| Impairment expense during the period | (19,162) | (244,954) |
| Transferred to assets held for sale | - | (3,591,239) |
| Reclassification of assets previously held for sale | 2,069,186 | - |
| **Balance at the end of the period** | **14,033,430** | **11,638,439** |

**NOTE 4 – NON-CURRENT ASSETS HELD FOR SALE**

On 8 November 2018, the Company announced that it has executed a legally binding contract (the "Sale Agreement"), for the sale of the Sugarloaf farm land located near the township of Cleve on South Australia's Eyre Peninsula.

The Sugarloaf farm land is contained within Archer tenement EL 5920 and hosts the Sugarloaf carbon deposit and the proposed site of the Sugarloaf Graphite Processing Facility, which will be used to process the graphite from the nearby Campoona mining lease.

Under the terms of the Sale Agreement, Archer will sell the entirety of the Sugarloaf farm land but maintains an option to buy back approximately 30% of the Sugarloaf farm land, which will be required for the construction of the Sugarloaf Graphite Processing Facility. The option to buy back part of the land can be exercised by Archer any time during the next 20 years.

Key terms of the legally binding land Sale Agreement include:

- Sale price of $1.35 million (excluding GST). A 10% deposit has been paid on execution of the Sale Agreement, with the remaining 90% of the sale price payable at settlement.
- Settlement is scheduled to take place on 1 July 2019.
- Settlement is subject to (the "Condition") the buyer obtaining finance by 1 February 2019 ("End Date"). This condition has been satisfied subsequent to period end.
- Archer subsidiary company Pirie Resources Pty Ltd ("Pirie") has been granted an option (the "Option") to purchase the part the land that it requires to construct and operate the Sugarloaf Graphite Processing Facility. The Option may be exercised by Pirie at any time before 4 December 2038. On exercise of the Option, Pirie agrees to purchase that part of the land that it requires for a price approximately equal to 1.33 times market value, adjusted for CPI.
- The purchaser has agreed to enter into land access and compensation agreements with Archer subsidiary companies Pirie and Archer Energy and Resources Pty Ltd to allow these companies to access the land for exploration and other purposes permitted under the South Australian Mining Act.

| | **31 December 2018** | **30 June 2018** |
|---|---|---|
| | **$** | **$** |
| Land and Buildings | 1,205,786 | - |

## NOTE 5 – ISSUED CAPITAL

| **31 DECEMBER 2018** | **Number of shares** | **31 December 2018 $** |
|---|---|---|
| **(a) issued and paid up capital** | | |
| Fully paid ordinary shares | 191,316,078 | 23,537,206 |
| | | |
| **(a) Movements in fully paid shares** | | |
| Balance as at 1 July 2018 | 186,925,829 | 23,249,187 |
| Shares issued - vested performance Rights (6 July 2018) | 750,000 | - |
| Shares issued - Exercise of SPP Options (25 July 2018) | 570,431 | 42,782 |
| Shares issued - Exercise of SPP Options (15 August 2018) | 55,854 | 4,189 |
| Shares issued - Exercise of SPP Options (31 October 2018) | 13,964 | 1,048 |
| Shares issued - vested performance rights (31 October 2018) | 3,000,000 | 240,000 |
| Balance as at 31 December 2018 | 191,316,078 | 23,537,206 |

| **30 JUNE 2018** | **Number of shares** | **30 June 2018 $** |
|---|---|---|
| **(a) issued and paid up capital** | | |
| Fully paid ordinary shares | 186,925,829 | 23,249,187 |
| | | |
| **(a) Movements in fully paid shares** | | |
| Balance as at 1 July 2017 | 137,194,306 | 19,519,325 |
| Shares issued - Share Purchase Plan (27 November 2017) | 40,000,376 | 3,000,026 |
| Shares issued - Exercise of SPP Options (16 February 2018) | 1,670,968 | 125,323 |
| Shares issued - Exercise of SPP Options (13 March 2018) | 954,175 | 71,563 |
| Shares issued - Exercise of SPP Options (3 April 2018) | 628,359 | 47,127 |
| Shares issued - Exercise of SPP Options (1 May 2018) | 696,008 | 52,201 |
| Shares issued - Exercise of SPP Options (16 May 2018) | 1,670,314 | 125,274 |
| Shares issued - Exercise of SPP Options (7 June 2018) | 1,166,940 | 87,521 |
| Shares issued - Exercise of SPP Options (25 June 2018) | 2,634,457 | 197,584 |
| Shares issued - Exercise of SPP Options (29 June 2018) | 309,926 | 23,244 |
| Balance as at 30 June 2018 | 186,925,829 | 23,249,187 |

**NOTE 6 – SHARE BASED PAYMENTS**

| a) Performance Rights | 31 December 2018 | 30 June 2018 |
|---|---|---|
| | Number of Performance Rights | Number of Performance Rights |
| Balance at the beginning of the period | 4,500,000 | 2,250,000 |
| Granted during the period | 450,000 | 3,000,000 [1] |
| Vested during the period | (3,750,000) | - |
| Forfeited/cancelled during the period | - | (750,000) |
| **Balance at the end of the period** | **1,200,000** | **4,500,000** |

[1] The share-based payment expense for the 3,000,000 Rights issued to Dr Mohammad Choucair, the founder of Carbon Allotropes Pty Limited was calculated in accordance with AASB 2: Share Based Payments. The total fair value for the 3,000,000 Rights issued is $240,000, with $80,000 expensed to the Statement of Profit or Loss and Other Comprehensive Income under employee benefits expense for the half year ended 31 December 2018 (31 December 2017: $40,000) to recognise the vesting criteria within the Share Purchase Agreement.

In October 2016, 2,700,000 Performance Rights (Rights) were granted to Directors, the Company Secretary and employees. The Rights were granted in accordance with the long-term equity incentive as outlined in the Archer Performance Rights Plan. The Rights granted to Directors were approved by shareholders on 28 October 2016 at the Company's Annual General Meeting. Following director Tom Phillip's retirement on in December 2016, the 450,000 Rights that were granted to him lapsed.

The share-based payment expense for the remaining 2,250,000 Rights issued was calculated in accordance with AASB 2: Share Based Payments, using a Monte Carlo Simulation method to determine the fair value of the Rights.

The total fair value for the 2,250,000 Rights issued is $25,253 and this amount is being expensed over 3 years commencing 1 July 2016. $1,425 has been included in the Statement of Profit or Loss and Other Comprehensive Income under employee benefits expense for the half year ended 31 December 2018 (31 December 2017: $3,908).

Rights granted during the period

On 6 July 2018, a further 450,000 Rights were granted to employees of the Company. The Rights were granted in accordance with the long-term equity incentive as outlined in the Archer Performance Rights Plan. The Rights are subject to meeting vesting criteria for the performance period 1 July 2018 to 30 June 2019 and expire on 31 July 2019.

The share-based payment expense for the 450,000 Rights issued was calculated in accordance with AASB 2: Share Based Payments, using a Monte Carlo Simulation method to determine the fair value of the Rights. The total fair value for the 450,000 Rights issued during the period is $9,324 and this amount is being expensed over 1 year commencing 1 July 2018. The fair value of the Rights was estimated on the grant date using the following assumptions:

| | |
|---|---|
| Stock price 1 July 2018 ($/share) | 0.10 |
| Stock volatility (%) | 103.4 |
| Index volatility (%) | 18.2 |

| | |
|---|---|
| Correlation (stock v index) | 0.06 |
| Risk-free interest rate (%) | 2.00 |
| Expected life (years) | 0.98 |

An amount of $4,662 has been included in the Statement of Profit or Loss and Other Comprehensive Income under employee benefits expense for the half year ended 31 December 2018 (31 December 2017: nil).

Rights vested during the period

On 6 July 2018, 750,000 new shares were issued as a result of the vesting of Rights that met the performance conditions for the performance period 1 July 2017 to 30 June 2018.

On 31 October 2018, 3,000,000 new shares were issued to Mohammad Choucair following the vesting of Rights previously issued to him as consideration for the Company's acquisition of Carbon Allotropes Pty Limited. The vesting of the Rights was subject to the satisfaction of certain conditions precedent.

Rights forfeited during the period

No Rights were forfeited during the period.

| **b) Unlisted Options** | **31 December 2018** | **30 June 2018** |
|---|---|---|
| | **Number of Unlisted Options** | **Number of Unlisted Options** |
| Balance at the beginning of the period | 5,000,000 | 5,000,000 |
| Granted during the period | - | - |
| Vested during the period | - | - |
| Forfeited/cancelled during the period | - | - |
| **Balance at the end of the period** | **5,000,000** | **5,000,000** |

The options outstanding at 31 December 2018 had a weighted average exercisable price of $0.15 and a weighted average remaining contractual life of 0.09 years.

The fair value of options issued during the year as remuneration were calculated by using a Black-Scholes option pricing model. The fair value of the options at the date of grant, being 1 February 2016, was $88,000 and was expensed over the 12-month vesting period to 1 February 2017.

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future tender, which may not eventuate. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

No amount has been included in the Statement of Profit or Loss and Other Comprehensive Income under employee benefits expense during the reporting period (2017: nil).

**NOTE 7 – 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 at this time there are no separately identifiable segments.

**NOTE 8 – CONTINGENT ASSETS, LIABILITIES & COMMITMENTS**

The Company has no contingent assets, liabilities or commitments as at 31 December 2018 (31 December 2017: $250,000 in respect of the Campoona Land acquisition).

In July 2018, the Company and the vendor re-structured the terms of the Campoona land sale agreement such that instead of purchasing the land outright, Archer has been granted an option of acquiring the land sometime in the next 20 years.

The Group has minimum expenditure commitments on exploration licences as per the terms of the exploration licences. Unexpended commitment for a particular year can be deferred or rolled over to subsequent years of the licence term.

**NOTE 9 – ASSETS AND DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE AND DISCONTINUTED OPERATIONS**

On 9 October 2018, the Company announced the termination of the Share Sale Agreements with Ballista Resources Limited and subsequent cessation of non-graphite assets spin-out via IPO. The Share Sale Agreement involved the sale of Archer's wholly owned subsidiaries SA Exploration Pty Ltd and Archer Energy & Resources Pty Ltd to Ballista Resources Limited. Given the Share Agreement has been terminated all of the assets and liabilities previously classified as 'assets and disposal groups classified as held for sale and discontinued operations', for both SA Exploration Pty Ltd and Archer Energy & Resources Pty Ltd have been re-classified in the Statement of Financial Position to no longer be classified as held for sale.

**SALE OF THE LEIGH CREEK MAGNESIA PROJECT**

During the year ended 30 June 2018, the Company decided to sell its wholly owned subsidiaries, Leigh Creek Magnesite Pty Ltd (LCM) and CH Magnesite Pty Ltd (CHM), which together comprise the Company's Leigh Creek Magnesia Project.

The Leigh Creek Magnesia Project is located approximately 20 kilometres northwest of Leigh Creek Township, South Australia and consists of two granted exploration licences – EL 5730 (held by LCM) and EL 6019 (held by CHM).

This decision was taken in line with the group's strategy to intensify its focus on its advanced materials activities with the associated development of the Campoona graphite mine, which is consistent with the goal of the Review, to focus Archer's future investment and management attention towards areas that will deliver the best risk weighted returns for its investors.

Consequently, certain assets and liabilities allocable to Leigh Creek Magnesite Pty Ltd and CH Magnesite Pty Ltd are classified as a disposal group.

Revenue and expenses, gains and losses relating to the discontinuation of this subgroup have been eliminated from profit or loss from the groups continuing operations and are shown as a single line item on the face of the statement of profit or loss.

In July 2018, the Company announced that it had signed a legally binding share sale agreement (Magnesia Sale Agreement) for the sale of all of the shares in Leigh Creek Magnesite Pty Ltd (LCM) and CH Magnesite Pty Ltd (CHM) to Australian Consolidated Venture Capital Pty Ltd (ACN 611 739 210). Australian Consolidated Venture Capital Pty Ltd is an incorporated private Australian company, based in Brisbane.

Key terms of the Magnesia Sale Agreement are:

- The Magnesia Sale Agreement is between Archer and Australian Consolidated Venture Capital Pty Ltd and deals with the sale by Archer of all the shares in LCM and CHM to the Buyer.

- Completion of the sale and purchase of the shares (Completion) is conditional upon:

  1. Buyer conducting due diligence by 31 August 2018 and the results of those enquiries being to the satisfaction of the Buyer. This condition has been satisfied;

  2. Archer shareholder approval of the sale of the shares in LCM and CHM. This condition has been satisfied; and

  3. the consent (if required) of counterparties under agreements affecting the Tenements. This condition has since been satisfied.

- Completion will take place on 31 December 2019 or such other date agreed by Archer and the Buyer. The date for Completion may be extended by Buyer for three months at a time (up to 31 December 2019) by paying to Archer $250,000 per extension (up to a total of $500,000) (Extension Payments).

- The purchase price payable to Archer is $2.0 million (Base Payment) plus a Bonus. The Buyer has paid to Archer a $50,000 non-refundable deposit (Deposit) and a further non-refundable $200,000 (Additional Deposit). The Deposit, Additional Deposit and Extension Payments (if any) all form part of the Base Payment, the balance of which may be satisfied in cash or, if a listing has occurred, shares in the relevant listed entity (or a combination of both) at the election of the Buyer.

The Bonus is payable if the Buyer or a related entity of the Buyer lists on a regulated stock exchange either before or within 6 months of Completion. The Bonus amount is an additional payment calculated as 5.0% of an amount $2 million below the IPO market capitalisation of the listed entity.

Shareholders approved the sale of the Company's wholly owned subsidiaries Leigh Creek Magnesite Pty Ltd and CH Magnesite Pty Ltd at the General Meeting of Shareholders held on 3 September 2018.

Operating profit of Leigh Creek Magnesite Pty Ltd and CH Magnesite Pty Ltd are shown below:

| | **31 December 2018** | **31 December 2017** |
|---|---|---|
| | **$** | **$** |
| Impairment of exploration assets | - | (21,619) |
| Other expenses | (462) | (771) |
| **Loss for year from discontinued operations before tax** | **(462)** | **(22,390)** |

Assets and Liabilities of Leigh Creek Magnesite Pty Ltd and CH Magnesite Pty Ltd are shown below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | **$** | **$** |
| **Statement of financial position** | | |
| Other current assets | 467 | - |
| Non-current exploration assets | 1,533,670 | - |
| **Assets of the disposal group held for sale** | **1,534,138** | **-** |
| | | |
| Current trade payables | - | - |
| **Liabilities included in disposal group held for sale** | **-** | **-** |

Cash flows generated by Leigh Creek Magnesite Pty Ltd and CH Magnesite Pty Ltd are shown below:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| | **$** | **$** |
| Operating activities | (462) | (771) |
| **Net cash used in discontinued operations** | **(462)** | **(771)** |

## NOTE 10 – CASH FLOW INFORMATION

| **a) Reconciliation of cash flows from operations with Loss after Income Tax** | **31 December 2018** | **31 December 2017** |
|---|---|---|
| | **$** | **$** |
| Loss after income tax | (1,037,552) | (757,658) |
| | | |
| Depreciation (net of capitalised depreciation) | 14,123 | 9,635 |
| Amortisation of intangibles | 52,403 | - |
| Share based payment - to employees | 86,087 | 43,908 |
| Exploration expenditure expensed | 72 | 909 |
| Impairment of exploration assets | 19,162 | 123,689 |
| Changes in assets and liabilities: | | |
| - Decrease in trade and other receivables | 63,123 | 155,248 |
| - Decrease in trade and other payables | (108,411) | (3,155) |
| - Decrease in employee entitlements | (59,914) | (13,886) |
| **Net cash used in operating activities** | **(970,907)** | **(441,310)** |

**NOTE 11 – EVENTS SUBSEQUENT TO REPORTING DATE**

- On 4 January 2019, the Company issued 107,054 new shares as a result of the exercise of unlisted SPP Options. SPP Options have an exercise price of $0.075 each and expire on 28 February 2019.
- 5,000,000 unlisted options with an exercise price of 15 cents, expired on 31 January 2019.
- On 8 February 2019, the Company announced that the condition precedent to settlement under the contract for the sale of the Sugarloaf farm land had been satisfied, with the buyer notifying Archer that they have obtained finance for the purchase. Settlement is scheduled to take place on 1 July 2019.

**NOTE 12 – GOING CONCERN**

The half-year financial report has been prepared on the basis of going concern. The cashflow projections of the Group indicate that it will require additional capital for continued operations. The Group incurred a net loss for the period of $1,037,307 (2017: loss of $757,658) and operations were funded by a cash outlay of $1,201,128 from operating and investing activities (2017: cash outlay of $1,197,453).

The Group's ability to continue as a going concern is contingent on obtaining additional capital. If additional capital is not obtained, then going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the half-year financial report. No allowance for such circumstances has been made in the half-year financial report.

# Directors' Declaration

The Directors of the Company declare that:

1. The Financial Statements and Notes, as set out on pages 8 to 22 are in accordance with the *Corporations Act 2001*, including:

   a) complying with Accounting Standard AASB 134 Interim Financial Reporting, and

   b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date.

2. In the Director's opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

**Greg English**
**Executive Chairman**

**Adelaide**
Dated this 20th day of February 2019

# Independent Auditor's Review Report

Grant Thornton

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## Independent Auditor's Review Report

### To the Members of Archer Exploration Limited

#### Report on the review of the half year financial report

**Conclusion**

We have reviewed the accompanying half year financial report of Archer Exploration Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Archer Exploration Limited does not give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

#### Material uncertainty related to going concern

We draw attention to Note 12 in the financial report, which indicates that the Group incurred a net loss of $1,037,307 during the half year ended 31 December 2018 and operations were funded by a cash outlay of $1,201,128 from operating and investing activities. As stated in Note 12, these events or conditions, along with other matters as set forth in Note 12, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

#### Directors' responsibility for the half year financial report

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

GrantThornton

**Auditor's responsibility**

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Archer Exploration Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

**Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Grant Thornton.

Grant Thornton Audit Pty Ltd
Chartered Accountants

B K Wundersitz
Partner – Audit & Assurance

Adelaide, 20 February 2019

# Corporate directory

**DIRECTORS**
Greg English – Executive Chairman
Alice McCleary – Non-Executive Director
Paul Rix – Non-Executive Director

**CHIEF EXECUTIVE OFFICER**
Mohammad Choucair

**COMPANY SECRETARY**
Damien Connor

**REGISTERED OFFICE**
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**BANKERS**
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**AUSTRALIAN SECURITIES EXCHANGE**
The Company is listed on the Australian Securities Exchange

**ASX CODE: AXE**