



Essential Queensland Pty Limited  
Sustainable Natural Plant Extracts

# ESSENTIAL QUEENSLAND PTY LTD

ABN 62 617 150 320

## ANNUAL FINANCIAL REPORT

30 JUNE 2020

# CORPORATE DIRECTORY

## Board of Directors

Ken Richards	Chairman
Ramon Mountfort	Managing Director
Grant Yeatman	Executive Director
Terence Gray	Non-Executive Director

## Company Secretary

Ramon Mountfort	Company Secretary
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## Principal Place of Business

345 Kevin Livingston Drive	PO Box 315
Isis Central, QLD, 4660	Childers, QLD, 4660
Telephone:	+61 7 4128 7150

## Registered Office

Level 1, 40 Maud Street  
Maroochydore, QLD, 4558

Email: [admin@essentialqld.com.au](mailto:admin@essentialqld.com.au)

Website: [www.essentialqld.com.au](http://www.essentialqld.com.au)

## Auditor

William Buck Audit (Vic) Pty Ltd	
Level 20, 181 William St	
Melbourne, Vic, 3000	
Telephone:	+61 3 9824 8555
Web:	<a href="http://www.williamsbuck.com.au">www.williamsbuck.com.au</a>

# DIRECTORS' REPORT

The Directors present their report together with the financial report of Essential Queensland Pty Limited, ("Essential Queensland" or the "Company") for the year ended 30 June 2020, and the auditor's report thereon.

## DIRECTORS

The names and details of the Company's Directors in office during the year and until the date of this report are set out below. Directors were in office for the entire year unless otherwise stated.

Director	Qualifications and Experience
<b>Ken Richards</b> Chairman	<p>Appointed 17 February 2020.</p> <p>Ken Richards has more than 30 years' experience as a Chief Executive and Managing Director across both public and private companies in the agriculture, finance and technology sectors.</p> <p>Throughout his executive career Ken has developed a strong track record for growing and transitioning start-up companies from concept phase through to commercialisation. Along the way he has completed corporate transactions including capital raisings, takeovers and asset sales well in excess of \$200m.</p> <p>Ken was previously the Managing Director of Leaf Resources Limited (ASX: LER) which he and the Leaf team have grown from a \$2M market capitalization to a \$7M Company and one with imminent commercial opportunities across multiple continents.</p> <p>Ken is a fellow of the Australian Institute of Company Directors, is a former board member of Golf Australia and was previously Deputy Chairman of Surf Life Saving (WA). He holds a Bachelor of Commerce and Master of Business Administration (MBA) degrees from the University of WA.</p>
<b>Ramon Mountfort</b> Managing Director	<p>Appointed 2 February 2017</p> <p>Ray is the co-founder of Essential Queensland and for the last 18 years has been primarily involved in the pine chemicals industry, working to establish his vision of sustainable natural based pine chemical production. Ray has an extensive worldwide network of customers, pine chemical producers and technical stakeholders in the pine chemicals industry.</p>
<b>Grant Yeatman</b> Executive Director	<p>Appointed 17 February 2020</p> <p>Grant is the co-founder of Essential Queensland, providing guidance on IP development, management and growth of the Company. He brings extensive processing, management, marketing, supply chain and logistics as well as Research &amp; Development experience from his background in the US oil industry.</p>
<b>Terence Gray</b> Non-Executive Director	<p>Appointed 18 March 2020</p> <p>Terence is a corporate consultant to Lodge Partners Pty Ltd offering investment management and corporate advisory services. He has over 20 years' financial markets experience including funds management and corporate finance.</p> <p>Terence has held roles as Head of Equities at ANZ Funds Management, Chief Investment Officer at Allianz Equity Management, Head of Research, Allianz Dresdner Asset Management and Director of Corporate Finance, Grange Securities.</p> <p>He has deep knowledge of funds management and the Australian equity market. His grounding as an institutional investor running large investment teams and as a corporate advisor to junior companies provides insight and expertise in company valuation, corporate fund raising and M&amp;A activity both during opportunity acquisition and disposal stages.</p>

## COMPANY SECRETARY

**Mr Ramon Mountfort appointed 2 February 2017**

Experience and qualifications included in table above.

# DIRECTORS' REPORT

## INTERESTS IN THE SHARES, OPTIONS AND PERFORMANCE RIGHTS OF THE COMPANY

As at the date of this report, the interests (directly or indirectly held) of the Directors in the shares, options and performance rights of Essential Queensland were as follows.

Director or Officer	Ordinary Shares	Options over Unissued Ordinary Shares	Performance Rights over Unissued Ordinary Shares
K. Richards	1,326,000	1,044,117	-
R. Mountfort	17,900,000	-	-
G. Yeatman	1,762,500	-	500,000
T. Gray	265,152	-	500,000

Share Options were issued to the Chairman during the 2020 financial year. Performance Rights were issued to certain Directors following the reporting period. Corporate strategy milestones will need to be achieved before the rights can vest.

## OPERATING AND FINANCIAL REVIEW

### Principal Activities

The principal activity of Essential Queensland during the year was the continued development of its new natural extractive process to treat pine logs producing high quality, clean gum rosin and terpenes.

### Result from Operations and Financial Position

Essential Queensland is a company limited by shares that is incorporated in Australia.

Since the Company's incorporation in February 2017, the Company's financial performance and result has been, and will continue to be, attributable to its ongoing development of its new natural extractive process.

The net loss after taxation attributable to the members of the Company for the year ended 30 June 2020 was \$905,469 (2019: \$1,148,169). The basic and diluted loss per share for the Company for the year was 3.49 cents per share (2019: loss of 5.67 cents per share).

As at 30 June 2020, the Company had cash and cash equivalents of \$1,390,260, debtors of \$657,124 including a Research and Development refund of \$637,216 which was received on 13 August 2020. The Company had net working capital surplus (current assets less current liabilities) of \$1,549,656 at 30 June 2020.

## REVIEW OF OPERATIONS AND PROJECT DEVELOPMENT ACTIVITIES

The highlights of the Company's operations during the year and to the date of this financial report are summarised as follows:

### Operations

During 2020 company operations comprised of:

- Completing yield optimization and validation trials
- Opening resinous log supply chain
- Opening post production wood sales
- Selecting plant equipment suppliers
- Finalizing new resins plant specifications and design
- Obtaining quotes and contracts to supply equipment

### Corporate

During the 2020 year the Company undertook the following corporate transactions.

- Completed a capital raising in November 2019 raising \$500,000 through the issue of 1,250,000 ordinary shares at \$0.40.
- Completed a capital raising in March 2020 raising \$1,012,152 through the issue of 1,533,562 ordinary shares at \$0.66 per share.

# DIRECTORS' REPORT

- Commenced a capital raising in June 2020 targeting to raise \$2,008,000, at 30 June 2020 \$828,000 had been raised through the issue of 1,254,545 ordinary shares at \$0.66 per share.
- Issued the following share options to the Chairman:
  - 294,117 unlisted options exercisable at \$1.00 and expiring 31 October 2021; and
  - 750,000 unlisted options exercisable at \$0.85 and expiring 1 March 2025.

Subsequent to the reporting period the Company entered into an agreement to merge with ASX Listed Leaf Resources Ltd.

## OPTIONS

At the date of this report, the unissued ordinary shares of the Company under options are as follows:

### Unlisted Options

Grant Date	Expiry Date	Exercise Price	Number of Options
17-Feb-2020	31-Oct-2021	\$1.00	294,117
17-Feb-2020	1-Mar-2025	\$0.85	750,000

### Performance Rights

Grant Date	Expiry Date	Exercise Price	Number of Options
1-Jul-2020	1-Jul-2023	Nil	1,000,000

During the period no options or performance rights were exercised into fully paid ordinary shares of the Company. Option and Performance Rights holders do not have any rights to participate in any share issue or other interests in the Company or any other entity.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

All significant changes in the state of affairs of the Company during the year are discussed in detail above.

## DIVIDENDS

The Directors of Essential Queensland have resolved not to recommend a dividend for the year ended 30 June 2020. No dividends were declared or paid during the year.

## SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Following the reporting period the Company undertook the following:

- Completed a capital raising of \$2,008,000 following 30 June 2020 1,787,879 ordinary shares were issued at \$0.66 per share raising \$1,180,000.
- Issued 1,000,000 performance rights to certain Directors. The performance rights have certain Corporate strategy milestones which will need to be achieved before the rights can vest and an expiry date of 1 July 2023.
- On 16 July 2020 the Company entered into a conditional share sale agreement to sell all of the issued capital of the Company to Australian Stock Exchange Listed Leaf Resources Ltd ("LER") (ASX:LER). In consideration of the sale the Company's shareholder will receive on a pro-rata basis 1,017,258,033 fully paid ordinary shares in LER at a deemed issue price of 0.02 per LER Share in consideration for the acquisition of all of fully paid ordinary shares on issue in the Company. Completion of the acquisition is subject to and conditional upon satisfaction of the following conditions precedent:
  - (i) LER and the Company entering into a loan agreement in respect of the advance of \$600,000 by the Company to LER (the terms of which are summarised below);
  - (ii) LER entering into service agreements with each of Messrs Ramon Mountfort and Grant Yeatman (or their nominees) on terms to be agreed;
  - (iii) each shareholder of the Company executing a binding share sale and purchase agreement with LER in relation to the sale of all of the shares in the Company held by them;

# DIRECTORS' REPORT

- (iv) LER and each of the relevant shareholders of the Company executing cancellation deeds in relation to the cancellation of the options and performance rights in the capital of the Company held by those shareholders in consideration for the issue of options and performance rights in the capital of LER;
- (v) The Company obtaining all third party approvals required in relation to change of control provisions;
- (vi) LER obtaining, all shareholder, regulatory and third party approvals and consents necessary to allow it to complete the acquisition (including, for the issue of the consideration securities and adoption of an employee incentive scheme pursuant to the ASX Listing Rules and Corporations Act);
- (vii) if required, LER satisfying the requirements of ASX Listing Rule 11.1.3 and receiving a letter from ASX confirming that ASX will grant conditional quotation of the LER Shares to trading on the official list of ASX, on terms acceptable to LER;
- (viii) The Company having net debt of less than \$1,500,000;
- (ix) LER converting all outstanding amounts owing to directors and officers of the Purchaser as at 30 June 2020 to LER Shares at a deemed issue price of \$0.02 per LER Share;
- (x) LER having net debt of less than \$1,100,000; and
- (xi) such other conditions as are considered customary for an agreement of this nature.

The material terms and conditions of the loan agreement are:

**Loan:** subject to satisfaction of the Condition (defined below), \$600,000 is to be advanced by the Company to LER for the repayment of existing debt and general working capital.

**Condition:** The advance of the Loan is conditional on execution of binding documentation by LER and the Company in respect of the Acquisition (the Condition).

**Interest:** Interest will accrue a rate of 10% per annum and is repayable in cash on the Maturity Date (defined below).

**Term:** 12 months from the date of advance of the Loan (Maturity Date).

**Repayment:** The Loan and all accrued but unpaid Interest is repayable on the Maturity Date. LER may elect to make early repayment of the Loan and accrued but unpaid Interest in full and without penalty at any time.

**Security:** The Loan is secured over all of LER's present and after-acquired property (it includes anything in respect of which LER has at any time a sufficient right, interest or power to grant a security).

**Negative pledge:** LER covenants that it will not, without the prior consent of the Company:

- (i) deal with, sell or otherwise dispose of or part with possession of;
- (ii) create, permit, suffer to exist, or agree to, any interest or encumbrance (other than an encumbrance in favour of EQ) over;
- (iii) incur any further debt; or
- (iv) attempt to do anything set out in paragraphs (i) to (iii), in respect of any of its assets except, in the case of (i) and (ii), in the ordinary course of its business or as otherwise agreed.

The Loan contains such other terms as are considered standard for an agreement of its nature.

Other than the events noted above, there are no other matters or circumstances that have arisen since the end of the year 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 future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Likely future developments in the operations of the Company are the continued development of the Company's new natural extractive process including the construction and commissioning of its 100 tonne per day pine log processing and pine chemical extraction plant at Isis Central in Queensland.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The Company is subject to significant environmental regulation in respect to its activities.

The Company aims to ensure the appropriate standard of environmental care is achieved, and in doing so, that it is aware of and complies with all environmental legislation. The Directors of the Company are not aware of any breach of environmental legislation for the period under review.

## INDEMNIFICATION OF AUDITORS

The Company has not given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums in respect of any person who is or has been an auditor of the Company or a related entity during the year and up to the date of this report.

# DIRECTORS' REPORT

## NON-AUDIT SERVICES

The auditors did not provide any non-audit services during the year (2019: Nil).

## PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

## AUDITOR'S INDEPENDENCE DECLARATION

We have obtained the attached independence declaration from our auditors, William Buck, which forms part of this report.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read 'R. Mountfort', with a long, sweeping flourish extending upwards and to the right.

Ramon Mountfort  
Director

16 November 2020  
Brisbane

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C  
OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF  
ESSENTIAL QUEENSLAND PTY LTD**

I declare that, to the best of my knowledge and belief during the year ended 30 June 2020 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

**William Buck Audit (Vic) Pty Ltd**  
ABN 59 116 151 136



**N. S. Benbow**  
Director

Dated this 16th day of November, 2020

**ACCOUNTANTS & ADVISORS**

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Melbourne VIC 3000

Telephone: +61 3 9824 8555

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# **CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME** FOR THE YEAR ENDED 30 JUNE 2020

		<b>Consolidated</b>	
		<b>30 Jun</b>	<b>30 Jun</b>
		<b>2020</b>	<b>2019</b>
		<b>A\$</b>	<b>A\$</b>
	Note		
Revenue		17,741	52,330
Interest income		1,964	2,209
Government COVID-19 assistance		62,207	-
Research & Development credits		637,216	712,249
Other income		15,530	14,882
Operating expenses		(301,111)	(336,507)
Employee & Consultant expenses	3	(835,390)	(1,247,561)
Administrative expenses		(143,579)	(45,886)
Depreciation		(166,722)	(172,017)
Loss on disposal of assets		(21,146)	(2,849)
Finance expenses		(119,793)	(124,401)
Foreign currency loss		(52,386)	(618)
<b>Loss before income tax</b>		<b>(905,469)</b>	<b>(1,148,169)</b>
Income tax benefit		-	-
<b>Loss after income tax</b>		<b>(905,469)</b>	<b>(1,148,169)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the year attributable to equity holders of the Company</b>		<b>(905,469)</b>	<b>(1,148,169)</b>
Loss per share attributable to the ordinary equity holders of the Company:			
Basic and diluted loss per share (cents per share)	13	(3.49)	(5.67)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying Notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2020

		30 Jun 2020 A\$	30 Jun 2019 A\$
	Note		
<b>Current Assets</b>			
Cash and cash equivalents		1,390,260	21,017
Receivables	4	657,124	733,508
Inventories		57,617	38,785
Other current assets	5	8,466	8,598
<b>Total Current Assets</b>		<b>2,113,467</b>	<b>801,908</b>
<b>Non-Current Assets</b>			
Plant and equipment	6	2,498,086	2,288,280
Other non-current assets	5	117,069	117,328
<b>Total Non-Current Assets</b>		<b>2,615,155</b>	<b>2,405,608</b>
<b>Total Assets</b>		<b>4,728,622</b>	<b>3,207,516</b>
<b>Current Liabilities</b>			
Trade and other payables	7	116,635	149,180
Leases	8	176,051	251,969
Borrowings	9	233,282	15,691
Provisions		37,843	27,275
<b>Total Current Liabilities</b>		<b>563,811</b>	<b>444,115</b>
<b>Non-Current Liabilities</b>			
Leases	8	1,473,989	1,650,191
<b>Total Non-Current Liabilities</b>		<b>1,473,989</b>	<b>1,650,191</b>
<b>Total Liabilities</b>		<b>2,037,800</b>	<b>2,094,306</b>
<b>Net Assets</b>		<b>2,690,822</b>	<b>1,113,210</b>
<b>Equity</b>			
Contributed equity	10	4,903,322	2,487,851
Reserves		67,610	-
Accumulated losses		(2,280,110)	(1,374,641)
<b>Total Equity</b>		<b>2,690,822</b>	<b>1,113,210</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying Notes.

# **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** **FOR THE YEAR ENDED 30 JUNE 2020**

	Contributed Equity	Preference Equity	Accumulated Losses	Share Based Payments Reserve	Total Equity
	A\$	A\$	A\$	A\$	A\$
	(Note 10)	(Note 10)			
<b>At 1 July 2018</b>	393,217	250,004	(226,472)	-	416,749
Loss for the period	-	-	(1,148,169)	-	(1,148,169)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(1,148,169)	-	(1,148,169)
Equity Transactions					
Issue of shares	1,844,630	-	-	-	1,844,630
Conversion of Preference Shares	250,004	(250,004)	-	-	-
<b>At 30 June 2019</b>	<b>2,487,851</b>	<b>-</b>	<b>(1,374,641)</b>	<b>-</b>	<b>1,113,210</b>
<b>At 1 July 2019</b>	<b>2,487,851</b>	<b>-</b>	<b>(1,374,641)</b>	<b>-</b>	<b>1,113,210</b>
Loss for the period	-	-	(905,469)	-	(905,469)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	(905,469)	-	(905,469)
Equity Transactions					
Issue of shares	2,465,151	-	-	-	2,465,151
Share issue costs	(49,680)	-	-	-	(49,680)
Issue of options	-	-	-	67,610	67,610
<b>At 30 June 2020</b>	<b>4,903,322</b>	<b>-</b>	<b>(2,280,110)</b>	<b>67,610</b>	<b>2,690,822</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying Notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2020

		Consolidated	
		30 Jun	30 Jun
		2020	2019
Note		A\$	A\$
<b>Cash flows from operating activities</b>			
	Receipts from customers	28,837	32,909
	Other income	96,869	49,724
	Payments to suppliers and employees	(1,198,840)	(1,067,587)
	Receipt of research & development credits	712,249	220,199
	Interest received	1,964	2,209
	Interest paid	(117,265)	(122,267)
	<b>Net cash flows used in operating activities</b>	<b>(476,186)</b>	<b>(884,813)</b>
<b>Cash flows from investing activities</b>			
	Payments for plant and equipment	(452,757)	(53,379)
	Proceeds from disposal of plant and equipment	54,545	-
	<b>Net cash flows from investing activities</b>	<b>(398,212)</b>	<b>(53,379)</b>
<b>Cash flows from financing activities</b>			
	Proceeds from issue of shares	2,340,151	793,240
	Payment of principal portion of lease costs	(261,541)	(231,919)
	Proceeds from loan	217,417	368,398
	<b>Net cash flows from financing activities</b>	<b>2,296,027</b>	<b>929,719</b>
	Net decrease in cash and cash equivalents	1,421,630	(8,473)
	Net foreign exchange difference	(52,386)	(618)
	Cash and cash equivalents at beginning of the period	21,017	30,108
	<b>Cash and cash equivalents at end of the period</b>	<b>1,390,260</b>	<b>21,017</b>

The above consolidated statement of cash flows should be read in conjunction with the accompanying Notes.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### 1. CORPORATE INFORMATION

The financial report of Essential Queensland Pty Limited ("Essential Queensland" or the "Company") for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 16 November 2020.

Essential Queensland is a Company limited by shares incorporated and domiciled in Australia.

The nature of the operations and principal activities of Essential Queensland is the development of a new natural extractive process to treat pine logs producing high quality, clean gum rosin and terpenes.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below.

The financial report is presented in Australian dollars.

#### Compliance Statement

These financial statements are general purposes financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Company. For the purposes of preparing the consolidated financial statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Company comply with International Financial Reporting Standards ("IFRS").

#### New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

- (i) Amendments to accounting standards that are mandatorily effective for the current year

The Group has adopted the following new and amended Australian Accounting Standards and Interpretations as of 1 July 2019:

- AASB Interpretation 23 AASB2017-4s Uncertainty Over Income Tax Treatments; and
- IFRS Standards 2015-2017 Annual Improvements to IFRS Standards 2015-2017 Cycle.

The impact of the adoption of these standards and the new accounting policies did not have any impact on the group's accounting policies and did not require retrospective adjustments.

- (ii) Australian Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the year ended 30 June 2020. These are outlined the following table.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

Reference	Title	Summary of change	Application date of standard	Application date for Group
AASB 2014-10 AASB 2015-10 AASB 2017-5	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>Amendments to IFRS and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.</p> <p>The amendments to IFRS 10 and IAS 28 deal with situations where there is a sales or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state the gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity model, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interested in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.</p> <p>The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.</p>	1 January 2022	1 January 2022

### Significant accounting judgments, estimates and assumptions

The following are the critical judgements estimates and assumptions that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### (a) Provisions for decommissioning and restoration costs

Decommissioning and restoration costs are a normal consequence of operations and the majority of this expenditure is incurred at the end of a plants operational life or leasing arrangements. In determining an appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the plant and site lease), and the estimated future level of inflation.

The ultimate cost of decommissioning and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other sites. The expected timing of expenditure can also change, for example in response to changes in lease arrangement and ownership of the site.

As at 30 June 2020 management have considered the current potential restoration costs based on activities to date on the lease site at Isis Central, Queensland. Based on this assessment the Company has not booked a provision at 30 June 2020 as certain activities have been considered improvements to the site or restoration costs are immaterial.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### (b) Going Concern

For the year ended 30 June 2020, the Company generated a consolidated loss of \$905,469 and incurred operating cash outflows of \$476,186. As at 30 June 2020 the Company had cash and cash equivalents of \$1,390,260, net current assets of \$1,549,656, net assets of \$2,690,822 and capital commitments \$724,163.

The ability of the Group to continue as a going concern is dependent upon the Group being able to manage its liquidity requirements by taking some or all of the following actions:

1. Raising additional capital or securing other forms of financing, as and when necessary to meet the levels of expenditure required for the Group to continue to develop its extractive processes and to meet the Group's working capital requirements; and
2. Reducing its working capital expenditure.

These conditions give rise to a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern.

Notwithstanding the above, the Directors consider it appropriate to prepare the financial statements on a going concern basis after having regard to the following matters:

1. The Company has a strong record of raising satisfactory capital to continue operations and has recently completed a capital raising for \$2,008,000;
2. The Company has recently entered into a merger with ASX Listed Leaf Resources Ltd which may provide access to further capital markets.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amount and classification of liabilities that might be required should the Company not be able to achieve the matters set out above and thus be able to continue as a going concern.

### (c) Lease accounting

On 1 October 2017, the Company signed a lease agreement with a third party securing its production site at Isis Central, Queensland. In accounting for the lease arrangement, management decided to early adopt AASB 16 leases. In so doing, the following assumptions were made in calculating the value of the right-of-use asset and lease liability at the inception of the lease:

Assumption	Vale
Monthly lease payment amount	\$8,333 adjusted by annual CPI
Lease term and useful life of asset, excluding the exercise of an option to extend the lease by a further 10 years at the discretion of the Company	20 years
Total nominal value of lease payments over lease term	\$2,358,461
Discount rate applied, using the incremental borrowing rate (similar to hire purchase rates embedded into other borrowing arrangements of the Company)	7%
Present value of lease liability at lease inception	\$1,226,744

The option to extend has not been included in the calculation due to uncertainty as to whether or not the lease option will be economic to extend as at the maturity of the initial lease term, which at this stage the Directors have assessed as possible but not probable.

### (d) Non-recognition of deferred tax assets

As at 30 June 2020, the Company had \$2,280,110 in accumulated losses, which represent potential tax assets available for use in future years in-respect of carry-forward tax losses and deductible timing differences (net of deductible benefits consumed through research and development credits). The Directors have decided to not recognize on the statement of financial position these potential tax assets due to the uncertainties relating to earning assessable income in the future that may utilize those assets, and in the case of the carry-forward losses,

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

whether or not those losses meet statutory tax rules so that they may be applied against future assessable income, including the continuity of ownership and (if relevant) the same business tests.

(e) Recognition of fixed equity conversion rights upon initial recognition of borrowings

When borrowings include fixed equity conversion rights, the accounting standards require the Directors to assess the fair value of borrowings at their initial recognition, with any difference between the fair value of those borrowings and consideration received for those borrowings taken to equity. In assessing the fair value of these borrowings, the Directors have determined that the best and most appropriate fair value of those borrowings at their initial recognition was the consideration received for them, and therefore no residual value was taken to equity. In making this assessment, the Directors considered the lack of any strong market evidence for any like-for-like unsecured debt of similar enterprises which excluded any fixed equity conversion right.

### Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise of cash at bank and in hand and short term deposits with an original maturity 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.

For the purposes of the statement of cash flows, cash includes cash at bank and in hand as defined above, net of outstanding bank overdrafts.

### Trade and other receivables

Trade and other receivables, which generally have 30 to 90 day terms, are recognised initially at fair value, which is generally the original invoice amount, and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

The group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

### Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after reporting date, which are classified as non-current.

### Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. The cost of each item of plant and equipment is written off over its expected economic life, adjusted for any salvage value if applicable. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

Major depreciation methods and periods are:

	Method of depreciation	Jun 2020	Jun 2019
Plant and equipment	Straight Line	3-15 years	3-15 years
Motor vehicles	Diminishing Value	5-7 years	5-10 years
Site – right of use	Straight Line	20 years	20 years

### Impairment

Plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

### Provision for restoration, rehabilitation and environmental expenditure

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. Furthermore, gains from the expected disposal of assets are not taken into account in measuring a provision.

Any adjustments to the provision as a result of the unwinding of the discount are recognised as an interest expense and not as a movement in the restoration provision expense.

Changes to the estimated liability, including changes as a result of changes to discount rates are added to or subtracted from the cost of the asset in the current period. The carrying value of the asset may not, however, be reduced below zero. Any excess is therefore taken to profit and loss.

### Trade and other payables

Trade payables and other payables are carried at amortised cost and due to their short-term nature are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the period that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

### Interest-bearing liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Gains and losses are recognised in profit and loss when the liabilities are derecognised.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit and loss net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. The increase in the provisions resulting from the passage of time is recognised as a finance cost.

### Employee entitlements

Provision is made for employee entitlements accumulated as a result of employees rendering services up to the reporting date. These entitlements include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits due to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on corporate bonds, which have terms to maturity approximating the terms of the related liabilities, are used.

### Contributed equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction net of tax of the share proceeds received.

### Share-based payments

The Company makes equity-settled share based payments to directors, employees and other parties for services provided. Where applicable, the fair value of the equity is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market price. The fair value of options is ascertained using a black scholes option pricing model which incorporates all market conditions. Where applicable, the number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

### Revenue recognition

#### Interest revenue

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### Revenue from contracts with customers

Revenue is recognised when the Company transfers control of goods to a customer at the amount to which the Company expects to be entitled.

#### Revenue from Research & Development credits

Revenue is recognised on an accrual basis when it can be reliably measured and when the receipt of credits is highly probable.

### Leases

The Group leases operational sites, motor vehicles and plant and equipment. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Assets and liabilities arising from a lease are initially measured on a present value basis.

#### Lease Liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases that relate to building premises, the entity's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, making adjustments specific to the lease (e.g. term, country, currency and security).

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### Right-of-use Assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension options are only included in the lease term if the lease is reasonably certain to be extended.

### Taxes

#### (i) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except when the deferred income tax liability arises from the initial recognition of goodwill or of 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 profit nor taxable profit or loss; and

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and tax losses can be utilised, except:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable loss; or

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### (ii) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

## Earnings per share

### (i) Basic Earnings per Share

Basic earnings per share is determined by dividing the profit / (loss) from ordinary activities after related income tax expense by the weighted average number of ordinary shares outstanding during the period, adjusted for any bonus element.

### (ii) Diluted Earnings per Share

Diluted earnings per share is calculated as net profit / (loss) attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### 3. EMPLOYEE AND CONSULTANT EXPENSES

#### EXPENSES

Share based payment expense

Defined contribution superannuation expense

Consolidated	
30 Jun 2020 A\$	30 Jun 2019 A\$

192,610	450,000
43,336	45,830

### 4. RECEIVABLES

#### Current

Trade receivables (a)

Research & Development refund

GST receivables

2,096	15,241
637,216	712,249
17,812	6,018
657,124	733,508

#### (a) Credit risk

The carrying value of the receivables approximates their fair value. The maximum exposure of credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables. No collateral is held as security.

As at year end, there were no material receivable balances that were past due and not impaired. All receivables as at 30 June 2020 were due within 60 days (2019: 60 days).

### 5. OTHER ASSETS

#### Current

Prepayments

Other current assets

Consolidated	
30 Jun 2020 A\$	30 Jun 2019 A\$

8,333	8,333
133	265
8,466	8,598

#### Non-current

Security deposits

Other non-current assets

116,667	116,667
402	661
117,069	117,328

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

Plant & Equipment	Motor Vehicles	Site Lease – Right of use	Total
A\$	A\$	A\$	A\$

### 6. FIXED ASSETS

#### 2019

- at cost	1,213,742	72,232	1,226,744	2,512,718
- accumulated depreciation	(99,168)	(17,930)	(107,340)	(224,438)
<b>Closing Balance as at 30-Jun-19</b>	<b>1,114,574</b>	<b>54,302</b>	<b>1,119,404</b>	<b>2,288,280</b>

#### 2020

- at cost	1,585,808	77,232	1,226,744	2,889,784
- accumulated depreciation	(191,739)	(31,282)	(168,677)	(391,698)
<b>Closing Balance as at 30-Jun-20</b>	<b>1,394,069</b>	<b>45,950</b>	<b>1,058,067</b>	<b>2,498,086</b>

Reconciliation of the carrying amounts of fixed assets at the beginning and end of the current and previous reporting periods

Plant & Equipment	Motor Vehicles	Site Lease – Right of use	Total
A\$	A\$	A\$	A\$

<b>Opening Balance 1-Jul-18</b>	331,683	74,432	1,180,741	1,586,856
- additions	875,843	-	-	875,843
- disposals	-	(2,402)	-	(2,402)
- depreciation	(92,952)	(17,728)	(61,337)	(172,017)
<b>Closing Balance as at 30-Jun-19</b>	<b>1,114,574</b>	<b>54,302</b>	<b>1,119,404</b>	<b>2,288,280</b>

<b>Opening Balance 1-Jul-19</b>	1,114,574	54,302	1,119,404	2,288,280
- additions	447,219	5,000	-	452,219
- disposals	(75,691)	-	-	(75,691)
- depreciation	(92,033)	(13,352)	(61,337)	(166,722)
<b>Closing Balance as at 30-Jun-20</b>	<b>1,394,069</b>	<b>45,950</b>	<b>1,058,067</b>	<b>2,498,086</b>

Consolidated	
30 Jun 2020 A\$	30 Jun 2019 A\$

### 7. TRADE AND OTHER PAYABLES

Trade and other payables	190	134,180
Accruals	116,445	15,000
	<b>116,635</b>	<b>149,180</b>

Trade and other payables are non-interest bearing and generally settled on 30 day terms. Due to their short-term nature, their carrying amount is assumed to approximate their fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### 8. LEASE LIABILITIES

The Company acts as a lessee and has lease contracts on operational sites, motor vehicles and plant and equipment used in its operations: Lease terms consist of:

- Operational Site 17 years
- Motor Vehicles 3 years
- Plant & Equipment 1-4 years

The operational site lease includes an option in favour of the Company for an additional 10 years. The lease liabilities included below have been based on the fixed lease period and do not include the potential option period.

The Company's obligations under its leases are secured by the lessor's title to the leased assets. Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<b>Consolidated</b>	
	<b>30 Jun 2020 A\$</b>	<b>30 Jun 2019 A\$</b>
At the beginning of the period	1,902,160	1,332,266
Addition	-	812,165
Interest expense	117,265	122,267
Payments	(369,385)	(364,538)
Closing Balance	1,650,040	1,902,160
Current	176,051	251,969
Non-Current	1,473,989	1,650,191
Closing Balance	1,650,040	1,902,160

### 9. BORROWINGS

Research & Development Loan	217,417	-
Other loans	15,865	15,691
	233,282	15,691

On 10 June 2020, the Company executed a loan agreement with Innovation Structured Finance Co.,LLC. The key terms of the loan agreement are:

- Loan amount: \$217,417
- Loan Term: the earlier of receipt by the Company of the Research and Development refund or 30 September 2020.
- Interest Rate: 15% per annum
- Security: security interest over all of the present and future right, title and interest in the Research & Development Refund which the Company becomes entitled to receive and the proceeds of the Refund, and other of the Company assets necessary to enable the lender to obtain the benefit of the refund, free of any other interest or encumbrance.
- No equity conversion rights
- Repayable by the Company at any time (during the loan term)

Subsequent to the financial reporting period the Company repaid the Research and Development loan in full.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Interest Rate, Foreign Exchange and Liquidity Risk

The Company does not have any exposure to variable interest rate risk on its borrowings as all interest rates have been fixed.

### Carrying Value

Borrowings are held at amortised cost.

Consolidated	
30 Jun 2020 A\$	30 Jun 2019 A\$

## 10. CONTRIBUTED EQUITY

### Issued and paid up ordinary shares

4,903,322	2,487,851
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Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

	2020		2019	
	No. of Shares	A\$	No. of Shares	A\$
Opening Balance	24,687,500	2,487,851	18,841,539	393,217
Issue of shares	4,038,122	2,340,151	3,720,947	1,394,631
Conversion of Preference Shares	-	-	1,000,014	250,003
Share based payments	312,500	125,000	1,125,000	450,000
Closing Balance	29,038,122	4,953,002	24,687,500	2,487,851
Share issue costs		(49,680)		-
Net Issued Capital		4,903,322		2,487,851

### Preference Shares

During the 2018 Financial Period the Company issued 87,368 preference shares for consideration of \$250,003 to a seed investor in the Company. During the 2019 Financial Period the preference shareholder agreed to waive the anti-dilution rights as at 30 June 2019 in exchange for a conversion of the preference shares to ordinary shares based on the amount invested and a \$0.25 per ordinary share issue price. This resulted in the conversion of 87,368 preference shares to 1,000,014 fully paid ordinary shares of the Company. The terms of the preference shares are materially consistent with ordinary shares except in the instance of a return of paid up capital, whether due to a reduction of capital or winding up of the Company, the preference shares would rank in priority to all other shares in the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Options

During the 2020 Financial Year the company issued the following options.

	Weighted average exercise price	30 June 2020 Number of Options	Weighted average exercise price	30 June 2019 Number of Options
	A\$		A\$	
<b>Unlisted Share Options</b>	\$0.8923	1,044,117		
<b>Balance at the beginning of the reporting period</b>	-	-	-	-
Options issued during the period	\$0.8923	1,044,117	-	-
Options exercised during the period	-	-	-	-
Options expired during the period	-	-	-	-
<b>Balance at the end of the reporting period</b>	<b>\$0.8923</b>	<b>1,044,117</b>	-	-

The weighted average remaining contractual life of the options was 4.1 years. Details of the options issued during the year are:

Number of Options	294,117	750,000
Fair Value Per Option	\$0.01852	\$0.08289
Grant Date	17 February 2020	17 February 2020
Expiry Date	31 October 2021	1 March 2025
Vesting Date	Upon grant	Upon grant
Exercise Price	\$1.00	\$0.85
Shares Price at Grant	\$0.40	\$0.40
Expected Volatility	60%	60%
Risk-free Interest Rate	0.4%	0.4%
Marketability Discount	35%	35%

### 11. KEY MANAGEMENT PERSONNEL COMPENSATION

Short-term employee benefits  
Long-term employee benefits  
Post-employment benefits  
Share based payments  
Termination benefits

Consolidated	
30 Jun 2020 A\$	30 Jun 2019 A\$
224,317	104,904
-	-
17,254	9,035
192,610	-
-	-
434,181	113,939

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### 12. EARNINGS / (LOSS) PER SHARE

The following reflects the profit or loss and share data used in the calculation of basic and diluted earnings / (loss) per share

Profit / (loss) used in calculating basic and diluted earnings / (loss) per share

Loss attributable to ordinary equity holders of the parent

Consolidated	
30 Jun 2020 A\$	30 Jun 2019 A\$

(905,469)	(1,148,169)
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Weighted average number of ordinary shares used in calculating basic loss per share

Share options considered dilutive (i)

Weighted average number of ordinary shares used in calculating the diluted loss per share

Number of Shares	
25,981,655	20,253,127
-	-
25,981,655	20,253,127

- (i) At 30 June 2020, 1,044,117 share options (2019: nil) were not considered dilutive as the conversion of the options to ordinary shares will result in a decrease in the net loss per share.

Consolidated	
30 Jun 2020 A\$	30 Jun 2019 A\$

### 13. COMMITMENTS & CONTINGENCIES

#### Commitments

The following capital commitments were contracted for at the reporting date but not recognised as liabilities.

Within 1 year

Later than 1 year and not later than 5 years

Later than 5 years

724,163	-
-	-
-	-
724,163	-

#### Contingent Liabilities

The company has entered into a wood supply agreement with HQ plantations. Under the terms of the agreement the Company has the following contingent liabilities at 30 June 2020:

##### Bank Guarantee:

The Company has provided a bank guarantee in the amount of \$100,000 in favour of HQ plantations as a cover of account for the payment of invoices under the supply agreement.

##### Take or Pay Provisions:

There are certain take or pay provisions under the wood supply agreement. The Company has a strong working relationship with HQ and is currently in discussions to amend the existing supply agreement to significantly increase the supply arrangement in order to meet the feedstock requirements of the 100 tonnes per day extraction plant currently under construction. To date the Company has not received any invoices or letters of demand in

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

relation to historical shortfalls under the take or pay arrangements. If HQ were to issue invoices under the take or pay arrangements the Company could potentially be liable for up to \$791,000 under the contract, however if that were to occur the Company could take receipt of the wood supply and utilise that wood in future operations.

	Consolidated	
	30 Jun 2020 A\$	30 Jun 2019 A\$
<b>14. CASH FLOW INFORMATION</b>		
<b>(a) Reconciliation of operating loss after tax to net cash flows from operations</b>		
Loss from ordinary activities	(905,469)	(1,148,169)
Adjusted for:		
Depreciation and amortisation	166,722	172,017
Unrealised loss on foreign exchange	52,386	618
(Profit) / loss on disposal of plant and equipment	21,146	-
Share-based payments	192,610	450,000
Changes in assets and liabilities:		
(Increase) / decrease in receivables	76,237	(472,569)
(Increase) / decrease in inventories	(18,831)	(38,785)
Increase / (decrease) in payables	(71,554)	131,427
Increase / (decrease) in employee provisions	10,567	20,648
Net cash flows used in operations	(476,186)	(884,813)

### (b) Non-cash financing and investing activities

#### Finance leases

During the 2019 Financial Period the Company entered into finance lease arrangements totalling \$812,165 for the acquisition of plant and equipment.

#### Conversion of Borrowings

During the 2019 Financial Period the Company converted the following:

- 87,368 preference shares for initial consideration of \$250,003 were converted to 1,000,014 ordinary shares based on the amount invested converted at \$0.25.
- A loan of \$63,891 with an initial seed investor converted at \$0.25 per share into 255,566 ordinary shares.
- A loan of \$537,500 with initial seed investors converted at \$0.40 per share into 1,343,750 ordinary shares.

#### Shares Based Payments

During the 2020 Financial period the Company provided share-based payments through the issue of 312,500 ordinary shares at an issue price of \$0.40 with a total value of \$125,000 to Mr Grant Yeatman who is considered a related party of the Company. During the 2019 Financial period the Company provided share-based payments to employees and contractors through the issue of 1,125,000 ordinary shares at an issue price of \$0.40 with a total value of \$450,000.

In addition, a total of 1,044,017 shares options with an accounting value of \$67,610 were issued to Mr Ken Richards who is considered a related party of the Company during the period (2019: Nil), see Note 10 for further details.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### 15. FINANCIAL RISK MANAGEMENT

The Company's principal financial instruments comprise of lease liabilities, borrowings, receivables, payables, and cash and short-term deposits.

Primary responsibility for the identification and control of financial risks rests with Board. The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessment of market forecast for interest rate and foreign exchange. The Company manages credit risk by only dealing with recognised, creditworthy, third parties and liquidity risk is monitored through the development of future rolling cash flow forecasts.

#### Interest rate risk

The Company's current exposure to the risk of changes in market interest rates relate primarily to cash assets rates and is managed by the Board.

The Company constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

Consolidated	
30 Jun 2020 A\$	30 Jun 2019 A\$

At reporting date the Company had the following exposure to variable interest rate risk

#### Financial assets

Cash at bank	1,390,260	21,017
Security Deposits (bank guarantees)	100,000	100,000
	1,490,260	121,017

The following table summarises the impact of reasonably possible changes in interest rates for the Company at 30 June 2020. The sensitivity is based on the assumption that interest rate changes by 25 basis points (2019: 25 basis points) with all other variables held constant. The 25 basis points sensitivity is based on reasonably possible changes over the reporting period.

#### Impact on post tax profit and equity

Higher / (lower)		
25 bp increase (2019: 25 bp)	3,725	302
25 bp decrease (2019: 25 bp)	(3,725)	(302)

#### Foreign currency risk

The Company has foreign currency risk exposure on cash reserves and has transactional exposures arising from the payment of foreign currency invoices. The Company is exposed to movements in US dollar currency on cash reserves.

At the reporting date the Company had the following exposure to foreign currencies.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

	Consolidated	
	30 Jun 2020 A\$	30 Jun 2019 A\$
<b>Financial Assets</b>		
Cash and cash equivalents		
- USD	541,166	157

The following table summarises the impact of reasonably possible changes in foreign currency exchange rates for the Company at 30 June 2020 on recognised financial assets at the reporting date. The sensitivity is based on the assumption that the exchange rates change by increasing 10% or decreasing 10% with all other variables held constant. These 10% sensitivities are based on reasonably possible changes over the reporting period, using the observed range of actual historical rates for the preceding three year period. The analysis is performed on the same basis for the comparative period.

### Impact on post tax profit and equity

Higher / (lower)		
AUD/USD +10% (2019: +10%)	(49,197)	(14)
AUD/USD -10% (2019: -10%)	60,130	17

The Group does not have a formal policy to mitigate foreign currency risks.

### Credit risk

Credit risk arises in the event that a counterparty will not meet its obligations under a financial instrument leading to financial losses. The Group is exposed to credit risk from its operating activities and financing activities including deposits with banks.

The credit risk control procedure adopted by the Group is to assess the credit quality of the institution with which funds are deposited or invested, taking into account its financial position and past experiences. The limits are assigned to minimise concentration of risks and mitigate financial loss through potential counterparty failure. The compliance with credit limits is regularly monitored as part of day-to-day operations. Any credit concerns are highlighted to the Board.

### Credit Quality of Financial Assets

	S&P Credit Rating		
	AAA \$'000	A1+ \$'000	Unrated \$'000
<b>30 June 2020</b>			
Cash & cash equivalents	-	1,390,260	-
Receivables	-	-	657,124
Number of counterparties	-	1	3
Largest counterparty (%)	100%	100%	97%
<b>30 June 2019</b>			
Cash & cash equivalents	-	21,017	-
Receivables	-	-	733,508
Number of counterparties	-	1	3
Largest counterparty (%)	100%	100%	97%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### Liquidity risk

The responsibility for liquidity risk management rests with the Board of Directors.

The Company manages liquidity risk by maintaining sufficient cash or credit facilities to meet the operating requirements of the business and investing excess funds in highly liquid short term investments. The Company's liquidity needs can be met through a variety of sources, including: cash generated from operations, short and long term borrowings and issue of equity instruments.

Alternatives for sourcing the Company's future capital needs include current cash position, future operating cash flow, debt financings and equity raisings. These alternatives are evaluated to determine the optimal mix of capital resources.

The following table details the Company's non-derivative financial instruments according to their contractual maturities. The amounts disclosed are based on contractual undiscounted cash flows. As a result, these balances may not agree with the amounts disclosed in the statement of financial position.

	Less than 6 months \$'000	6 months – 12 months \$'000	1-2 years \$'000	> 2 years \$'000
<b>Consolidated entity at 30 June 2020</b>				
Trade and other payables	187,435	-	-	-
Lease liabilities	133,310	124,766	257,259	1,867,913
Borrowings	233,282	-	-	-
	554,027	124,766	257,259	1,867,913
<b>Consolidated entity at 30 June 2019</b>				
Trade and other payables	149,180	-	-	-
Lease Liabilities	170,316	174,071	258,076	2,294,540
Borrowings	15,691	-	-	-
	335,187	174,071	258,076	2,294,540

### Capital risk management

When managing capital (being equity and long term debt) management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits to other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity reflecting the current business status of the entity.

Management constantly adjusts the capital structure to take advantage of favourable costs of capital or high return on assets. As the market is constantly changing, management may return capital to shareholders, issue new shares or sell assets to reduce debt. The Company does not currently have a dividend policy.

The Company monitors its capital through monthly Board reporting including management accounts and forecasts combined with appropriate external financial, corporate and legal advice when required. Due to the nature of the operations of the Group and its financial position, Management does not have a target debt/equity ratio. Management prefers to maintain a flexible financing structure.

The Company is not subject to any externally imposed capital requirements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### 16. RELATED PARTY DISCLOSURE

- Tegis Pty Ltd a company associated with Mr Terry Gray acted as lead manager to the capital raising undertaken in June 2020. Under the terms of the mandate Tegis Pty Ltd is entitled to a fee of 6% of funds raised. Based on the successful raise of \$2,008,000 Tegis Pty Ltd received a fee of \$120,480 exclusive of GST.

Other than those disclosed above the Company has not entered into any transactions nor has other outstanding commitments at 30 June 2020 with other related parties (2019: nil).

### 17. AUDITOR'S REMUNERATION

The auditor of the Company is William Buck.

	Consolidated	
	30 Jun 2020 A\$	30 Jun 2019 A\$
Amounts received or due and receivable by William Buck.		
Audit fees for audit and review of the financial report	20,000	10,000
	20,000	10,000

### 18. SIGNIFICANT EVENTS AFTER THE REPORTING DATE

Following the reporting period the Company undertook the following:

- Completed a capital raising of \$2,008,000 following 30 June 2020 1,787,879 ordinary shares were issued at \$0.66 per share raising \$1,180,000.
- Issued 1,000,000 performance rights to certain Directors. The performance rights have certain Corporate strategy milestones which will need to be achieved before the rights can vest and an expiry date of 1 July 2023.
- On 16 July 2020 the Company entered into a conditional share sale agreement to sell all of the issued capital of the Company to Australian Stock Exchange Listed Leaf Resources Ltd ("LER") (ASX:LER). In consideration of the sale the Company's shareholder will receive on a pro-rata basis 1,017,258,033 fully paid ordinary shares in LER at a deemed issue price of 0.02 per LER Share in consideration for the acquisition of all of fully paid ordinary shares on issue in the Company. Completion of the acquisition is subject to and conditional upon satisfaction of the following conditions precedent:
  - LER and the Company entering into a loan agreement in respect of the advance of \$600,000 by the Company to LER (the terms of which are summarised below);
  - LER entering into service agreements with each of Messrs Ramon Mountfort and Grant Yeatman (or their nominees) on terms to be agreed;
  - each shareholder of the Company executing a binding share sale and purchase agreement with LER in relation to the sale of all of the shares in the Company held by them;
  - LER and each of the relevant shareholders of the Company executing cancellation deeds in relation to the cancellation of the options and performance rights in the capital of the Company held by those shareholders in consideration for the issue of options and performance rights in the capital of LER;
  - The Company obtaining all third party approvals required in relation to change of control provisions;
  - LER obtaining, all shareholder, regulatory and third party approvals and consents necessary to allow it to complete the acquisition (including, for the issue of the consideration securities and adoption of an employee incentive scheme pursuant to the ASX Listing Rules and Corporations Act);

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

- (vii) if required, LER satisfying the requirements of ASX Listing Rule 11.1.3 and receiving a letter from ASX confirming that ASX will grant conditional re quotation of the LER Shares to trading on the official list of ASX, on terms acceptable to LER;
- (viii) The Company having net debt of less than \$1,500,000;
- (ix) LER converting all outstanding amounts owing to directors and officers of the Purchaser as at 30 June 2020 to LER Shares at a deemed issue price of \$0.02 per LER Share;
- (x) LER having net debt of less than \$1,100,000; and
- (xi) such other conditions as are considered customary for an agreement of this nature.

The material terms and conditions of the loan agreement are:

**Loan:** subject to satisfaction of the Condition (defined below), \$600,000 is to be advanced by the Company to LER for the repayment of existing debt and general working capital.

**Condition:** The advance of the Loan is conditional on execution of binding documentation by LER and the Company in respect of the Acquisition (the Condition).

**Interest:** Interest will accrue a rate of 10% per annum and is repayable in cash on the Maturity Date (defined below).

**Term:** 12 months from the date of advance of the Loan (Maturity Date).

**Repayment:** The Loan and all accrued but unpaid Interest is repayable on the Maturity Date. LER may elect to make early repayment of the Loan and accrued but unpaid Interest in full and without penalty at any time.

**Security:** The Loan is secured over all of LER's present and after-acquired property (it includes anything in respect of which LER has at any time a sufficient right, interest or power to grant a security).

**Negative pledge:** LER covenants that it will not, without the prior consent of the Company:

- (v) deal with, sell or otherwise dispose of or part with possession of;
- (vi) create, permit, suffer to exist, or agree to, any interest or encumbrance (other than an encumbrance in favour of EQ) over;
- (vii) incur any further debt; or
- (viii) attempt to do anything set out in paragraphs (i) to (iii), in respect of any of its assets except, in the case of (i) and (iii), in the ordinary course of its business or as otherwise agreed.

The Loan contains such other terms as are considered standard for an agreement of its nature.

Other than the events noted above, there are no other matters or circumstances that have arisen since the end of the year 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 future financial years.

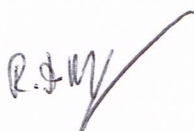
## DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Essential Queensland Pty Limited, we state that:

In the opinion of the Directors:

- (a) The financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due and payable.

On behalf of the Board



Ramon Mountfort  
Director  
16 November 2020

## Essential Queensland Pty Ltd

### Independent auditor's report to members

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Essential Queensland Pty Ltd (the Company), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Company's financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company 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.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 to the financial report, which indicates that the Company incurred a net loss of \$905,469 and incurred net cash outflows from operations of \$476,186 during the year ended 30 June 2020. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2 indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Other Information**

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

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

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf)

This description forms part of our independent auditor's report.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

William Buck

**William Buck Audit (Vic) Pty Ltd**

ABN: 59 116 151 136



**N. S. Benbow**

Director

Melbourne, 16 November 2020