Quantum Graphite Limited
ABN 41 008 101 979

2019

ANNUAL FINANCIAL REPORT

for the year ended
30 June 2019

Competent Persons Statement

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

Contents

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

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

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

Registered Office
Quantum Graphite Ltd
349 Collins Street
Melbourne VIC 3000

Website
quantumgraphite.com

Corporate Directory

Directors:

Bruno Ruggiero

Chairman and Independent Non-Executive Director

Sal Catalano

Executive Director and Company Secretary

Steven Chadwick

Executive Director

Robert Osmetti

Independent Non-Executive Director

David Trimboli

Independent Non-Executive Director

Company Secretary:

Sal Catalano

Principal Business Office:

349 Collins Street

Melbourne VIC 3000

Telephone: + 61 3 8614 8400

Auditors:

Grant Thornton Audit Pty Ltd

Level 3

170 Frome Street

Adelaide SA 5000

Solicitors:

PwC Legal

Level 19

2 Riverside Quay

Southbank VIC 3006

Home Stock Exchange:

Australian Securities Exchange

Rialto Tower, 525 Collins Street

MELBOURNE VIC 3000

ASX Codes:

QGL – fully paid ordinary shares

Share Registry:

Link Market Services Ltd

Tower 4, 727 Collins Street

Docklands VIC 3008

DIRECTOR'S REPORT

The Directors of Quantum Graphite Ltd present their report on the Company and its subsidiaries, for the year ended 30 June 2019.

DIRECTORS

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

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

Bruno Ruggiero BE (Mech), Grad Dip MinSc (Ext. Met), Grad Cert Eng Tech (Struct)
Chairman and Independent Non-Executive Director

EXPERIENCE AND EXPERTISE

Bruno has multiple degrees in engineering and over 30 years' experience in the minerals industry, both nationally and internationally from scoping to operations, and is a founding partner of the publicly listed Lycopodium Ltd.

Currently Technical Director with Lycopodium Minerals, Bruno sets the technical direction and standards for new project initiatives that Lycopodium Minerals undertakes globally.

SPECIAL RESPONSIBILITIES
Member of audit committee.

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

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

INTEREST IN SHARES
Direct interest of 36,000,000 shares and indirect interest in 419,039,273 shares via his interest in Ziziphus Pty Ltd.

INTEREST IN OPTIONS
Nil.

Sal Catalano BJuris., LLB, FITA
Executive Director and Company Secretary

EXPERIENCE AND EXPERTISE
Mr Catalano has extensive experience across business, the law and investment banking. He brings strong leadership skills and international business experience to the Board. He was a former Principal of Paloma Partners' securities financing group, Head of Donaldson Lufkin & Jenrette's (Pershing Division) Asian securities business and a Director of Credit Suisse's Alternative Capital Group. He is a Principal of the Chimaera Financial Group.

SPECIAL RESPONSIBILITIES
Chairman of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

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

INTEREST IN SHARES
Direct interest of 186,000,000 shares and indirect interest in 1,235,086,321 shares via an indirect interest in Chimaera Capital Ltd.

DIRECTORS' REPORT (CONTINUED)

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

Steven Chadwick BASc (Metallurgy)
Executive Director

EXPERIENCE AND EXPERTISE
Mr Chadwick is a Metallurgical Graduate of the WA School of Mines with 40 years' experience in the mining industry, incorporating technical, operating and management roles, as well as a strong metallurgical background.

Mr Chadwick is now a metallurgical consultant specialising in project management and feasibility studies for a range of local and international clients. He was a founding director of BC Iron and a former managing director of Coventry Resources, PacMin Mining and Northern Gold. He was a director and consulted to major Canadian miner Teck Resources Australian subsidiary company for 10 years. He currently serves as a non-executive director.

SPECIAL RESPONSIBILITIES
Member of audit committee.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Non-Executive Director of Lycopodium Limited (ASX:LYL from 13 January 2016) and Non-executive Director of Liontown Resources Limited (ASX:LTR from 10 January 2019).

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

INTEREST IN SHARES
Direct interest in 18,000,000 shares and indirect interest of 83,000,000 shares via his interest in Spectrum Metallurgical Consultants Pty Ltd.

INTEREST IN OPTIONS
Nil.

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

EXPERIENCE AND EXPERTISE
Mr Osmetti is a Civil Engineer with over 39 years' experience in project management and construction management of projects globally in an EPCM role including for major contractors in the minerals and construction sectors.

He brings direct experience in all aspects of project implementation, estimating, scheduling and construction management as well as the management of a number of feasibility studies for major resource projects in Australia and overseas.

Mr Osmetti is one of the founding partners of Lycopodium and has held diverse senior positions within the Lycopodium group including as founding Managing Director of the Lycopodium joint venture between Monadelphous and Lycopodium, Mondium Pty Ltd. He currently serves as a non-executive director of Lycopodium Limited.

SPECIAL RESPONSIBILITIES
Nil.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Non-Executive Director of Lycopodium Limited (ASX:LYL from August 1992 as Executive Director and Non-Executive Director from 2 April 2019)

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

INTEREST IN SHARES
Direct interest in 18,000,000 shares and indirect interest of 331,553,268 shares via an interest in Selso Pty Ltd.

INTEREST IN OPTIONS
Nil.

David Trimboli BCom
Independent Non-Executive Director

EXPERIENCE AND EXPERTISE
Mr Trimboli is an experienced global investor with significant experience in commodities financing and trading. He was formerly a long serving senior coal trader at the world's largest commodities trading group, Glencore International AG, and was a key member of the Glencore team when the group successfully completed its IPO in London and Hong Kong. Mr Trimboli has undertaken significant investments activities and holds diverse interests in commodities, industrial minerals, real estate and technology in Australia and internationally.

Mr Trimboli is the founder of Seefeld Investments, with offices in London, Zug and Perth and has been an integral part of the rapid growth of the Seefeld Investments business. He brings a wealth of experience in cultivating partnerships and key commercial relationships globally.

OTHER CURRENT DIRECTORSHIPS OF LISTED COMPANIES
Nil.

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

INTEREST IN SHARES
Direct interest in 18,000,000 shares and indirect interest of 450,738,944 shares via his interest in Seefeld Investments Pty Ltd.

INTEREST IN OPTIONS
Nil.

PRINCIPAL ACTIVITIES

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

OPERATING AND FINANCIAL REVIEW

The first half of the 2019 Financial Year was a significant turning point for the company - it completed its restructure and recapitalisation; its securities were reinstated to official quotation and it commenced work on the definitive feasibility study (DFS) to expand the Uley Mine to levels that would position the company as a world class producer of high grade natural flake graphite products.

The net loss for the Group for the year was $3,543,394 (2018: $7,390,538) after providing for income tax. The company's financial performance is broadly in line with plan.

Restructure and Recapitalisation

On 14 August 2018 the Company announced that the Interlocking DOCAs had been fully implemented with all conditions satisfied including the recapitalisation of the Company and the issue of all securities in accordance with the Interlocking DOCAs and the relevant shareholder approvals obtained at the 2017 AGM.

Definitive Feasibility Study (DFS)

The DFS work undertaken by Lycopodium Minerals, is critical to the company's plans to build the framework for a long-term substantial increase in the production capacity at its flagship, world class Uley Mine.

On 11 June 2019, the Company announced the results of the comprehensive metallurgical test work conducted as part of the DFS. The quality of the results clearly demonstrate Uley's historical high-purity production profile, free of deleterious substances and well suited to a number of natural flake industrial applications including thermal management (refractories, foundry, geothermal, etc), engineered products (lubricants, foils, drilling fluids) and polymers (conductive coatings and flame retardants).

The results confirmed the high proportion of Medium, Large and Extra-Large Flake production of 73% of overall production of total graphitic carbon (TGC), and purities of Large and Extra-Large Flake of 97.2%TGC and 97.8%TGC respectively and recoveries of 89%.

DIRECTORS' REPORT (CONTINUED)

The company continues to work on a number of proprietary enhancements to the processing path. The Board expects further improvements to these results, especially the proportion of the Extra-Large Flake, the purity of the -75 micron production and overall recoveries of TGC.

Other matters

Corporate Actions

On 10 December 2018 the company announced an Unmarketable Share Sale Facility (Facility) to deal with the significant increase in the number of shareholders holding unmarketable parcels following completion of the company's reconstruction. The Facility removed the prohibitive costs to shareholders selling small holdings and assists the company reduce costs associated with maintaining a very large number of small holdings.

The Facility was successfully completed with 58,233,563 shares, on behalf of 3,151 shareholders, being sold on market at an average price of 0.30 cents per share.

On the same date, the company also announced an offer (Rights Offering) of shares to eligible shareholders in the form of a non-renounceable rights issue of 1 new share for every 10 existing shares at an offer price of 0.3 cents per share to raise up to a maximum of A$3.25 million. The Rights Offering was made under an Offer Information Statement (OIS). The Rights Offering was not underwritten and the offer closed on 13 March 2019 with the issue of 75,639,176 shares to eligible shareholders and a further 98,153,333 shares were issued as part of the shortfall allocation under the Rights Offering.

Mining Titles

On 24 December 2018, the company was notified of the renewal of EL6224 to 12 October 2020. EL6224 extends for approximately 76 square kilometres and includes the highly prospective Mikkira graphite deposit.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

DIVIDENDS

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

EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

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

A copy of the auditor's independence declaration as required under s307C of the Corporations Act 2001 is included on page 3 of this financial report and forms part of this Directors' Report.

Other Matters

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

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

DIRECTORS' REPORT (CONTINUED)

LIKELY DEVELOPMENTS

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

DIRECTORS' MEETINGS

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

	Board Meetings		Audit Committee Meetings	
Directors	**Attended**	**Entitled to attend**	**Attended**	**Entitled to attend**
S Chadwick	7	7	1	1
B Ruggiero	7	7	1	1
S Catalano	7	7	1	1
R Osemtti	7	7	1	1
D Trimboli	7	7	1	1

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

UNISSUED SHARES UNDER OPTION

There are 1,000,000,000 options over ordinary shares in Quantum Graphite Limited held by Chimaera Capital Limited in which Mr Catalano has an indirect shareholding during the financial year and at the reporting date.

REMUNERATION REPORT (AUDITED)

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

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

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

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

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

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

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

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

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

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

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

Performance based remuneration

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

REMUNERATION REPORT (AUDITED) (CONTINUED)

B. Details of remuneration

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

Director and other Key Management Personnel Remuneration

2019	Short term benefits	Post-employment benefits	Share-based payments	Share-based payments		% of remuneration that is equity based	
	Salary and fees $	Super-annuation $	Options and Performance Rights $	Shares issued[1] $	Total $		Salary and Fees Owing[4] $
Directors							
S Chadwick	72,000	-	-	18,000	90,000	100%	72,000
B Ruggiero	72,000	-	-	18,000	90,000	100%	72,000
S Catalano	72,000	-	-	18,000	90,000	100%	72,000
R Mencel[2]	-	-	-	18,000	18,000	100%	18,000
D Trimboli	24,000	-	-	18,000	42,000	100%	24,000
R Osmetti	24,000	-	-	18,000	42,000	100%	24,000
Total	**264,000**	**-**	**-**	**108,000**	**372,000**	**100%**	**264,000**

1 Issued to directors in respect of their compensation entitlement for the 2018 financial year.
2 Mr Mencel resigned on 6 July 2018.

Director and other Key Management Personnel Remuneration

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

3 Issued to directors in respect of their compensation entitlement for the 2017 financial year.
4 Mr Mencel resigned on 6 July 2018.

Transactions with KMP

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

Chimaera Capital Limited ("CCL") (an entity related to Sal Catalano) provided corporate and accounting services to the Company including provision of the registered and main business office. There was $861,078 charged by CCL during the year (2018: $148,800) and there were no amounts payable as at 30 June 2019 (2018: $Nil) in relation to these services. There was also interest, trustee, and restructuring fees charged by CCL of $809,258 during the year in its capacity as Trustee for the VXL General Liquidity Trust.

REMUNERATION REPORT (AUDITED) (CONTINUED)

C. Share-based remuneration

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

There were no options over ordinary shares in the Company that were granted as remuneration to each KMP during the year ending 30 June 2019.

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

Share holdings of key management personnel

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

2019

KMP	Held at 30 June 2018	Issued in lieu of Director fees	Appointment or Resignation	Issued pursuant to Interlocking DOCAs	Held directly or indirectly at 30 June 2019
S Chadwick	-	18,000,000	-	83,000,000	101,000,000
B Ruggiero	18,000,000	18,000,000	-	419,039,273	455,039,273
S Catalano	168,000,000	18,000,000	-	1,235,086,321	1,421,086,321
R Mencel[1]	1,990,160	18,000,000	-	-	19,990,160
D Trimboli	-	18,000,000	-	450,738,944	468,738,944
R Osmetti	-	18,000,000	-	313,553,268	331,553,268
Total	187,990,160	108,000,000	-	2,501,417,806	2,797,407,966

(1) Mr Mencel resigned on 6 July 2018.

Option holdings of key management personnel

There are 1,000,000,000 options over ordinary shares in Quantum Graphite Limited issued 20 July 2018 held by Chimaera Capital Limited in which Mr Catalano has an indirect shareholding during the financial year and at the reporting date.

END OF AUDITED REMUNERATION REPORT

DIRECTORS' REPORT (CONTINUED)

ENVIRONMENTAL LEGISLATION

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

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

INDEMNITIES GIVEN, AND INSURANCE PREMIUMS PAID TO AUDITORS AND OFFICERS

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

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

NON-AUDIT SERVICES

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

Details of the amounts paid to the auditors of the Company and its related practices for audit and non-audit services provided during the reporting period are set out in note 19 to the Financial Statements.

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

CORPORATE GOVERNANCE

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

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

Signed in accordance with a resolution of the Directors.

Bruno Ruggiero
Chairman

Sal Catalano
Director and Company Secretary

30 September 2019

Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666

Auditor's Independence Declaration

To the Directors of Quantum Graphite Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Quantum Graphite Limited for the year ended 30 June 2019, 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

Iain Kemp

I S Kemp
Partner – Audit & Assurance

Adelaide, 30 September 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Notes	2019 $	2018 $
Corporate expenses	3	(1,619,676)	(1,271,251)
Commercialisation expenses	3	(27,033)	(160,695)
Pre-commissioning expenses	3	(346,916)	(587,695)
Write-off of plant and equipment	11	(1,394,843)	-
Impairment expenses – other assets		(39,176)	-
Total operating loss		(3,427,644)	(2,019,641)
Interest revenue		6,500	36
Interest expense		(122,250)	(1,974,268)
Debt raising costs		-	(2,575,000)
Net financing expense		(115,750)	(4,549,232)
Deemed disposal of Valence Industries Services Pty Ltd (In Liquidation)		-	(821,665)
Loss before tax		(3,543,394)	(7,390,538)
Income tax benefit / (expense)	4	-	-
Loss for the year attributable to owners of the parent entity		**(3,543,394)**	**(7,390,538)**
Other comprehensive income		-	-
Total comprehensive loss for the year attributable to owners of the parent entity		**(3,543,394)**	**(7,390,538)**
Loss per share from continuing operations			
Basic and diluted loss – cents per share	5	(0.05)	(1.66)

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

Consolidated Statement of Financial Position
As at 30 June 2019

	Notes	2019 $	2018 $
ASSETS			
Current assets			
Cash and cash equivalents	6	400,500	32,896
Trade and other receivables	8	321,953	162,568
Inventory		-	6,280
Prepayments		23,258	-
Total current assets		745,711	201,744
Receivable from the Department of State Development	7	1,073,863	1,073,863
Intangible assets		7,189	7,189
Development expenditure	9	13,624,681	6,753,775
Exploration and evaluation expenditure	10	1,538,421	1,415,705
Property, plant and equipment	11	439,366	7,901,639
Total non-current assets		16,683,520	17,152,171
TOTAL ASSETS		17,429,231	17,353,915
LIABILITIES			
Current liabilities			
Trade and other payables	12	514,773	511,647
Total current liabilities		514,773	511,647
Non-current liabilities			
Borrowings	13	-	15,598,493
Rehabilitation provision	14	558,369	558,369
Total non-current liabilities		558,369	16,156,862
TOTAL LIABILITIES		1,073,142	16,668,509
NET ASSETS		16,356,089	685,406
EQUITY			
Issued capital	15	54,249,795	37,555,718
Reserves	16	2,520,000	-
Accumulated losses		(40,413,706)	(36,870,312)
TOTAL EQUITY		16,356,089	685,406

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

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

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

Consolidated Statement of Cash Flows
For the year ended 30 June 2019

	Notes	2019 $	2018 $
Operating activities			
Receipts from customers		-	-
Payments to suppliers and employees		(1,887,762)	(31,018)
Interest paid		(122,250)	-
Interest received		6,406	37
Net cash used in operating activities	17	(2,003,606)	(30,981)
Investing activities			
Payments for exploration expenditure		(121,601)	-
Payments for development expenditure		(395,137)	-
Net cash used in investing activities		(516,738)	-
Financing activities			
Drawdown of Loan		2,366,570	50,000
Proceeds from issue of share capital		521,378	-
Net cash from financing activities		2,887,948	50,000
Net change in cash and cash equivalents		367,604	19,019
Cash and cash equivalents - beginning of year		32,896	13,877
Cash and cash equivalents - end of year	6	400,500	32,896

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

Notes to the consolidated financial statements
For the year ended 30 June 2019

1. Basis of preparation

a) Nature of operations

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

b) General information and basis of preparation

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

These interim financial statements have been prepared on a going concern basis. The 30 June 2018 financial statements were previously prepared on the realisation basis. The comparative figures have been reclassified, where appropriate, to the going concern basis of reporting.

c) Changes in accounting policies

Going concern basis of accounting

The financial report has been prepared on the basis of a going concern. This is a significant change from the 30 June 2018 annual report which used the realisation basis of preparation due to the significant uncertainty of the Company's ability to meet its ongoing operating and financing commitments into the foreseeable future. On 14 August 2018 the Group completed the terms of the interlocking Deeds of Company Arrangements ("Interlocking DOCAs") and was reinstated on the Australian Securities Exchange ("ASX") on 27 September 2018.

The consolidated entity incurred a net loss after tax from continuing operations of $3,543,394 for the year ended 30 June 2019, and had a net cash outflow of $2,520,344 from operating and investing activities. The consolidated entity is reliant upon completion of capital raising for continued operations and the provision of working capital. The directors believe they will be successful in attracting additional capital and have hence prepared the financial statements on a going concern basis. If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

New standards adopted as at 1 July 2018

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 year ended 30 June 2019. Changes to the Group's accounting policies arising from these standards are summarised below:

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 January 2018. There is no impact to the Group's historical financial results given the company is not currently in production.

AASB 9 Financial Instruments

AASB 9 Financial Instruments replaces AASB 139 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. When adopting AASB 9, the Group has applied transitional relief and elected not to restate prior periods.

Notes to the consolidated financial statements (Continued)

The adoption of AASB 9 has mostly impacted the following areas:

Classification and measurement of the Group's 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).

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.

Impairment of financial assets

The Group's financial assets are subject to AASB 9's new three-stage expected credit loss model. The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

For trade receivables and contract assets under AASB 15 the Group applies a simplified approach of recognising lifetime expected credit losses as these items do not have a significant financing component.

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.

d) Statement of compliance

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

The consolidated financial statements for the reporting period ended 30 June 2019 were approved and authorised by the Board of Directors on 30 September 2019.

Notes to the consolidated financial statements (Continued)

2. Significant accounting policies

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

a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Quantum Graphite Ltd as at 30 June 2019 and the results of all subsidiaries for the year then ended.

Subsidiaries
The Group financial statements consolidate those of the parent company and all of its subsidiary undertakings drawn up to 30 June 2019. Subsidiaries are all entities (including structured entities) over which the Group has

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

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

A list of controlled entities is contained in Note 18 to the Financial Statements.

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

b) Segment reporting

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

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

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

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

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

Notes to the consolidated financial statements (Continued)

c) Finance income and expense

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

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

d) Plant and equipment

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

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

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

Plant and equipment	3-20 years

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the profit or loss. When revalued assets are sold, it is the Group's policy to transfer any amounts included in other revenues in respect of those assets to retained earnings.

e) Exploration and evaluation expenditure

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

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

f) Development expenditure

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

Notes to the consolidated financial statements (Continued)

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

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

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

g) Financial instruments

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

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

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

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

(i) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Loans and receivables are included in current assets except for those not expected to mature within twelve (12) months after the end of the reporting period.

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

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

h) Impairment of assets

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

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

i) Trade and other receivables

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

Notes to the consolidated financial statements (Continued)

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

j) Trade and other payables

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

Trade and other payables are stated at amortised cost.

k) Income Tax

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

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

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

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

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

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

To the extent that research and development costs are eligible under the "Research and development tax incentive" programme, a 43.5% refundable tax offset is available for companies with annual turnover of less than $20 million. The Group recognises refundable tax offsets received in the financial year as an income tax benefit, in profit or loss, resulting from the monetisation of available tax losses that otherwise would have been carried forward.

l) Leases

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

Notes to the consolidated financial statements (Continued)

m) Borrowings

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

n) Earnings per share

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

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

o) Cash and cash equivalents

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

p) Share-based payments

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

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

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

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

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

q) Employee benefits

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

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

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

Notes to the consolidated financial statements (Continued)

r) Goods and services tax ("GST")

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

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

s) Parent entity

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

t) Critical accounting estimates and judgements

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

i) Key estimates

Impairment

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

Rehabilitation provision

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

ii) Key judgements

Development expenditure and plant and equipment

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

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

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

Notes to the consolidated financial statements (Continued)

Exploration and evaluation expenditure

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

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

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

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

a. Share-based payment transactions

The Group measures the cost of equity-settled transactions with management and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by the Board of Directors with reference to quoted market prices or using the Black-Scholes valuation method or the Monte Carlo valuation method as appropriate taking into account the terms and conditions upon which the equity instruments were granted. The assumptions in relation to the valuation of the equity instruments are detailed in Note 22. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

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

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

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

3. EXPENSES

2019	Corporate $	Commercialisation $	Pre-Commissioning $	Total $
Employee benefits expense	312,718	-	-	312,718
Depreciation	31,024	-	17,732	48,756
Other	1,275,934	27,033	329,184	1,632,151
Total	1,619,676	27,033	346,916	1,993,625

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

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

4. INCOME TAX EXPENSE

	2019 $	2018 $
(a) The components of income tax expense comprise:		
Current income tax (expense) / benefit	-	-
(b) The prima facie tax loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Net loss	(3,543,394)	(7,390,538)
Prima facie tax benefit on loss from ordinary activities before income tax at 27.5% (2018: 27.5%)	(974,433)	(2,032,398)
Tax effect of temporary differences not brought to account as they do not meet the recognition criteria	5,318	(2,981)
Deferred tax asset not realised as recognition criteria not met	969,115	2,035,379
Income tax (expense) / benefit	-	-

4. INCOME TAX EXPENSE (CONTINUED)

	2019 $	2018 $
(c) Deferred tax assets have not been recognised in respect of the following:		
Tax losses	41,866,602	38,342,549
Deferred tax asset has not been recognised	11,513,316	10,544,201

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

5. EARNINGS PER SHARE

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

	2019 \#	2018 \#
Weighted average number of shares used in basic earnings per share	7,095,043,338	446,505,604
Loss per share - basic and diluted (cents)	(0.05)	(1.66)

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

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following:

	2019 $	2018 $
Cash at hand and in bank.		
Cash at bank[1]	400,500	32,896
Cash and cash equivalents	400,500	32,896
Reconciliation of cash at the end of the year.		

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

	2019	2018
Cash and cash equivalents	400,500	32,896

[1] These are funds held in trust with a related party.

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

	2019 $	2018 $
Opening balance	1,073,863	1,073,863
DSD expenses incurred	-	-
Closing balance	1,073,863	1,073,863

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

8. TRADE AND OTHER RECEIVABLES

	2019 $	2018 $
Trade receivables	20,000	20,000
GST receivable	301,953	142,568
Total receivables	321,953	162,568

No receivables are considered past due and / or impaired.

9. DEVELOPMENT EXPENDITURE

	2019 $	2018 $
Gross carrying amount		
Opening balance	6,753,775	6,753,775
Additions during the year	725,196	-
Transfer from plant and equipment (Note 11)	6,145,710	-
Closing balance	13,624,681	6,753,775

All development expenditure relates to the Company's Uley Graphite operation. Assets previously reported as plant under construction under plant and equipment were transferred to development assets after a thorough review and reconciliation of assets done in conjunction with the feasibility study. Refer to Note 11. These assets are not yet ready for use and are not currently being amortised.

10. EXPLORATION AND EVALUATION EXPENDITURE

	2019 $	2018 $
Opening balance	1,415,705	1,415,705
Expenditure on exploration during the year	122,716	-
Closing balance	1,538,421	1,415,705

11. PLANT AND EQUIPMENT

During the year the Group completed a thorough review of the fixed asset register in conjunction with the feasibility study. The Group determined that $6,145,710 of assets included in plant under construction should be included in development assets as they are related to the Uley Graphite operation. The Group also identified assets totalling $1,394,843 which were written off, due to the costs to refurbish the asset outweighing the cost to acquire a new one.

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

11. PLANT AND EQUIPMENT (CONTINUED)

2018	Plant & Equipment $	Plant under construction $	Motor vehicles $	Office equipment $	Total $
Gross carrying amount					
Opening balance	824,611	7,744,565	39,566	20,520	8,629,262
Additions/(Disposals)	-	-	-	-	-
Balance 30 June 2018	824,611	7,744,565	39,566	20,520	8,629,262
Depreciation and impairment					
Opening balance	(430,523)	(162,438)	(39,566)	(14,410)	(646,937)
Depreciation	(79,247)	-	-	(1,439)	(80,686)
Balance 30 June 2018	(509,770)	(162,438)	(39,566)	(15,849)	(727,623)
Carrying amount 30 June 2018	314,841	7,582,127	-	4,671	7,901,639

12. TRADE AND OTHER PAYABLES

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

	2019 $	2018 $
Trade and other payables	514,773	511,647
Total	514,773	511,647

13. BORROWINGS

During the year and pursuant to the interlocking DOCAs, the Restructure loan (secured lender: Chimaera Capital Limited as Trustee of the VXL General Liquidity Trust) of $18,584,699 was converted to equity.

the Company’s the Interlocking ’s	2019 $	2018 $
Restructure loan	-	15,598,493
Total borrowings	-	15,598,493

14. REHABILITATION PROVISION

	2019 $	2018 $
Decommissioning provision	558,369	558,369
	558,369	558,369

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

15. ISSUED CAPITAL

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

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

15. ISSUED CAPITAL (CONTINUED)

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

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

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

16. RESERVES

Balance of share-based payments reserve

	2019 $	2018 $
Opening balance	-	40,762
Lapse of options	-	(40,762)
Share options issued on 23 July 2018 – pursuant to the interlocking DOCA	2,520,000	-
Closing balance	2,520,000	-

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

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

16. RESERVES (CONTINUED)

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

Nature and purpose of reserves

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

17. RECONCILIATION OF CASHFLOWS FROM OPERATING ACTIVITIES

Operating activities	2019 $	2018 $
Loss after tax	(3,543,394)	(7,390,538)
Debt raising costs	-	2,575,000
Interest expense	122,250	2,029,639
Depreciation expense	48,756	80,686
Impairment – other assets	39,176	-
Write-off of plant and equipment	1,394,843	-
Share based payments	108,000	806,281
Deemed loss of deconsolidation of Valence Industries Services Pty Ltd (In Liquidation)	-	821,665
Additional provided claims subject to the Interlocking DOCAs	-	67,320
Decrease/(increase) in other assets	(16,978)	-
Decrease/(increase) in receivables	(159,385)	-
Increase/(decrease) in payables	3,126	371,567
Increase/(decrease) in borrowings	-	607,399
Net cash used in operating activities	(2,003,606)	(30,981)

18. INVESTMENTS IN CONTROLLED ENTITIES

The Company has the following subsidiaries:

Name of Subsidiary	Country of Registration	Class of Shares	Percentage held 2019	Percentage held 2018
Quantum Graphite Operations Pty Ltd	Australia	Ordinary	100%	100%
Valence Industries Services Pty Ltd (In Liquidation)	Australia	Ordinary	0%	100%
Valence Industries Commercialisation Pty Ltd	Australia	Ordinary	0%	100%
Valence Industries USA Ltd	USA	Ordinary	0%	100%

19. AUDITOR REMUNERATION

	2019 $	2018 $
Audit services		
Auditors of Quantum Graphite Ltd – Grant Thornton		
- Audit and review of Financial Reports	38,000	28,840
Audit services remuneration	38,000	28,840
Other services		
Auditors of Quantum Graphite Ltd – Grant Thornton		
- Taxation compliance	-	-
Total other services remuneration	-	-
Total remuneration received by Grant Thornton	38,000	28,840

20. COMMITMENTS AND CONTINGENCIES

Exploration commitments

In order to maintain rights of tenure to exploration permits, the Group has certain obligations to perform minimum exploration work and expend minimum amounts of money. The expenditure commitment of $560,000 over the duration of the license has been met by 30 June 2019. Regardless, further expenditure on exploration work is budgeted for the next financial year.

Contingent liabilities

The Group has no contingent assets or liabilities.

21. RELATED PARTY TRANSACTIONS

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

(a) Transactions with subsidiary

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

(b) Transactions with key management personnel

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

	2019 $	2018 $
Short-term benefits	372,000	113,283
Total remuneration	372,000	113,283

The Outstanding balances with key management personnel included in trade and other payables at 30 June 2019 total $264,000 (2018: $59,283).

(c) Transactions with Chimaera Capital Limited

During the period, Chimaera Capital Limited became a substantial shareholder of the Group. Details of this transaction are included in Note 13 and Note 15. The Group exited administration in July 2018 and Chimaera Capital Limited assumed responsibility for the corporate and asset management services.

Transactions during the period:	**2019** **$**
IT services charged	87,165
Accounting services charged	253,650
Corporate administration fees charged	520,263
	861,078

Transactions during the period in its capacity as Trustee for the VXL General Liquidity Trust (secured lender):	
Interest charged	122,250
Trustee and restructuring fees charged (including amounts paid to Deed Administrators)	687,008
	809,258

22. EMPLOYEE REMUNERATION

(a) Employee benefits expense

Expenses recognised for employee benefits are analysed below:	2019 $	2018 $
Salaries / contract payments for Directors and employees	372,000	113,283
	372,000	113,283

(b) Post-employment benefits expense

Expenses recognised for post-employment employee benefits are analysed below:	2019 $	2018 $
Superannuation payments for Directors and employees	-	-

(c) Share based employee remuneration

As at 30 June 2019 the Group maintained a performance rights and option plan for employee and director remuneration. There were nil unlisted options granted to Directors as remuneration during the financial year.

Share options and weighted average exercise prices are as follows:

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

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

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

23. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT

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

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

	Note	2019 $	2018 $
Financial assets			
Cash and cash equivalents	6	400,500	32,896
Trade and other receivables	8	321,953	162,568
Receivable from the Department of Energy and Mining	7	1,073,863	1,073,863
		1,796,316	1,269,327
Financial liabilities			
Trade and other payables	12	514,773	511,647
Borrowings	13	-	15,598,493
		514,773	16,110,140

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

a) Liquidity risk

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

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

Financial liabilities are expected to be settled within 12 months.

b) Interest rate risk

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

23. FINANCIAL RISK MANAGEMENT AND CAPITAL MANAGEMENT (CONTINUED)

The Group is exposed to interest rate risk on cash balances and term deposits held in interest bearing accounts. The Board constantly monitors its interest rate exposure and attempts to maximise interest income by using a mixture of fixed and variable interest rates, whilst ensuring sufficient funds are available for the Group's operating activities. The Group's net exposure to interest rate risk at 30 June 2019 approximates the value of cash and cash equivalents.

c) Sensitivity analysis

Interest rate
The Group has performed a sensitivity analysis relating to its exposure to interest rate risk at reporting date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks. During the year, Valence Industries Limited outstanding loan balance was cancelled pursuant to DOCA. This has significantly reduced the interest rate sensitivity effect on profit and equity compared to last year.

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

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

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

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

d) Net fair values of financial assets and financial liabilities

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

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

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

24. PARENT ENTITY INFORMATION

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

	2019 $	2018 $
Statement of financial position		
Total assets	16,698,843	28,746,455
Total liabilities	343,000	16,110,141
Issued capital	54,195,795	37,555,718
Accumulated losses	(40,359,952)	(24,919,404)
Share based payment reserve	2,520,000	-
Statement of profit of loss and other comprehensive income		
Loss for the period	15,440,548	6,740,933

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

25. OPERATING SEGMENTS

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

26. EVENTS ARISING SINCE THE END OF THE REPORTING PERIOD

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

Directors' Declaration

In the opinion of the Directors of Quantum Graphite Limited:

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

i. giving a true and fair view of its financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

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

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

The directors have been given the declaration required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2018.

The consolidated financial statements comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Bruno Ruggiero
Director

Sal Catalano
Director

Melbourne
30 September 2018

Grant Thornton

Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666

Independent Auditor's Report

To the Members of Quantum Graphite Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Quantum Graphite Limited and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

a giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year ended on that date; and

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

Basis for opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 1(c) in the financial statements, which indicates that the Group incurred a net loss of $3,543,394 during the year ended 30 June 2019, and net cash outflows from operating and investing activities of $2,520,344. As stated in Note 1(c), these events or conditions, along with other matters as set forth in Note 1(c), indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Exploration and evaluation assets - Notes 2(e) & 10	
At 30 June 2019 the carrying value of exploration and evaluation assets was $1,538,421. In accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources*, the Group is required to assess at each reporting date if there are any triggers for impairment which may suggest the carrying value is in excess of the recoverable value. The process undertaken by management to assess whether there are any impairment triggers in each area of interest involves an element of management judgement. This area is a key audit matter due to the significant judgement involved in determining the existence of impairment triggers.	Our procedures included, amongst others: • obtaining the management reconciliation of capitalised exploration and evaluation expenditure and agreeing to the general ledger; • reviewing management's area of interest considerations against AASB 6; • conducting a detailed review of management's assessment of trigger events prepared in accordance with AASB 6 including; – tracing projects to statutory registers, exploration licenses and third party confirmations to determine whether a right of tenure existed; – enquiry of management regarding their intentions to carry out exploration and evaluation activity in the relevant exploration area, including review of management's budgeted expenditure; – understanding whether any data exists to suggest that the carrying value of these exploration and evaluation assets are unlikely to be recovered through development or sale; • evaluating the competence, capabilities and objectivity of management's experts in the evaluation of potential impairment triggers; and • assessing the appropriateness of the related financial statement disclosures.

Grant Thornton

Key audit matter	How our audit addressed the key audit matter
Capital and development assets – Notes 9 & 11	
The Group has capitalised tangible assets of $14,064,047 which includes $439,366 of property, plant and equipment and development assets of $13,624,681. Following the Group's successful restructure and recapitalisation during the year, the Group carried out a review of these capitalised tangible assets, writing off $1,394,843 and transferring $6,145,710 from Plant under construction to Development assets. The Group is in the process of completing a definitive feasibility study, and given the current level of operations, the development assets are currently not being amortised. Under accounting standards, the Group is required to assess annually whether any impairment indicators have been triggered in relation to their capitalised tangible assets. The assessment as to whether any indicators of impairment have been triggered and therefore requiring a full impairment assessment of these capitalised tangible assets under AASB 136 *Impairment of assets* requires a significant level of judgement.	Our procedures included, amongst others: • Documenting the processes and assessing the internal controls relating to management's assessment of the identified impairment indicators; • Obtaining management's reconciliations of both property, plant and equipment, and the development assets, and agreeing to them to the general ledger; • Assessing the appropriateness of management's asset write off and related disclosures in the financial statements; • Obtaining management's assessment of impairment indicators in accordance with AASB 136 related to these capitalised tangible assets and conducting a detailed review, including: – Assessing management's assumptions related to internal and external sources of information; – Gaining an understanding of the project's status, including enquiring of management regarding their intentions to further develop their exploration and development assets; – Understanding whether any data exists to suggest that the impairment indicators identified had been triggered; • Comparing the market capitalisation of the Group at 30 June 2019 against the carrying value of assets; and • Reviewing the appropriateness of the related disclosures within the financial statements.

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

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors' for the financial report

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

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

Auditor's responsibilities for the audit of the financial report

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

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

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Quantum Graphite Limited, for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Group are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

Iain Kemp

I S Kemp
Partner – Audit & Assurance

Adelaide, 30 September 2019

ASX Additional Information

Additional information required by the ASX Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information is effective as at 27 September 2019.

The Company is listed on the Australian Securities Exchange.

Substantial shareholders

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

- Chimaera Capital Ltd – 18.07%
- Seefeld Investments Pty Ltd – 6.12 %
- Ziziphus Pty Ltd – 5.47%
- Selso Pty Ltd – 4.33%

Voting rights

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

Distribution of equity by security holders

The following information was current at 27 September 2019.

Holding	Ordinary Shares (Quoted)
1 – 1,000	41
1,001 – 5,000	87
5,001 – 10,000	58
10,001 – 100,000	99
100,001 and over	749
Number of Holders	**1,034**

Unmarketable parcels

There were 531 holders of less than a marketable parcel of ordinary shares ($500 amounts to 4,348 shares at 11.5 cents per share).

Business objectives

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

On-market buy-back

There is no current on-market buy-back.

Twenty largest holders of All Ordinary Shares on issue

		No. of Shares Held	%Held
1	CHIMAERA CAPITAL LIMITED	1,961,135,842	25.60%
2	ZIZIPHUS PTY LTD	419,039,273	5.47%
3	SELSO PTY LTD	331,553,268	4.33%
4	INSYNC INVESTMENTS PTY LTD	302,175,220	3.94%
5	LYCOPODIUM LIMITED	256,030,821	3.34%
6	MICHAEL JAMES MADDOX	198,367,579	2.59%
7	ACN 112 940 057 PTY LTD	186,510,000	2.43%
8	GOLDER ASSOCIATES PTY LTD	169,084,069	2.21%
9	G & N LORD SUPERANNUATION PTY LTD	164,770,131	2.15%
10	FUDDY PTY LTD	164,499,567	2.15%
11	PETER FAULKNER INVESTMENTS PTY LTD	143,654,232	1.88%
12	NEXT AUSTRALIA PTY LTD	143,600,943	1.87%
13	CELTIC CAPITAL PTY LTD	135,636,580	1.77%
14	MR IAN DAVID PATTISON & MS KATHERINE MARGARET FORREST	105,000,002	1.37%
15	GETCO PTY LTD	99,183,789	1.29%
16	RUSSELL HOWARD PTY LTD	97,182,079	1.27%
17	MR DAVID JOHN HEBBERMAN & MS JOSEPHINE NORA HALL	93,490,547	1.22%
18	TUKE INVESTMENTS PTY LTD	80,266,745	1.05%
19	ESPAG PTY LTD	79,347,032	1.04%
20	FULSTAR PTY LTD	70,548,538	0.92%
		5,201,076,257	**67.89%**
	Total Ordinary Shares on Issue	**7,660,580,941**	**100.00%**