



14 October 2020

Todd Lewis
Adviser, Listings Compliance (Melbourne)

e: ListingsComplianceMelbourne@asx.com.au

Dear Sir:

**Quantum Graphite Limited (QGL): Accounts – Query
Request for information, Your Reference: ODIN25355**

In light of the information contained in the Full Year Accounts Year Accounts and the Auditor’s Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1.	Is QGL able to confirm that in the Directors’ Opinion the Full Year Accounts Year Accounts:	
	(a) comply with the relevant Accounting Standards; and	Yes.
	(b) give a true and fair view of QGL’s financial performance and position?	Yes.
2.	We note the disclaimer of opinion relates to the Auditors’ inability to conclude that no adjustments were necessary as a result of the determination of an AASB 136 compliant recoverable amount, in respect of the accompanying consolidated statement of financial position of the Group as at 30 June 2020, and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity for the year ended 30 June 2020, given the inherent uncertainty in inputs in QGL’s value in use model, of which COVID-19 has impacted, and insufficient appropriate audit evidence regarding the availability of the funding and	<p>The Directors do not consider there is any inherent uncertainty in respect of the inputs included in the Company’s value in use model (Model). The inputs reflect those utilised in preparation of the JORC 2012 Ore Reserve Statement and Mining Study conducted in 2019, the details of which were most recently released to the market on 11 December 2019 (the Mining Study) and were sourced from appropriate experts or, in the case of the basket price for graphite, obtained from contemporaneous market sources.</p> <p>In these circumstances, the availability and pricing of project funding at the time of the preparation of the 2020 financial report including any current challenges within the global capital markets caused by COVID-19, does not in and of itself give rise to sufficient uncertainty in respect</p>

	<p>funding structure adopted within that model to determine the recoverable amount for Uley Project. In light of this, what steps have QGL taken and plan to take since the release of the Full Year Accounts to enable the auditor to provide an audit opinion in regard to future financial statements?</p>	<p>of the recoverable amount for the purposes of the determination of an AASB 136 compliant recoverable amount.</p> <p>The Company's value in use model was accepted for prior periods by its Auditors based on conclusions and findings from earlier JORC compliant reports. The Mining Study represented a substantial upgrade and update to the prior JORC compliant reports.</p> <p>For the purposes of future financial reports, the Company will revise internal processes through the introduction of the following:</p> <ul style="list-style-type: none"> (i) the Company will require that external auditors include a direct review of its expert reports, including all JORC 2012 compliant reports; (ii) the review include direct contact with the Company's experts and, if required, the preparation of a formal presentation of the relevant expert opinions; and (iii) the process outlined above will be directly supervised by the Audit and Risk Committee.
<p>3.</p>	<p>Given QGL has assessed that there are no triggers for impairment at 30 June 2020, and therefore no formal recoverable amount assessment has been undertaken, please explain why directors have determined that no impairment indicators were presented in relation to the Uley Project assets for year ended 30 June 2020. In answering this question, reference should be made to how the directors satisfied themselves that the assessment of impairment of assets in relation to the Uley Project adheres to the current Australian Accounting Standards.</p>	<p>In assessing the carrying value of the Uley project for the purposes of the 2020 financial report the Board considered all available data including the Mining Study referred to above.</p> <p>Having made additional enquiries, the directors considered that the inputs and assumptions utilised in the Model remained valid. Although, due to the dislocation associated with COVID 19, the commencement of the development of the Uley Project may be delayed.</p> <p>In particular, the Board reviewed the conditions and assumptions relating to project funding and noted that the capital costs and funding costs were likely to have decreased whilst product pricing has materially increased. The Board considered it prudent to maintain the Model despite these favourable pricing impacts and instead conducted a series of contrarian sensitivity analyses (stable capital cost, increased project funding cost and decreased product price) to provide a high level of confidence of the carrying value for the purposes of the 2020 financial report.</p>



4.	<p>Additionally, in answering question 3, please explain how the directors assess the inherent uncertainty in inputs in QGL's value in use model, of which COVID-19 has impacted, and how the directors satisfied themselves in regards to the availability of the funding and funding structure adopted within the model to determine the recoverable amount for Uley Project.</p>	<p>Given the proximity of the completion of the Mining Study, the extensive use of appropriate experts in preparing that study and the additional enquiries made by the Board since its completion, the Board does not consider the inputs into the Company's value in use model to be uncertain with the exception of:</p> <p>(i) The Basket Price for the Company's graphite product: Due to the nature of the graphite market and the lack of centralised market data, it is inherently difficult to obtain precise basket pricing that will be achieved for the completed product. The basket price used in the model was derived following market research, prospective and past customer enquiries and information from minerals consultants. Recent developments in the graphite market strongly indicate material increases in the basket price.</p> <p>The Board's analysis included reviewing scenarios of a 20% discount to the basket price utilised in the Mining Study (there is no indication that such a discount is likely or would be required to obtain offtake arrangements);</p> <p>(ii) Funding Costs: Separate to the uncertainty regarding the availability of funding is the funding cost or Weighted Average Cost of Capital (WACC) for the project. In the circumstances, various rates were used ranging from 7.5% through to 12.5% with positive results in excess of the carrying value of the project; and</p> <p>(iii) Availability of project finance: There is always inherent uncertainty surrounding the structure and availability of project funding. The Board has concluded that project funding will be available on the usual commercial terms for an industrial minerals project given the strong ROI and NPV of the project as well as the strategic importance of a new ex-China and ex-Africa supply of natural graphite.</p>

5.	Does QGL consider that the financial condition of QGL is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.	Yes. The re-quotation of the Company's securities in 2018 was based on its strengthened financial condition underpinned by its extensive mineral deposit assets including its JORC Ore Reserves and Resources. In connection with the Company's feasibility studies, it has since undertaken substantial works including important updates to its Mineral Resource Estimate and its Ore Reserve Statement. Further, the Company's asset base represents the only fully permitted large scale graphite project ready for development.
6.	If the answer to question 5 is "No", please explain what steps QGL has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.2.	Not applicable.
7.	In relation to the Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of QGL's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of QGL have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of QGL and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?	Yes.
8.	If the answer to Question 7 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of QGL's Corporate Governance Disclosure?	Not applicable.
9.	What enquiries did the Board make of management to satisfy itself that the financial records of QGL have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of QGL?	The Board directly satisfied itself that the financial records of QGL were properly maintained and that the financial statements complied with the appropriate accounting standards and give a true and fair view of the financial position and performance of QGL. The Board was directly (including via the Audit and Risk Committee) involved and provided oversight in respect of the internal process and procedures



		applicable to the maintenance of the financial records and the detailed technical works undertaken as part of the feasibility studies, including the JORC 2012 compliant technical reports.
10.	Commenting specifically on the disclaimer of opinion, does the board consider that QGL has a sound system of risk management and internal control which is operating effectively?	Yes. Refer responses to questions 2, 3, 7 and 9.
11.	Please confirm that QGL is complying with the Listing Rules and, in particular, Listing Rule 3.1.	QGL is in compliance with the Listing Rules and, in particular, Listing Rule 3.1
12.	Please confirm that QGL's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of QGL with delegated authority from the board to respond to ASX on disclosure matters.	QGL's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of QGL with delegated authority from the board to respond to ASX on disclosure matters

Yours sincerely,



SAL CATALANO





12 October 2020

Reference: ODIN25355

Mr Sal Catalano
Executive Director and Company Secretary
Quantum Graphite Limited
349 Collins Street
Melbourne VIC 3000

By email:

Dear Mr Catalano

Quantum Graphite Limited ('QGL'): Accounts - Query

ASX refers to the following:

- A. QGL's Full Year Accounts year accounts for the Full Year Accounts year ended 30 June 2020 lodged with ASX Market Announcements Platform and released on 1 October 2020 ('Full Year Accounts Year Accounts').
- B. ASX notes that the Independent Auditor's Report attached to the Full Year Accounts Year Accounts ('Auditor's Report') contains a disclaimer of opinion:

"Basis for Disclaimer Opinion

The Group's non-current assets at 30 June 2020 include Development assets of \$13,748,705 (2019: \$13,624,681) and Plant and equipment of \$383,601 (2019: 439,366) attributable to the Uley Project. In accordance with the requirements of AASB 136 Impairment of Assets the Company is required to perform an annual impairment test to determine if:

- a. there are triggers for impairment; and
- b. determine the recoverable amount of the assets.

As disclosed in note 1 m) Impairment of assets and y) Development Expenditure and plant and equipment of the financial statements, the Company assesses, when indicators of impairment are present, the recoverable amount of the Uley Project through a value in use model. The Company has assessed there are no triggers for impairment at 30 June 2020, and therefore no formal recoverable amount assessment has been undertaken in line with AASB 136. The model utilised by the Company to assess the recoverable amount and assist in their determination that no impairment indicators are present, is a model prepared for the purposes of the Definitive Feasibility Level Study ("DFS"). In addition to the inherent uncertainty in inputs in such models, of which COVID-19 has impacted, there is insufficient appropriate audit evidence regarding the availability of the funding and funding structure adopted within the model to determine the recoverable amount for Uley Project.

Consequently, we were unable to determine whether any adjustments were necessary as a result of the determination of an AASB 136 compliant recoverable amount, in respect of the accompanying consolidated statement of financial position of the Group as at 30 June 2020, and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity for the year ended 30 June 2020."

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- C. QGL's Corporate Governance Statement for 2018 released to QGL's website, which provides confirmation that QGL complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

"The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively."

- D. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

- E. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX accounts, the following rules apply.

- (a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the accounts must be consolidated accounts.*
- (b) The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*
- (c) If the listing rule requires audited accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) If the listing rule requires accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a foreign entity, an overseas equivalent of a registered company auditor).*
- (e) If there is a directors' declaration that relates to the accounts, the directors' declaration must be given to ASX with the accounts.*
- (f) If there is a directors' report that relates to the period covered by the accounts, the directors' report must be given to ASX with the accounts.*

Request for information

In light of the information contained in the Full Year Accounts Year Accounts and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is QGL able to confirm that in the Directors' Opinion the Full Year Accounts Year Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of QGL's financial performance and position?

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2. We note the disclaimer of opinion relates to the Auditors' inability to conclude that no adjustments were necessary as a result of the determination of an AASB 136 compliant recoverable amount, in respect of the accompanying consolidated statement of financial position of the Group as at 30 June 2020, and the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity for the year ended 30 June 2020, given the inherent uncertainty in inputs in QGL's value in use model, of which COVID-19 has impacted, and insufficient appropriate audit evidence regarding the availability of the funding and funding structure adopted within that model to determine the recoverable amount for Uley Project. In light of this, what steps have QGL taken and plan to take since the release of the Full Year Accounts to enable the auditor to provide an audit opinion in regards to future financial statements?
 3. Given QGL has assessed that there are no triggers for impairment at 30 June 2020, and therefore no formal recoverable amount assessment has been undertaken, please explain why directors have determined that no impairment indicators were presented in relation to the Uley Project assets for year ended 30 June 2020. In answering this question, reference should be made to how the directors satisfied themselves that the assessment of impairment of assets in relation to the Uley Project adheres to the current Australian Accounting Standards.
 4. Additionally, in answering question 3, please explain how the directors assess the inherent uncertainty in inputs in QGL's value in use model, of which COVID-19 has impacted, and how the directors satisfied themselves in regards to the availability of the funding and funding structure adopted within the model to determine the recoverable amount for Uley Project.
 5. Does QGL consider that the financial condition of QGL is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
 6. If the answer to question 5 is "No", please explain what steps QGL has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.2.
 7. In relation to the Full Year Accounts, did the Board receive the CFO and CEO declaration, as described in section 4.2 of QGL's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of QGL have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of QGL and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
 8. If the answer to Question 7 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of QGL's Corporate Governance Disclosure?
 9. What enquiries did the Board make of management to satisfy itself that the financial records of QGL have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of QGL?
 10. Commenting specifically on the disclaimer of opinion, does the board consider that QGL has a sound system of risk management and internal control which is operating effectively?
 11. Please confirm that QGL is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 12. Please confirm that QGL's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of QGL with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9.30 AM AEDT Wednesday, 21 October 2020**. You should note that if the

information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, QGL's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph..

Your response should be sent to me by e-mail at ListingsComplianceMelbourne@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to QGL's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that QGL's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Yours sincerely

Todd Lewis
Adviser, Listings Compliance (Melbourne)