



WA Kaolin Limited

ABN 56 083 187 017

Annual Report

30 June 2022

Chairman's Letter

Dear Fellow Shareholders,

It is my pleasure to present to you WA Kaolin's Annual Report for the 2021 – 2022 Financial Year.

This year has been one of huge activity on-site at our Wickepin Kaolin Project, led by Executive Director Alf Baker and Chief Executive Officer Andrew Sorensen, as the team has worked tirelessly towards achieving our goal of reaching the first stage of the ramp-up to production of 200,000 tonnes per annum (tpa) of our high-quality kaolin.

We were thrilled to announce in June that practical completion of the processing plant had been achieved within the original budget outlined in our IPO prospectus back in 2020.

Following this momentous achievement, with an excellent safety record during construction, WA Kaolin progressed to the commissioning of a safe, efficient and operation-ready facility, with first processing of run-of-mine ore on track to begin in August 2022. I am delighted to advise that we remain on track to ramp-up production over the last quarter of CY2022.

During the period, WA Kaolin announced the signing of the following agreements, all critical for successful operation of our Wickepin Processing Plant: Transport contract with ACFS Port Logistics Pty Ltd for transport services between the Wickepin Project and ACFS's Fremantle Port facility in Western Australia; 15-year agreement with the Western Australian Water Corporation for the supply of water; bagging equipment contract with Haver & Boecker Australia; and the purchase of three FG Wilson P550 generators from AllightSykes.

Throughout the development on-site at Wickepin this year, our Kwinana 'proof of concept' plant has continued operation providing kaolin shipments for our tier one customers. During the year, WA Kaolin has experienced unprecedented demand for its high-quality kaolin product and we have continued to receive many new requests from potential clients around the world.

Through the successful signing of offtake agreements and letters of intent, WA Kaolin has now placed 90% of its Stage 1 200,000tpa production rate.

Due to this strong customer demand, the Company elected to bring forward elements of the Stage 2 Capex (~\$4m) into the current construction phase, to take advantage of cost savings and to shorten the lead-time to implement the next increase of production capacity from 200,000 to 400,000tpa (Stage 2).

At a Board level, we welcomed the appointment of Mr Rod Baxter as Non-Executive Director in March. Rod brought to WA Kaolin the experience of his extensive national and international career of leadership roles in listed and non-listed companies.

We also strengthened our operational team significantly throughout the year with key appointments including Mr Graham Tanner as Operations Manager and Mr David Griffiths as Maintenance Manager.

The Company is committed to employing residents from the Wheatbelt region and I am pleased to advise that to date we have nine local employees, a number we anticipate growing considerably over the coming year.

Financially, your Company is in a strong position with a cash balance at 30th June 2022 of \$6,374,350.

We look forward to another landmark year ahead for WA Kaolin as we reach our Stage 1 production rate of 200,000tpa and strive towards our next major milestone, completing Stage 2 to reach 400,000tpa.

I thank you, our shareholders, for your continued support and we look forward to growing this great Company further over the years to come.

Yours sincerely

Dr. John White (Chairman)

WA Kaolin Annual Report 2022

OPERATIONAL UPDATE

WA Kaolin holds the Wickepin Kaolin Project which has a 644.5 million tonne Mineral Resource, which includes an Ore Reserve Estimate of 30.5 million tonnes of kaolinised granite. The Wickepin Project is 220km south-east of Perth and produces kaolin products for tier one customers.

The Company has a staged ramp up strategy at the Wickepin Project. Stage 1 will see the annual production output up to 200,000 tonnes per annum (tpa) with a second stage expanding production to 400,000tpa with future staged increases of production being brought on stream in line with market demand.

WA Kaolin acquired the Wickepin Project in 1999 from Rio Tinto which, through exploration, had discovered and drilled out a Mineral Resource and commissioned engineering and feasibility studies. Since then and prior to the Company's IPO in November 2020, WA Kaolin's co-founders and owners have invested \$42 million to develop and progress Wickepin.



Wickepin Processing Plant September 2022

REVIEW OF ACTIVITIES

During the reporting period, WA Kaolin achieved practical completion of the processing plant at the Wickepin Kaolin Project, with construction compliance achieved. Notably, the completion occurred within the Company's original budget which was detailed in its IPO Prospectus. Following delivery of the processing plant with an excellent safety record during construction, WA Kaolin progressed to the commissioning of a safe, efficient and operation-ready facility. Commissioning commenced on 27 June 2022 and processing of run-of-mine ore was on track to begin in August 2022, with the ramp up to the full production rate of 25 tonnes per hour in the third quarter of CY2022 on schedule.

The processing plant has been constructed to utilise WA Kaolin's proprietary dry processing method, the K99 Process, designed specifically for the high-grade Wickepin kaolin resource. The K99 process will produce an ultra-bright, high-quality kaolin product at a low cost, in comparison to other methods which rely on chemical bleaching and multiple wet mechanical and magnetic separation methods.



Construction at Wickepin October 2021



Ongoing work at the Company's 644.5 million tonne Mineral Resource, which includes an Ore Reserve Estimate of 30.5 million tonnes of kaolinised granite

Throughout the development of Stage 1, the Company's Kwinana proof of concept plant continued operating with kaolin shipments for tier one customers. WA Kaolin has experienced unprecedented demand for its Stage 1 targeted production as new potential clients continue to emerge.

Due to this strong customer demand, elements of the Stage 2 Capex (~\$4m) were brought forward into the current construction phase, to take advantage of cost savings and to shorten the lead-time to implement the next increase of production capacity from 200,000 to 400,000tpa.

WA Kaolin has achieved this progress despite the substantial impact of COVID-19 on the Wickepin Project. Due to COVID-19, the Company's pathway to the full production rate was hampered by shortages of labour and the delay in some material supply – as a result a short delay in the ramp up of production was experienced, delaying the pre-COVID schedule by three months.

The Company reported that despite its effective Covid Management Plans and Strategy, up to 59% of the workforce at Wickepin had either contracted COVID-19 or had been close contacts, therefore necessitating quarantining, with a total loss of 82 person-days.

During the reporting period, the following agreements critical to the operation of the Wickepin Project were signed:

- Transport contract with ACFS Port Logistics Pty Ltd for transport services between the Wickepin Project and ACFS's Fremantle Port facility in Western Australia. Under the agreement, ACFS will transport bagged kaolin by container from the Wickepin Processing Plant to Fremantle Port for

export. The contract will initially span one year with a two-year renewal option. A further 12-month extension option is also offered based on service performance.

- A 15-year agreement with the Western Australian Water Corporation for the supply of water to the Wickepin Project. The supply of fresh water is critical for the processing of kaolin, amenities at the mine site, fire management and dust suppression. Over the period of this agreement, the Water Corporation will make available up to 49kL of water per day or 343kL per week to WA Kaolin.
- A contract was signed with Haver & Boecker Australia for the supply of equipment that will form the basis of a bagging solution for the Company's kaolin powder product once production commences at Wickepin. The equipment is designed to fill 700 valve bags per hour, each bag will be filled to 20kg, meaning WA Kaolin will have the capacity to pack more than half of the first stage design production capacity into 20kg bags. The market price for kaolin packed in 20kg bags exceeds that of kaolin packed in bulk bags so the addition of the equipment will have a positive impact on profitability.
- The purchase of three FG Wilson P550 generators from AllightSykes. The gensets are key components of the Stage 1 build at Wickepin, providing the main power source for the entire site. The purchase of the gensets was a significant milestone for WA Kaolin as it completed the entire utilities package for the Stage 1 Build.



Conditioned ore feed to the rotary kiln September 2022

Offtake Agreements

WA Kaolin has now secured Offtake and LOI Agreements covering 90% of its planned Stage 1 200,000tpa production capacity, including important agreements with international partners during the reporting period.

Most recently, the Company signed an Offtake Agreement for up to 13,500 tonnes over a period of three years with a distributor in the ceramic and paint market in Vietnam. The Offtake Agreement is for the period 1 July 2022 through to 30 June 2025. Any renewal of the Agreement will be negotiated by 31 March 2025.

Under the terms of this Offtake Agreement, WA Kaolin is to supply a targeted 4,500tpa (minimum 2,500tpa) for three years. Pricing for the Offtake Agreement will be competitive to the world kaolin market delivered on a cost and freight (CFR) basis. Pricing of at least the minimum quantity will be negotiated on a quarterly basis through mutual negotiation and agreement.

In March, the Company announced it signed an agreement with a distributor servicing the rubber and ceramics markets in China for a period of three years, representing 5% of the total output from the Company's Stage 1 ramp up of Wickepin. The Offtake Agreement is for the period 1 July 2022 through to 30 June 2025.

Any renewal of the Agreement will be negotiated prior to 31 March 2025. Under the terms of the Offtake Agreement, WA Kaolin is to supply at targeted 10,000 tonnes per annum (minimum 3,000tpa) for three years. Pricing for the agreement will be competitive to the world kaolin market delivered on a cost and freight (CFR) basis and will be negotiated on a quarterly basis through mutual negotiation and agreement.



The Wickepin Kaolin Project

Project Appointments

WA Kaolin has strengthened its operational team at the Wickepin Kaolin Project in the lead up to production commencing. The Company appointed Graham Tanner as its Operations Manager, effective 18 July 2022. Mr Tanner is an experienced general manager and site senior executive with a career spanning more than 25 years in the mining industry in Western Australia, Northern Territory, Eastern Australia and West Africa.

Most recently, Mr Tanner was Operations Manager for Metro Mining Ltd (ASX: MMI) at the Bauxite Hills Mine in Queensland. Mr Tanner will be based at the Wickepin Kaolin Project site where he will oversee operations as WA Kaolin ramps up production.

The Company also appointed David Griffiths as Maintenance Manager at the Wickepin Kaolin Project. Mr Griffiths, a local resident with more than 25 years' experience working with heavy machinery, commenced his role on 11 July 2022 and is based on site at Wickepin.

WA Kaolin is strongly committed to employing residents from Western Australia's Wheatbelt region for roles at the Wickepin Project. The Company now has nine employees in its workforce who reside locally.

The Company's other appointments from within the local community have included:

- Logistics & Procurement Manager
- Office Administrator
- Maintenance Supervisor
- QA/QC Officer, incl Mine Plan Drilling, plus Laboratory Technician
- Trades Assistants (who will transition into production roles once the construction is completed).



CEO Andrew Sorensen demonstrates the ultra-bright, high-quality kaolin at Wickepin

CORPORATE

During the reporting period, WA Kaolin completed a capital raising comprising a \$6.1m placement of new shares, a \$2.93m Share Purchase Plan to eligible shareholders, and \$5m secured working capital loan facility.

The Company secured the \$5m to replace the working capital spent in advance on Stage 2 and raised the \$9m of new equity to add to Stage 2 infrastructure and further market developments.

The placement comprised a single tranche share placement of 33,888,889 fully paid ordinary shares at an issue price of \$0.18 per New Share to sophisticated, professional and other institutional investors in Australia to raise \$6.1m (before costs). The issue price represented a 10% discount to the closing price of \$0.20 as at 4 February 2022 and a 12.6% discount to the 5-day trading Volume Weighted Average Price of A\$0.206. The New Shares were issued through the Company's available placement capacity pursuant to ASX Listing Rule 7.1.

Share Purchase Plan Eligible shareholders with a registered address in Australia or New Zealand were also invited to participate in the SPP at the same issue price as the Placement (\$0.18 per New Share).

Key terms of the SPP included:

- Up to \$30,000 per eligible shareholder, across all of their holdings
- WA Kaolin intended to raise up to A\$0.9 million (the Board having the right to take overs in its absolute discretion)
- The SPP underwritten up to the target amount of \$0.9 million

The SPP closed with applications received for 16,280,695 shares with the Board deciding not to scale back applications and accept all applications raising \$2.93m.

Canaccord Genuity (Australia) Limited acted as Lead Manager and Bookrunner to the Placement and Lead Manager and Underwriter to the SPP. JP Equity Partners acted as Co-Manager to the Placement.

To support the Company's ramp up of Stage 2 development, WA Kaolin also secured a loan facility of \$5m provided by its Top 5 shareholder, Gordon Martin (Boneyard Investments Pty Ltd). The \$5m facility has a maturity date of three years from the date of advance at an interest rate of 8% per annum, with interest payable quarterly in arrears. A registered mortgage has been granted over the Company's East Rockingham property as security for this loan.

Board Appointment

WA Kaolin appointed Rod Baxter as Non-Executive Director to the Board, effective mid-March 2022. Mr Baxter is a highly respected mining executive and seasoned director, who has extensive international and multi-sector experience. His previous leadership roles include Managing Director and Non-Executive Director of listed and unlisted companies. Mr Baxter is currently a Non-Executive Director on the Boards of Podium Minerals Ltd, Trigg Mining Ltd, Ausenco and Cullen Wines, and has operated across several different industry sectors in Australia and internationally.

Contents	Page
Corporate Information	2
Directors' Report	3
Auditor's Independence Declaration	19
Statement of Profit or Loss and Other Comprehensive Income	20
Statement of Financial Position	21
Statement of Changes in Equity	22
Statement of Cash Flows	23
Notes to the Financial Statements	24
Directors' Declaration	60
Independent Auditor's Report	61
ASX Additional Information	65

CORPORATE INFORMATION

ABN 56 083 187 017

Directors

Dr John White (Non-Executive Chairman)

Mr Alfred Baker (Executive Director)

Ms Cathy Moises (Non-Executive Director)

Chief Executive Officer

Mr Andrew Sorensen

Company secretary

Mr Michael Kenyon

Registered office

Lot 3, Ward Road

ROCKINGHAM WA 6168

Telephone: +61 8 9439 6300

Principal place of business

Lot 3 Ward Road

EAST ROCKINGHAM WA 6168

Telephone: +61 8 9439 6300

Website: www.wakaolin.com.au

Share registry

Automatic Share Registry

126 Phillip Street

SYDNEY NSW 2000

Telephone: 1300 288 664

Solicitors

EMK Lawyers

Suite 1, 519 Stirling Highway

COTTESLOE WA 6012

Bankers

National Australia Bank

255 George Street

SYDNEY NSW 2000

Auditors

BDO Audit (WA) Pty Ltd

Level 9

Mia Yellagonga Tower 2

5 Spring Street

Perth WA 6000

DIRECTORS' REPORT

The directors of WA Kaolin Limited (the "Company") submit the financial report for the year ended 30 June 2022. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

Directors

The names of directors who held office throughout the period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mr Alfred Baker
 Dr John White
 Ms Cathy Moises
 Mr Linton Putland
 Mr Rod Baxter (appointed 15 March 2022)
 Mr Cameron Baker (alternate director)

Directors' Information

Dr John White (Non-Executive Chairman)

Dr White has been a director and/or CEO of several publicly listed and private Australian companies. Dr White is formerly the Chairman of the Federal Government's Uranium Industry Framework Council, a member of the Federal Government's Defence Procurement Board and Director of the DefenceSA Advisory Board.

Dr White had extensive involvement with Woodside's North West Shelf Offshore Gas and LNG Development from 1978 to 1984, and then participated in the RAN Collins Class Submarine Project tender as Project Director for the Australian-German owned AMEC proposal.

Dr White was CEO of Transfield Defence Systems Pty Ltd from 1988 to 1996 and then Global Chief Executive of the recycling/packaging group, Visy Industries. He is currently Chairman of Regenerative Australian Farmers Pty Ltd and Birdon Pty Ltd.

Qualifications: BE(Hon), PhD

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: Chairman of Board of Directors, Member of Remuneration and Finance & Audit Committees

Interests in shares: None

Interests in options: 3,000,000

Interests in performance rights: None

Mr Alfred Baker (Executive Director)

Mr Baker has an engineering background with more than 40 years' experience in process technology and is co-founder of WA Kaolin. He is an experienced and successful businessman, authoring several patents and designs during his extensive career.

Since 1996, Mr Baker has founded and directed a number of companies, including:

- EMC Pacific Aust P/L (EMCPA), Australia's only manufacturer of power distribution insulators. EMCPA has formed a joint venture to commence manufacture of its products in USA, commencing April 2020.
- Pacific Polymers, a mineral treatment plant operating in Dandenong, Victoria, using patented technology.

Mr Baker was Managing Director of the highly successful PQ Australia (PQA) from 1976 to 1996, which he co-founded with his brother. PQA produces the inorganic chemical, Sodium Silicate, in both glass and liquid form, and the patented valuable downstream product 'Q-Cel' hollow microspheres.

In all cases, innovation, hands on determination and training of younger executives have led to success and low-cost producer status.

Mr Baker is also charged with the overall responsibility, as project director, of the Company's Wickepin mine development.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: Executive Director

Interests in shares: 49,883,574

Interests in options: 13,200,000

Interests in performance rights: 13,200,000

DIRECTORS' REPORT (continued)

Ms Cathy Moises (Non-Executive Director)

Ms Moises has worked for a number of the most prominent stock broking firms within Australia including Merrill Lynch, Citigroup, Evans and Partners (as a partner) and most recently worked as Head of Research for Patersons Securities.

Ms Moises has a Bachelor of Science (Hons) Geology in addition to a Securities Institute of Australia Diploma of Finance and Investment and has over 30 years' experience working within the resources industry primarily as a financial analyst. She has extensive capital markets, company management, financial analysis and Institutional Investor engagement experience.

Qualifications: BSc (Hons), GDAFI

Other current directorships: Arafura Resources Limited, Australian Potash Limited, Podium Minerals Limited, and PacGold Limited

Former directorships (last 3 years): Pearl Gull Limited

Special responsibilities: Chair of Remuneration Committee, Member of Finance & Audit Committee

Interests in shares: 1,250,000

Interests in options: 3,375,000

Interests in performance rights: None

Mr Linton Putland (Non-Executive Director) (resigned 19 September 2022)

Mr Putland holds degrees in Mining Engineering (Bachelor of Engineering, Western Australian School of Mines) and a Masters in Science (Mineral Economics, Western Australian School of Mines) with more than 30 years' experience in mining operations, joint ventures and corporate management in Australia, Africa and the Americas, over a wide range of commodities.

Mr Putland is principal of LJ Putland & Associates, a private mining consultancy company which was founded in 2002, providing advisory and consultancy services in mining project and company evaluation and due diligence appraisals with a focus on corporate growth. During this period, he has also been Managing Director of a privately-owned exploration company with joint venture interests in Africa.

Prior to this he held corporate and senior management roles in IAMGOLD, AurionGold, Delta Gold and Pancontinental Mining. He is a Member of AusIMM and a Graduate Member of AICD.

Qualifications: B Eng (Mining), MSc (Min Economics)

Other current directorships: Breaker Resources NL, Tesoro Gold Limited

Former directorships (last 3 years): Pacific Energy Limited (ceased 2 December 2019); Azumah Resources Limited (ceased 14 November 2019)

Special responsibilities: Chair of Finance & Audit Committee, Chair of Disclosure Committee, Member of Remuneration Committee

Interests in shares: None

Interests in options: 1,500,000

Interests in performance rights: None

Mr Rod Baxter (Non-Executive Director) (appointed 15 March 2022) (resigned 19 September 2022)

Mr Baxter is a seasoned director and business executive with extensive international and multi-sector experience and was appointed on 15 March 2022. He has a track record in executing business turnarounds and delivering substantial company growth strategies through organic, acquisitions, and IPO's.

Mr Baxter's leadership roles include Managing Director of listed and private companies in the Mining Resources, Engineering and Construction, and Manufacturing industries.

Other current directorships: Trigg Mining Limited, Podium Minerals Limited, and Ausenco Pty Ltd.

Former directorships: Managing Director of engineering and construction services company Calibre Group Limited, Managing Director of diversified resources company Consolidated Minerals Limited, and Divisional Director with Anglo American Platinum Limited. He has also served as a Non-executive Director on numerous company Boards.

Qualifications: BSc (Hons), PhD, and MBA qualifications

Special responsibilities: Member of Finance & Audit Committee, Member of Remuneration Committee

Interests in shares: None

Interests in options: None

Interests in performance rights: None

DIRECTORS' REPORT (continued)

Mr Michael Kenyon (Company Secretary)

Mr Kenyon has held senior roles with both private and ASX-listed corporations over the past 23 years. He holds a Bachelor of Business degree from Edith Cowan University, is a Chartered Accountant and a graduate member of the Australian Institute of Company Directors.

He commenced his finance career with roles at then 'Big 6' professional services firms, Ernst & Whinney and Price Waterhouse before joining diversified industrial company, Vysarn Pty Ltd in 1997 as Chief Financial Officer.

Since that time, Mr Kenyon has held CFO roles with ASX-listed Forge Group Ltd, Matrix Composites and Engineering Ltd and is currently also the CFO for Resource Development Group Ltd. He is also the company secretary of ASX-listed company Babylon Pump & Power Limited and deputy chair of a leading Catholic aged care and community services provider in Perth, Western Australia.

Interests in shares: 196,191

Interests in options: 1,210,938

Interests in performance rights: None

Directors' Meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	Directors' Meetings	Eligible to attend	Remuneration Committee	Disclosure Committee
Number of meetings held:	13	13	2	3
Number of meetings attended:				
Mr Rod Baxter	4	4	-	-
Dr John White	13	13	2	-
Mr Alfred Baker	12	13	-	-
Ms Cathy Moises	13	13	2	-
Mr Linton Putland	13	13	2	3
Mr Cameron Baker	1	13	-	-

DIRECTORS' REPORT (continued)

Review of operations

The Company's operations for the financial year resulted in loss after tax of \$7,551,269 (2021: \$20,673,297). The loss includes an interest expense of \$1,945,962 (2021: \$2,877,951) and significant non-cash expenses for share-based payments of \$2,200,000 (2021: \$4,050,405) and fair value adjustments to convertible notes of \$Nil (2021: \$8,916,984).

The Company has current operations in a Company-owned facility in East Rockingham, Western Australia, where it operates a small-scale production plant producing beneficiated kaolin utilising its K99 Process. The Company also conducts mining operations at its mining tenement in East Wickepin, Western Australia, and transfers ore to East Rockingham for processing. The Company then sells the kaolin through a network of distributors both in Australia and overseas.

The Company is sole owner of a mining lease, a general-purpose lease, a miscellaneous licence and retention licences which comprise the Wickepin Kaolin Project (Project). The Project, which is one of the largest known remaining kaolin resources in the world, contains an Ore Reserve of 30 million tonnes and Mineral Resource (reported in accordance with JORC 2012) of 644.5 million tonnes of high-grade premium kaolinized granite. The Company is currently well advanced with the development of the Project which includes the establishment of a 200,000t per annum processing plant and associated infrastructure and equipment.

In May 2020, the Company formalised an offtake agreement with one of its key customers, Dak Tai Trading Limited, for the supply of 338,000 tonnes of kaolin. It also has in place informal arrangements with other key distributors and customers which further support the Company's targeted production of kaolin.

WA Kaolin is also currently exploring a novel low capex wet processing method for kaolin, which will utilise the kaolin processed via the K99 Process as feedstock instead of raw ore. The Directors consider that this novel wet processing method could significantly lower the cost of entering the premium paper and packing market.

The Company is primarily focused on establishing itself as the preferred supplier of high-grade premium kaolin products globally through:

- Construction of a scaled-up processing plant in East Wickepin, utilising the K99 Process;
- progressive increase in production to circa 200,000 tonnes per annum through the plant planned by the end of 2022;
- expansion of production capacity at the Wickepin plant to 400,000 tonnes per annum by the end of 2023 through the installation of a second stage of production equipment;
- negotiation of sales agreements for product on suitable commercial terms with acceptable counterparties; and
- investment in further processing expansion including the construction of an additional wet processing plant to produce product suitable for use in premium paper and packaging markets and/or an expansion program for the construction of an additional processing plant to significantly increase production capacity utilising the K99 Process.

The Company was admitted to the Official List of ASX Limited on 24 November 2020 and its ordinary shares subsequently officially quoted on 26 November 2020.

Principal Activities

The principal activities of the Company were the exploration and development of an Inferred Mineral Resource of high-grade premium kaolinised granite, proprietary production and value-adding processes.

Significant events after reporting date

On 7 July 2022, the Company announced that it had entered into a contract with ACFS Port Logistics Pty Ltd for transport of kaolin product between its Wickepin Processing Plant and Fremantle Port for an initial one-year term, with two-year renewal plus a further 12-month extension option. The Company also announced the augmentation of its workforce at Wickepin with the appointment of an operations manager and maintenance manager.

On 9 September 2022, the Company announced that it was advancing its commissioning of the Wickepin Processing Plant, with nameplate capacity of 25 tonnes per hour scheduled to be produced by the end of September 2022.

On 20 September 2022, the Company also announced the resignation of two of its non-executive directors, as the Company heads into a transitional phase from commissioning to production.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Likely developments and expected results

It is expected that the operations of the Company will advance into commercial production as its Wickepin Processing Facility comes on-line at the end of September 2022.

Environmental regulations

The Company is subject to and is compliant with all aspects of environmental regulation of its exploration and mining activities. The directors are not aware of any environmental law that is not being complied with.

DIRECTORS' REPORT (continued)

Dividend paid, recommended and declared

No dividends were paid, declared or recommended since the start of the financial year (2021: \$Nil).

Remuneration report (Audited)

This remuneration report, which forms part of the directors' report, sets out information about the remuneration of the Company's key management personnel for the financial year ended 30 June 2022. The term 'key management personnel' refers to those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company. The prescribed details for each person covered by this report are detailed below under the following headings:

- Remuneration policy
- Key management personnel emoluments
- Service agreements
- Options granted as part of remuneration
- Share-based compensation
- Additional disclosures relating to key management personnel

Directors and Key Management Personnel ("KMP")

Dr John White	Non-Executive Chairman
Mr Rod Baxter	Non-Executive Director (appointed 15 March 2022) (resigned 19 September 2022)
Mr Linton Putland	Non-Executive Director (resigned 19 September 2022)
Ms Cathy Moises	Non-Executive Director
Mr Alfred Baker	Executive Director
Mr Cameron Baker	Alternate Director
Mr Andrew Sorensen	Chief Executive Officer
Mr Michael Kenyon	Chief Financial Officer / Company Secretary

Remuneration Policy

The Company does not yet have a formal remuneration policy however any remuneration has been designed to align directors' objectives with shareholders and business objectives and is in line with the market. The Board of the Directors (the Board) believes this approach to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the business, as well as create goal congruence between directors, executives and shareholders. The Board's policy for determining the nature and amount of remuneration for Board members of the Company is as follows:

The Board is responsible for determining and reviewing the compensation of the directors and the executive directors are responsible for determining and reviewing the remuneration of senior executives. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the Company's operations. The Board of Directors assesses market rates and seeks the advice of external advisers, where necessary, in connection with the structure of remuneration packages. The Board also recommends levels and form of remuneration for Non-Executive Directors with reference to performance, relevant comparative remuneration and independent expert advice. The total sum of remuneration payable to Non-Executive Directors shall not exceed the sum fixed by members of the Company in general meeting. The Company has not used a remuneration consultant.

There is no direct relationship between the Company's Remuneration Policy and its performance. However, in determining the remuneration to be paid in each subsequent financial year, the Board may have regard to the following indicators of performance in respect of the current financial year and the previous financial years:

	2022	2021	2020	2019	2018	2017
Net loss after tax	\$(7,551,269)	\$(20,673,297)	\$(5,162,653)	\$(1,415,031)	\$(1,855,387)	\$(1,739,848)
Share price	\$0.205	\$0.205	N/A	N/A	N/A	N/A
Basic loss per share (\$ per share)	\$(0.03)	\$(0.09)	\$(0.04)	\$(0.01)	\$(0.07)	\$(0.07)
Dividend	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil

Non-executive director remuneration

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

DIRECTORS' REPORT (continued)

Remuneration report (Audited) (continued)

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at a General Meeting held on 29 November 2019 when shareholders approved an aggregate remuneration of \$350,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the way it is apportioned amongst directors is reviewed annually. The Board considers advice from external shareholders as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

CEO and executive director remuneration

Remuneration consists of fixed remuneration and variable remuneration (comprising short-term and long-term incentive schemes).

Compensation levels for executives of the Company are competitively set to attract and retain appropriately qualified and experienced executives. The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

The compensation structures consider:

- The capability and experience of the executive;
- The executive's ability to control the company's performance; and
- The Company's performance including:
 - (a) The Company's earnings; and
 - (b) The growth in share price and delivering constant returns on shareholder wealth.

Key Management Personnel Emoluments

The Company's policy for determining the nature and amount of emoluments of key management personnel is that key management persons are to be paid by salaries or consulting fees at commercial rates for professional services performed.

Details of the nature and amount of each element of the emoluments of each key management person of the Company are set out in the following tables:

DIRECTORS' REPORT (continued)**Remuneration report (Audited) (continued)****Key Management Personnel Emoluments (continued)**

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments			Performance related
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options/ rights	Total	
2022	\$	\$	\$	\$	\$	\$	\$	\$	%
<i>Executive Director:</i>									
Mr A Baker*	339,000	-	-	-	-	-	1,056,000	1,395,000	76
<i>Total Executive Director</i>	<i>339,000</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1,056,000</i>	<i>1,395,000</i>	<i>76</i>
<i>Non-Executive Directors:</i>									
Dr J White	72,000	-	-	7,200	-	-	-	79,200	-
Ms C Moises	48,000	-	-	4,800	-	-	-	52,800	-
Mr R Baxter***	14,261	-	-	1,426	-	-	-	15,687	-
Mr L Putland	48,000	-	-	4,800	-	-	-	52,800	-
<i>Total Non-Executive Directors</i>	<i>182,261</i>	<i>-</i>	<i>-</i>	<i>18,226</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>200,487</i>	
<i>Executives</i>									
Mr A Sorensen (CEO)**	288,000	5,000	11,550	28,800	16,795	-	88,000	438,145	20
Mr M Kenyon (CFO/ Company Secretary)	129,550	-	-	-	-	-	-	129,550	-
<i>Total Executives</i>	<i>417,550</i>	<i>5,000</i>	<i>11,550</i>	<i>28,800</i>	<i>16,795</i>	<i>-</i>	<i>88,000</i>	<i>567,695</i>	<i>15</i>
Total	938,811	5,000	11,550	47,026	16,795	-	1,144,000	2,163,182	53

* Mr Baker's salary and fees includes \$24,000 of director fees

** Payment of bonus to Mr. Sorensen was at the Board's discretion and not subject to any specific performance condition

*** Mr Baxter was appointed on 15 March 2022 as non-executive director

DIRECTORS' REPORT (continued)**Remuneration report (Audited) (continued)****Key Management Personnel Emoluments (continued)**

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments			
	Cash salary and fees	Cash bonus	Non-monetary ***	Super-annuation	Long service leave	Equity-settled shares	Equity-settled options	Total	Performance related
2021	\$	\$	\$	\$	\$	\$	\$	\$	%
<i>Executive Director:</i>									
Mr A Baker*	205,800	-	-	-	-	-	1,752,962	1,958,762	-
<i>Total Executive Director</i>	<i>205,800</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>1,752,962</i>	<i>1,958,762</i>	<i>-</i>
<i>Non-Executive Directors:</i>									
Mr K Snell **	-	-	-	-	-	-	956,161	956,161	-
Dr J White	72,000	-	-	6,840	-	-	398,400	477,240	-
Ms C Moises	48,000	-	-	4,560	-	-	199,200	251,760	-
Mr L Putland	48,000	-	-	4,560	-	-	199,200	251,760	-
<i>Total Non-Executive Directors</i>	<i>168,000</i>	<i>-</i>	<i>-</i>	<i>15,960</i>	<i>-</i>	<i>-</i>	<i>1,752,961</i>	<i>1,936,921</i>	<i>-</i>
<i>Executives</i>									
Mr A Sorensen (CEO)****	224,004	6,500	21,100	22,400	-	-	278,880	552,884	-
Mr M Kenyon (CFO/ Company Secretary)	147,485	-	-	-	-	-	132,800	280,285	-
<i>Total Executives</i>	<i>371,489</i>	<i>6,500</i>	<i>21,100</i>	<i>22,400</i>	<i>-</i>	<i>-</i>	<i>411,680</i>	<i>833,169</i>	<i>-</i>
Total	745,289	6,500	21,100	38,360	-	-	3,917,603	4,728,852	-

* Mr Baker's salary and fees includes \$24,000 of director fees

** Mr Snell resigned 24 July 2020

*** Non-monetary benefits relate to the payment for accommodation costs

**** Payment of bonus to Mr Sorensen was at the Board's discretion and not subject to any specific performance condition

DIRECTORS' REPORT (continued)

Remuneration report (Audited) (continued)

Service Agreements

Non-Executive Directors

On appointment to the Board, all directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms of appointment, including compensation relevant to the office of director. Remuneration and other terms of employment for the directors are also formalised in the letter as summarised below:

Dr J White (Chairman)

Term: Continuation of appointment is contingent upon successful election and re-election by shareholders of the Company at its Annual General Meeting as required by its Constitution

Fees: \$72,000 per annum (exclusive of superannuation) until the Company's first operational cash flow positive quarter then increased to \$96,000 per annum (exclusive of superannuation)

Notice periods: Not applicable

Termination payments: Not applicable

Ms C Moises (Non-executive Director)

Term: Continuation of appointment is contingent upon successful election and re-election by shareholders of the Company at its Annual General Meeting as required by its Constitution

Fees: \$48,000 per annum (exclusive of superannuation) until the Company's first operational cash flow positive quarter then increased to \$66,000 per annum (exclusive of superannuation)

Notice periods: Not applicable

Termination payments: Not applicable

Mr L Putland (Non-executive Director)

Term: Continuation of appointment is contingent upon successful election and re-election by shareholders of the Company at its Annual General Meeting as required by its Constitution

Fees: \$48,000 per annum (exclusive of superannuation) until the Company's first operational cash flow positive quarter then increased to \$66,000 per annum (exclusive of superannuation)

Notice periods: Not applicable

Termination payments: Not applicable

Mr R Baxter (Non-executive Director)

Term: Continuation of appointment is contingent upon successful election and re-election by shareholders of the Company at its Annual General Meeting as required by its Constitution

Fees: \$48,000 per annum (exclusive of superannuation) until the Company's first operational cash flow positive quarter then increased to \$66,000 per annum (exclusive of superannuation)

Notice periods: Not applicable

Termination payments: Not applicable

Executive Director

On appointment to the Board, all directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms of appointment, including compensation relevant to the office of director. Remuneration and other terms of employment for the directors are also formalised in the letter as summarised below:

Mr A Baker (Executive Director)

Term: Continuation of appointment is contingent upon successful election and re-election by shareholders of the Company at its Annual General Meeting as required by its Constitution

Fees: \$24,000 per annum (exclusive of superannuation) until the Company's first operational cash flow positive quarter then increased to \$33,000 per annum (exclusive of superannuation)

Notice periods: Not applicable

Termination payments: Not applicable

DIRECTORS' REPORT (continued)**Remuneration report (Audited) (continued)****Service Agreements (continued)**

In addition, Mr Baker is engaged as a consultant to the Company, through a related entity of his (Wamco Industries Pty Ltd), by way of a Consultancy Deed with the following terms and conditions:

Term: Open-ended

Fees: \$23,333 effective from 1st Jan 2021 per month (exclusive of GST).

Termination: 6 months with no reason; immediately upon certain adverse events.

Management

The Company's management are employed under an Executive Employment Contract and a Contract Services Agreement, respectively, as detailed below:

Mr A Sorensen (CEO)

Commencement date: 1 October 2019

Total remuneration package: Base salary \$240,000 plus superannuation per annum. Remuneration to be reviewed annually by the Board.

Notice period: 3 months by either party

Restraint area/period: Australia / 36 months

Mr M Kenyon (CFO/Company Secretary)

Commencement date: 4 June 2019

Fees: \$1,300 per day (or part thereof) from commencement date

Updated to \$1,350 per day (or part thereof) effective from 1 June 2022

Notice period: 8 weeks by either party

Share-based compensation*Options*

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

	Number of options granted	Grant date	Vesting date and exercisable date ¹	Expiry date	Exercise price per option (\$)	Fair value per option at grant date (\$)
Mr A Baker	13,200,000	20 Nov 2020	20 Nov 2022	20 Nov 2025	\$0.35	\$0.1328
Mr J White	3,000,000	20 Nov 2020	20 Nov 2022	20 Nov 2025	\$0.35	\$0.1328
Ms C Moises	1,500,000	20 Nov 2020	20 Nov 2022	20 Nov 2025	\$0.35	\$0.1328
Mr L Putland	1,500,000	20 Nov 2020	20 Nov 2022	20 Nov 2025	\$0.35	\$0.1328
Mr A Sorensen	2,100,000	20 Nov 2020	20 Nov 2022	20 Nov 2025	\$0.35	\$0.1328
Mr M Kenyon	1,000,000	20 Nov 2020	20 Nov 2020	20 Nov 2025	\$0.35	\$0.1328

¹With the exception of Mr Kenyon's options, all other options are subject to a 24-month escrow period

Options granted carry no dividend or voting rights.

All options were granted over unissued fully paid ordinary shares in the company and vested immediately. Options are exercisable by the holder as from the vesting date (for certain holders, consideration must also be given to the escrow period). There has not been any alteration to the terms or conditions of the grant since the grant date. There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their potential exercise.

DIRECTORS' REPORT (continued)**Remuneration report (Audited) (continued)****Share-based compensation (continued)**

No.	Milestone	30-Jun-22
1	Project Delivery – CAPEX: Wickepin production facility has been constructed and commissioned at or below 112.5% of budget (\$18 million)	5,500,000
2	Project Delivery – Production: Wickepin production achieves an average production rate equal to or exceeding 20t/hour of processed kaolin during a completion test, to be conducted over a 5-day period of scheduled plant operation hours	5,500,000 ¹
	Total number of Performance Rights to vest across all holders (of a total on issue of 27,500,000)	11,000,000
	Percentage of a holder's Performance Rights to vest:	40%

¹5,500,000 Performance rights had a time extension applied to them from 30th June 2022 to 30th September 2022.

DIRECTORS' REPORT (continued)**Remuneration report (Audited) (continued)****Additional disclosures relating to key management personnel***Shareholding*

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

<i>Ordinary shares</i>	Balance at the start of the year	Received as part of remuneration	Additions	Disposals	Net change other ¹	Balance at the end of the year
Directors						
Mr A Baker	49,883,574	-	-	-	-	49,883,574
Dr J White	-	-	-	-	-	-
Ms C Moises	1,250,000	-	-	-	-	1,250,000
Mr L Putland	-	-	-	-	-	-
	51,133,574	-	-	-	-	51,133,574
Executives						
Mr A Sorensen	6,187,556	-	-	-	166,667	6,354,223
Mr M Kenyon	140,635	-	-	-	55,556	196,191
	6,328,191	-	-	-	222,223	6,550,414
Totals	57,461,765	-	-	-	222,223	57,683,988

¹ Net change other (Mr Kenyon, and Mr Sorensen) – both participated in the rights issue in March 2022

Performance Rights

During the year ended 30 June 2021, the Company issued 27,500,000 Performance Rights to the chief executive, executive director and former director/founder. Each Performance Right is a right to be issued with a single ordinary share upon vesting of the Performance Right, free of encumbrances. No consideration will be payable upon the vesting or conversion of the Performance Rights. See note 13 for conditions attached to the Performance Rights.

The number of Performance Rights in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

<i>Performance Rights</i>	Balance at start of period	# Granted during the period	Vested and Exercised	Cancelled/ Forfeited	Balance at end of period	Value vested during the period (\$)	Maximum value yet to vest (\$)
Mr A Baker	13,200,000	-	-	-	13,200,000	-	2,640,000
Mr A Sorensen	1,100,000	-	-	-	1,100,000	-	220,000
	14,300,000	-	-	-	14,300,000	-	2,860,000

DIRECTORS' REPORT (continued)**Remuneration report (Audited) (continued)****Additional disclosures relating to key management personnel (continued)***Option holding*

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

<i>Options over shares</i>	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Directors					
Mr A Baker	13,200,000	-	-	-	13,200,000
Dr J White	3,000,000	-	-	-	3,000,000
Ms C Moises	3,375,000	-	-	-	3,375,000
Mr L Putland	1,500,000	-	-	-	1,500,000
	21,075,000	-	-	-	21,075,000
Executives					
Mr A Sorensen	2,100,000	-	-	-	2,100,000
Mr M Kenyon	1,210,938	-	-	-	1,210,938
	3,310,938	-	-	-	3,310,938
Totals	24,385,938	-	-	-	24,385,938

Other transactions with directors and officers*Royalty Deed*

On 1 July 2019, a Royalty Deed was executed between the Company and Wamco Industries Group Pty Ltd (Wamco), a company in which Mr. A Baker, Mr. A Sorensen and the estate of Mr. K Snell, all have an ownership interest.

WA Kaolin has agreed to pay a royalty to Wamco until the earlier of 1 July 2049 and the date WA Kaolin relinquishes, surrenders or conveys to Wamco all of the Tenements (other than L70/156 and G70/251).

WA Kaolin owes to Wamco a royalty for each quarter in which WA Kaolin either mines or sells kaolin ore ex-works, FCA or FOB or mines and processes kaolin ore to produce a kaolin product which is sold ex-works, FCA or FOB, which must be paid quarterly.

The royalty is the greater of:

- (a) \$1.50 per tonne of dry kaolin ore or product sold in a quarter, provided that if kaolin product has been sold after processing, then tonnage used to calculate the royalty will be twice the actual tonnage of the processed kaolin; or
- (b) 1.5% of the price received for the sale of kaolin ore or product in a quarter.

Tonnage Royalty Deed

On 1 July 2019, a Tonnage Royalty Deed was executed between the Company and Wamco Industries Group Pty Ltd (Wamco), a company in which Mr. A Baker, Mr. A Sorensen and the estate of Mr. K Snell, all have an ownership interest.

WA Kaolin has agreed to pay a royalty to Wamco until the earlier of 1 July 2049 and the date WA Kaolin relinquishes, surrenders or conveys to Wamco all of the Tenements (other than L70/156 and G70/251).

The royalty is \$1.25 per tonne of dry kaolin ore or product sold in a quarter, provided that if kaolin product has been sold after processing, then tonnage used to calculate the royalty will be twice the actual tonnage of the processed kaolin.

Royalty payments in the sum of \$20,376 (2021: \$28,393) were paid to Wamco during the year.

DIRECTORS' REPORT (continued)**Remuneration report (Audited) (continued)****Additional disclosures relating to key management personnel (continued)****Other transactions with directors and officers (continued)**Director / Other Fees

Mr. A Baker and Mr. A Sorensen chose not to be paid any director / other fees during previous financial years, instead allowing the Company to accrue such amounts, to be paid at a later date as the Company's cash flow allows. Details of the amounts owing can be found in the table below and are recorded in Trade and other payables within the Statement of Financial Position.

30 June 2022

	A Baker	A Sorensen
Opening balance	365,000	234,000
Director / Other fees	-	-
Payments	(64,000)	(45,000)
Closing balance	301,000	189,000

Related party borrowings

Mr A Baker is a director and major shareholder of the Company. During the reporting period, the Company has borrowed funds from several entities of which Mr Baker is a director and major shareholder. Repayments to some of these entities were made during the year.

Details of those loans can be found in the table below:

Other transactions with directors and officers (continued)**30 June 2022**

Entities associated with:	A Baker¹	A Sorensen²
Opening balance	2,916,965	-
Interest	-	-
Funds advanced	-	-
Funds repaid	(1,766,965)	-
Other – finance cost on related party borrowing (Note 5)	-	-
Closing balance	1,150,000	-

Entities associated with the following key management personnel are as follows:

¹ A Baker : Wamco Industries Group Pty Ltd, Wamco Industries Pty Ltd, Pacific Polymers R&D Pty Ltd, Pacific Polymers Pty Ltd, EMC Pacific Pty Ltd

² A Sorensen : Loans are held in Wamco Industries Group Pty Ltd on behalf of Mr Sorensen

This concludes the remuneration report, which has been audited.

DIRECTORS' REPORT (continued)

Shares under option

Unissued ordinary shares of WA Kaolin Limited under option at the date of this report are as follows:

Security name	Grant date	Expiry date	Exercise price	Number under option
Unquoted options	20 November 2020	20 November 2023	\$0.25	126,732,813
Incentive options	20 November 2020	20 November 2025	\$0.35	30,500,000
Lead Manager options	20 November 2020	20 November 2023	\$0.25	10,000,000
				<u>167,232,813</u>

Shares issued on the exercise of options

There were no shares issued during the year ended 30 June 2022 and up to the date of this report on the exercise of options granted.

Significant changes in the state of affairs of the company

During the year, the Company completed a capital raising which included \$9m of equity and \$5m of secured debt.

There were no other significant changes in the state of the affairs of the company throughout 2022.

Indemnification and insurance of Directors and Officers

The Company has indemnified all the directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as directors of the Company, except where the liability arises out of conduct involving a lack of good faith.

Indemnification and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

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 to 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 part of those proceedings.

Auditor Independence

Section 307C of the *Corporations Act 2001* requires our auditors, BDO Audit (WA) Pty Ltd, to provide the directors of the Company with an Independence Declaration in relation to the audit of the financial report. This Independence Declaration is set out on page 20 and forms part of this directors' report for the year ended 30 June 2022.

Non-Audit Services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 17 to the financial statements. An amount of \$Nil (2021: \$115,753) was paid for non-audit services provided by entities connected to the auditor.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 17 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in *APES 110 Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards

DIRECTORS' REPORT (continued)

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'J White', is enclosed within a rectangular box.

Dr John White, Chairman
Perth, Western Australia
30 September 2022

DECLARATION OF INDEPENDENCE BY DEAN JUST TO THE DIRECTORS OF WA KAOLIN LIMITED

As lead auditor of WA Kaolin Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of WA Kaolin Limited.



Dean Just

Director

BDO Audit (WA) Pty Ltd

Perth, 30 September 2022

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2022**

	Notes	2022 \$	2021 \$
Continuing operations			
Revenue	3(a)	1,172,772	1,209,644
Other income	3(b)	327,340	273,022
Cost of sales		(863,677)	(896,847)
Rental expenses and outgoings	3(c)	(262,275)	(170,682)
Employee benefits expense	3(c)	(1,843,064)	(1,038,829)
Depreciation and amortisation	3(c)	(289,036)	(135,736)
Share-based payments	13(g)	(2,200,000)	(4,050,405)
Other expenses	3(c)	(1,665,799)	(4,095,732)
Results from operating activities		(5,623,739)	(8,905,565)
Finance income		18,432	27,203
Finance costs	3(c)	(1,945,962)	(11,794,935)
Net finance costs		(1,927,530)	(11,767,732)
Loss before income tax		(7,551,269)	(20,673,297)
Income tax (expense)/benefit	4	-	-
Loss after income tax from continuing operations		(7,551,269)	(20,673,297)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or losses (net of tax)</i>			
Revaluation of land and buildings		-	373,395
Total comprehensive income/(loss) for the year		-	373,395
Other comprehensive income/(loss) for the period, net of income tax		-	373,395
Total comprehensive loss		(7,551,269)	(20,299,902)
Loss per share for the period attributable to the members of the Company			
Basic loss per share (cents per share)	14	\$(0.03)	\$(0.09)
Diluted loss per share (cents per share)	14	\$(0.03)	\$(0.09)

The accompanying notes form part of these financial statements

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Notes	2022 \$	2021 \$
Assets			
Current assets			
Cash and cash equivalents	5	6,364,612	10,915,712
Trade and other receivables	6	817,338	557,065
Inventory	7	432,731	-
Total current assets		7,614,681	11,472,777
Non-current assets			
Property, plant and equipment	8	4,960,297	4,483,922
Mine development expenditure	9	20,040,107	9,788,098
Total non-current assets		25,000,404	14,272,020
Total assets		32,615,085	25,744,797
Liabilities			
Current liabilities			
Trade and other payables	10	2,145,750	2,829,130
Borrowings	11	596,532	943,842
Provisions	12	275,391	59,796
Total current liabilities		3,017,673	3,832,768
Non-current liabilities			
Borrowings	11	23,734,230	19,451,530
Provisions	12	398,062	330,000
Total non-current liabilities		24,132,292	19,781,530
Total liabilities		27,149,965	23,614,298
Net assets		5,465,120	2,130,499
Equity			
Issued capital	13(a)	42,300,791	33,614,901
Reserves	13(g)	35,889,460	33,689,460
Accumulated loss		(72,725,131)	(65,173,862)
Total equity		5,465,120	2,130,499

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

	Issued capital \$	Accumulated losses \$	Asset revaluation reserve \$	Share- based payment reserve \$	Capital contribution reserve \$	Total equity \$
Balance as at 1 July 2020	3,070,081	(44,500,565)	1,944,779	2,939	17,880,927	(21,601,839)
Loss for the year	-	(20,673,297)	-	-	-	(20,673,297)
Revaluation of land	-	-	373,395	-	-	373,395
Total comprehensive loss for the year	-	(20,673,297)	373,395	-	-	(20,299,902)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares – Net of costs	30,544,820	-	-	-	-	30,544,820
Fair value of options	-	-	-	13,487,420	-	13,487,420
Balance at 30 June 2021	33,614,901	(65,173,862)	2,318,174	13,490,359	17,880,927	2,130,499
Balance as at 1 July 2021	33,614,901	(65,173,862)	2,318,174	13,490,359	17,880,927	2,130,499
Loss for the year	-	(7,551,269)	-	-	-	(7,551,269)
Revaluation of land	-	-	-	-	-	-
Total comprehensive loss for the year	-	(7,551,269)	-	-	-	(7,551,269)
<i>Transactions with owners in their capacity as owners:</i>						
Issue of shares – Net of costs	8,685,890	-	-	-	-	8,685,890
Fair value of options	-	-	-	2,200,000	-	2,200,000
Balance at 30 June 2022	42,300,791	(72,725,131)	2,318,174	15,690,359	17,880,927	5,465,120

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 \$	2021 \$
Cash flows from operating activities			
Receipts from product sales		1,100,265	1,251,936
Payments to suppliers and employees		(5,874,443)	(4,351,868)
Interest received		18,432	27,203
R&D Tax credit		286,672	-
Receipt of COVID-19 subsidy		-	50,000
Other receipts		65,270	17,182
Net cash outflow from operating activities	5(ii)	(4,403,804)	(3,005,547)
Cash flows from investing activities			
Purchase of property, plant and equipment		(765,411)	(355,785)
Mine development		(10,062,683)	(7,641,533)
Net cash outflow from investing activities		(10,828,094)	(7,997,318)
Cash flows from financing activities			
Loan interest paid		(722,030)	(807,537)
Repayment of Borrowings – Capital		(2,396,098)	(2,978,181)
Proceeds from Borrowings		5,113,036	3,109,000
Equity transaction fees		(352,970)	(1,425,000)
Issue of shares		9,038,860	22,000,000
Net cash inflow from financing activities		10,680,798	19,898,282
Net increase/(decrease) in cash held		(4,551,100)	8,895,417
Cash and cash equivalents at the beginning of the year		10,915,712	2,020,295
Cash and cash equivalents at the end of the year	5	6,364,612	10,915,712

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the financial report

This financial report is a general-purpose financial report that has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards, Interpretations and other applicable authoritative pronouncements of the Australian Accounting Standards Board (AASB).

The financial report covers WA Kaolin Limited (the "Company"). WA Kaolin Limited is a company limited by shares, incorporated and domiciled in Australia. The address of the Company's registered office and principal place of business is Lot 3 Ward Road, East Rockingham, Western Australia 6168. WA Kaolin Limited is a for-profit entity for the purpose of preparing the financial report.

The financial statements of WA Kaolin Limited for the year ended 30 June 2022 were authorised for issue in accordance with the resolution of the directors on 30 September 2022.

Compliance with IFRS

The financial report also complies with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies.

Functional and presentation currency

The financial statements are presented in Australian dollars which is the Company's functional currency.

Fair value measurement

For financial reporting purposes, 'fair value' is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants (under current market conditions) at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

When estimating the fair value of an asset or liability, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to valuation techniques used to measure fair value are categorised into three levels according to the extent to which the inputs are observable:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

Comparative information

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

Adoption of new and revised standards

Standards and Interpretations applicable to 30 June 2022

In the year ended 30 June 2022, the Directors have reviewed all the new and revised Standards and Interpretations issued by the AASB that are relevant to the company and effective for the current annual reporting period. The Directors have determined that there is no material impact of revised Standards on the company and, therefore, no material change is necessary to company's accounting policies.

New Accounting standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2022.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Going concern

For the year ended 30 June 2022 the Company recorded a loss from continuing operations after income tax of \$7,551,269 (2021: \$20,673,297) and had net cash outflows from operating activities of \$4,403,804 (2021: \$3,005,547) and working capital surplus of \$4,597,008 (2021: working capital surplus of \$7,640,009).

These conditions indicate a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The ability of the Company to continue as a going concern is dependent on maintaining the support of its existing and potentially new financiers, continued sales of WA Kaolin's product and securing additional funding through raising of debt or equity to continue to fund the development activities and expansion of its business platform.

The directors have reviewed the Group's financial position and are of the opinion that there are sufficient funds to meet the entity's working capital requirements as at the date of this report.

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The development of the Company's Wickepin mine and associated plant will be completed during H1 2022;
- Sales volumes are expected to increase once the plant is commissioned;
- Existing and new orders will be filled as production is ramped up during calendar year 2022; and
- Support of related party creditors and financiers.

Should the entity not be able to continue as a going concern, it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements and that the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the entity not continue as a going concern.

(c) Foreign currency transactions and balances

Functional and presentation currency

The financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(d) Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance. The Company only has one operating segment.

(e) Revenue

(i) Revenue from contracts with customers

The Company requires identification of discrete performance obligations within a transaction and associated transaction price allocation to these obligations. Revenue is recognised upon satisfaction of these performance obligations, which occur when control of goods or services is transferred, rather than on transfer of risks or rewards.

Revenue from the sale of the Company's products is recognised when control has passed to the customer upon agreed delivery terms, generally being when the product is loaded onto the transport that takes the product to ship or directly to the customer's premises, at which time a bill of lading is received. In cases where control of the product is transferred to the customer before shipping takes place, revenue is recognised when the customer has formally acknowledged the legal ownership of the product, which includes all inherent risks associated with control

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue (continued)

of the product. In these cases, the product is clearly identified and immediately available to the customer and this is when the performance obligation is met.

Revenue received for a contract that includes a variable amount is subject to revised conditions for recognition, whereby it must be highly probable that no significant reversal of the variable component may occur when the uncertainties around its measurement are removed.

(ii) Interest income

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(iii) Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

(f) Income tax

The income tax expense or benefit for the period is the tax payable on the current 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 difference and to unused tax losses.

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

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

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

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

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Other taxes

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

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

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

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

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

(h) Impairment of assets

At the end of each reporting period, the Company assesses whether there is any indication that an asset may be impaired. The assessment will include considering external sources of information and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g., in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(i) Cash and cash equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(j) Trade and other receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within 30 days.

The Company measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade and other receivables are estimated with reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry in which the debtor operates and an assessment of both the current and the forecast direction of conditions at the reporting date.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery; for example, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of profit or loss and comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Property, plant and equipment

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment for buildings. Land is not depreciated. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Increases in the carrying amounts arising on revaluation of land and buildings are credited in other comprehensive income through to the revaluation surplus reserve in equity. Any revaluation decrements are initially taken in other comprehensive income through to the revaluation surplus reserve to the extent of any previous revaluation surplus of the same asset. Thereafter the decrements are taken to profit or loss.

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Plant and equipment – over 2 to 20 years

Motor Vehicle – over 4 to 6 years

Leasehold improvements – over 10 to 13 years

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount. For plant and equipment, impairment losses are recognised in the statement of profit or loss and other comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

(l) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

(m) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

(n) Employee leave benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities accruing to employees in respect of wages and salaries, annual leave and long service leave not expected to be settled within 12 months of the balance date are recognised in non-current other payables in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Company.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(p) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company, or is a present obligation that arises from past events but is not recognised because either it is not probable that an outflow of economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised. Rather, contingent liabilities are disclosed in the financial statements unless the possibility of an outflow of economic benefits is remote. Contingent liabilities may develop in ways not initially expected. Therefore, they are assessed continually to determine whether an outflow of economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

(q) Borrowing costs

Borrowing costs include interest expense calculated using the effective interest method, finance charges in respect of lease arrangements, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset, in which case the costs are capitalised until the asset is ready for its intended use or sale.

(r) Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a new business are not included in the cost of acquisition as part of the purchase consideration.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Dividend

Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

(t) Financial instruments

Recognition and derecognition

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

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 categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

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.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

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.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets to collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments.

Impairment of financial assets

AASB 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'.

Instruments within the scope of the requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Company identifying a credit loss event. Instead, the Company 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 ('Level 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Level 2').
- 'Level 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.

Trade and other receivables and contract assets

The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

Classification and measurement of financial liabilities

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

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

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

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(t) **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.

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

Convertible notes issued by the Group comprised convertible notes that could be converted to share capital at the option of the holder. The conversion feature is contingent on an event occurring and the conversion price is fixed. Furthermore, upon conversion the holder was also entitled to free attaching options. Consequently, the note fails the fixed for fixed requirement of AASB 132 and no equity component is recognised on initial recognition. The company had elected upon initial recognition of the convertible notes (including its embedded derivatives which is the free attaching options) to recognise the whole instrument as a *financial liability carried at fair value through profit or loss*.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowings (continued)

On initial recognition the fair value of the convertible note equated to the proceeds received as no gain or loss on initial recognition can be recognised per the requirements of the accounting standards AASB9. The financial liability was subsequently measured at fair value at the end of the relevant reporting period and fair value movements were recognised in profit or loss as a finance cost.

The fair value of the liability took into account the value of the conversion feature (the discount and the free attaching options) and the probability of the contingent event occurring.

(u) Exploration, Evaluation and Development Expenditure

Exploration and evaluation costs including costs of studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities along with those for general and administrative costs are expensed in the period they are incurred. Acquisition costs of acquiring are capitalised until the viability of the area of interest is determined. Those acquisition costs are carried forward when the following conditions are satisfied:

(i) the rights to tenure of the area of interest are current; and

(ii) at least one of the following conditions is also met:

a) the exploration and evaluation expenditures are expected to be recouped through successful development and exploration of the area of interest, or alternatively, by its sale; or

b) exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.

(v) Development expenditure

Development expenditure represents the accumulated exploration, evaluation, land and development expenditure incurred by or on behalf of the Company in relation to areas of interest in which mining of a mineral resource has commenced.

When further development expenditure is incurred in respect of a mine property after commencement of production, such expenditure is carried forward as part of the mine property only when substantial future economic benefits are thereby established, otherwise such expenditure is classified as part of the cost of production.

Amortisation of costs is provided on the unit-of-production method with separate calculations being made for each mineral resource at an average rate yet to be determined. The unit-of-production basis results in an amortisation charge proportional to the depletion of the estimated recoverable reserves. In some circumstances, where conversion of resources into reserves is expected, some elements of resources may be included. Where the life of the assets is shorter than the mine life their costs are amortised based on the useful life of the assets. Amortisation will only commence on commencement of commercial production.

The estimated recoverable reserves and life of the mine and the remaining useful life of each class of asset is reassessed at least annually. Where there is a change in the reserves/resources amortisation rates are correspondingly adjusted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Development expenditure

Significant judgements and estimates

Development activities commence after project sanctioning by the appropriate level of management. Judgement is applied by management in determining when a project is economically viable. In exercising this judgment, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the impairment change is included in profit or loss.

(x) Restoration, Rehabilitation and Environmental Provision

Obligations associated with exploration and development assets are recognised when the Company has a present obligation, the future sacrifice of the economic benefits is probable, and the provision can be measured reliably. The provision is measured at the present value of the future expenditure to restore the land and a corresponding rehabilitation asset is also recognised.

On an ongoing basis, the rehabilitation will be remeasured in line with the changes in the time value of money (recognised as an expense and an increase in the provision), and additional disturbances (recognised as additions to a corresponding asset and rehabilitation liability).

Significant judgements and estimates

The determination of the provision requires significant judgement in terms of the best estimate of the future costs of performing the work required, the timing of the cash flows, the appropriate discount rate and inflation rate.

In relation to estimating the costs of performing the work required, significant estimates are required in relation to estimating the extent of rehabilitation activities, including volume to be rehabilitated and unit rates, technological changes, regulatory changes, timing of cash flows and appropriate discount rates.

When these estimates change or become known in the future, such differences will impact the mine rehabilitation provision in the period in which they change or become known.

(y) Share based payments

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees and other third parties in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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, together with non-vesting conditions that do not determine whether the Company receives the services that entitle the employees to receive payment.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Company or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Company or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Earnings per share

Basic earnings/loss per share is calculated as net profit/loss attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings/loss per share is calculated as net profit/loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(z) Government grants

Government grants are recognised when there is reasonable certainty that the grant will be received, and all grant conditions are met.

Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

Grants relating to depreciable assets are credited to deferred income and are recognised in profit or loss over the period and in the proportions in which depreciation expense on those assets is recognised.

(aa) Inventories

Inventories are carried at a lower of cost or net realisable value. Cost is based on weighted average cost method and includes expenditure incurred in acquiring the inventories and bringing them to the existing condition and location.

(bb) Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of Property, Plant and Equipment and Mine Development

In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate.

Useful lives of depreciable assets

Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets.

Fair value of land

Land and buildings are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment for buildings. The valuations are undertaken more frequently if there is a material change in the fair value relative to the carrying amount.

Discount rate on borrowings

As some of the Company's borrowings are on interest-free terms, present value calculations have been performed on the basis of an implied 12% discount rate as determined by the directors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Critical accounting estimates and judgements (continued)

Share-based payment

The Company measures the cost of equity-settled transactions with employees and convertible noteholders by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. 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 profit or loss and equity. Refer to note 13 for further information.

Contingent liabilities

The Company has assessed that the Royalty Deed entered into with Wamco Industries Group Pty Ltd and has determined that this represents a contingent liability. This is on the basis that the royalty is only payable if WA Kaolin either mines or sells kaolin ore or a kaolin product. At present, the Company is in the development phase of its Wickepin Kaolin Project ("Project") and the future development of the Project (and consequent royalty payments) is dependent on, amongst other things, future kaolin prices and the overall economic feasibility of the Project.

Date of commercial production

The Company is currently commissioning its Wickepin processing facility and anticipates that it will be in commercial production by the end of September 2022.

NOTE 2: SEGMENT REPORTING

The Company identifies its operating segments based on the internal reports that are reviewed and used by the Board of directors (chief operating decision maker) in assessing performance and determining the allocation of resources.

The Company operates primarily in the exploration and development of an Inferred Mineral Resource of high-grade premium kaolinised granite in Australia. The financial information presented in the statement of comprehensive income and the statement of financial position is the same as that presented to the chief operating decision maker.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 3: REVENUE AND EXPENSES

	2022 \$	2021 \$
(a) Revenue		
Sale of products - domestic	162,964	391,512
Sale of products - export	1,009,808	818,132
	<u>1,172,772</u>	<u>1,209,644</u>
(b) Other income		
R&D Tax refund	289,383	205,840
Cashflow Boost from COVID-19	-	50,000
Other income	37,957	17,182
	<u>327,340</u>	<u>273,022</u>
(c) Expenses		
Loss before income tax includes the following specific expenses:		
<i>Rental expenses and outgoings</i>		
Property rental	11,550	21,100
Landowner's payments	85,768	66,030
Tenement rentals	136,943	55,171
Tenement rates	28,014	28,381
Total rental expenses and outgoings	<u>262,275</u>	<u>170,682</u>
<i>Employee benefits expense</i>		
Directors' fees	194,261	188,000
Salaries and wages	1,216,230	729,691
Superannuation	190,527	96,593
Payroll tax	125,766	30,313
Fringe Benefits Tax	2,922	-
Leave entitlements	113,358	(5,768)
Total employee benefits expenses	<u>1,843,064</u>	<u>1,038,829</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 3: REVENUE AND EXPENSES (continued)

	2022 \$	2021 \$
<i>Depreciation</i>		
Plant & equipment	246,132	103,809
Leasehold improvements	18,839	8,674
Motor vehicles	24,065	23,253
Total depreciation	289,036	135,736
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	1,945,962	2,877,951
Fair value adjustment on convertible notes (refer Note 15)	-	8,916,984
	1,945,962	11,794,935
<i>Other expenses</i>		
Accounting and administration fees	249,683	177,373
Capital raising fees	-	166,140
Equity transaction fees	2,630	1,982,368
Consulting fees	59,322	162,719
Corporate expenses	134,229	85,869
Repairs and maintenance	215,279	96,869
Materials and consumables	21,578	50,972
Motor vehicle expenses	56,280	55,281
Utilities	67,893	47,583
Fuel	24,729	31,159
Mining royalties	55,782	81,690
Legal fees	51,798	471,345
Freight	261,116	237,171
ASX filing fees	43,410	127,004
Insurance	161,879	122,985
Research & development costs	46,786	27,965
Other	213,405	171,239
	1,665,799	4,095,732

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 4: INCOME TAX

	2022 \$	2021 \$
Income tax recognised in profit or loss:		
The major components of tax expense are:		
Current tax	-	-
Deferred tax	-	-
Under/(over) provision in prior years	-	-
Total income tax expense	-	-
Reconciliation of income tax expense to prima facie tax payable:		
Loss from continuing operations before income tax expense	(7,551,269)	(20,673,297)
Tax at the Australian tax rate of 25% (2021: 26%)	(1,887,817)	(5,375,057)
Tax effect of amounts which are non-deductible (taxable) in calculating taxable income:		
Other permanent differences	855,838	3,891,679
Research and development credit	(72,346)	(53,518)
Timing movements not recognised	(110,373)	(40,373)
Deferred tax assets not brought to account	1,214,698	1,577,269
Income tax expense/(benefit)	-	-
The applicable weighted average effective tax rates	0%	0%

	2022 \$	2021 \$
Unrecognised deferred tax asset		
Tax losses	8,184,385	7,039,687
Provisions and accruals	110,373	40,373
Net deferred tax assets unrecognised	8,294,758	7,080,060

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 4: INCOME TAX (continued)

Deferred Tax Assets Not Recognised

The tax benefits of the above deferred tax assets will only be obtained if:

- The Company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- The Company continues to comply with the conditions for deductibility imposed by law; and
- No changes in income tax legislation adversely affect the Company in utilising the benefits.

NOTE 5: CASH AND CASH EQUIVALENTS

	2022	2021
	\$	\$
Cash at bank and on hand	6,364,612	10,915,712

Cash at bank earns interest at floating rates based on daily bank deposit rates.

(i) Reconciliation to the Statement of Cash Flows:

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Balance as above	6,364,612	10,915,712
Bank overdraft	-	-
Balance as per statement of cash flows	6,364,612	10,915,712

(ii) Reconciliation of net (loss)/profit for the year to net cash flows from operating activities

	2022	2021
	\$	\$
Net loss for the year	(7,551,269)	(20,673,297)
Depreciation	289,036	135,736
Financing costs	1,945,962	11,794,935
Lead manager fees expense (per AASB132)	-	1,601,794
Share-based payments	2,200,000	4,050,182
<i>(Increase)/decrease in operating assets:</i>		
Trade and other receivables	(72,507)	(94,019)
<i>(Decrease)/increase in operating liabilities:</i>		
Trade and other payables	(1,395,013)	173,355
Provisions	179,987	5,767
Net cash used in operating activities	(4,403,804)	(3,005,547)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 5: CASH AND CASH EQUIVALENTS (continued)

(iii) Changes in liabilities arising from financing activities

	Convertible notes \$	Related party borrowings \$	Other borrowings \$	Total \$
Balance at 30 June 2020	5,115,328	20,490,686	1,259,557	26,865,571
Issue of convertible notes	2,819,000	-	-	2,819,000
Capital repayments	-	(2,618,000)	(360,181)	(2,978,181)
Interest payments	(281,809)	(427,403)	(98,325)	(807,537)
Other non-cash items	-	-	216,743	216,743
Conversion of loan to convertible note	1,000,000	-	(1,000,000)	-
Convertible note fair value adjustment	8,916,824	-	-	8,916,824
Accrued interest / interest amortisation	235,656	2,543,390	98,905	2,877,951
Conversion to share capital	(9,564,375)	-	-	(9,564,375)
Transfer to share-based payments reserve	(8,240,624)	-	-	(8,240,624)
Funds advanced	-	3,064	286,936	290,000
Balance at 30 June 2021	-	19,991,737	403,635	20,395,372
Balance at 1 July 2021	-	19,991,737	403,635	20,395,372
Capital repayments	-	(1,766,965)	(629,133)	(2,396,098)
Interest payments	-	-	(722,030)	(722,030)
Accrued interest	-	-	717,128	717,128
Funds advanced	-	-	5,113,036	5,113,036
Interest amortisation/ PV Adjustment	-	221,468	1,001,886	1,223,354
Re-classification	-	(17,386,133)	17,386,133	-
Balance at 30 June 2022	-	1,060,107	23,270,655	24,330,762

(iv) Non-cash investing and financing activities

	2022 \$	2021 \$
Accrued interest / interest amortisation	(1,940,460)	(2,877,951)
Fair value adjustments to convertible notes	-	(8,916,824)
Conversion of convertible notes to share capital	-	9,564,375
Other non-cash items	-	(216,743)
Fair value of options issued with convertible notes	-	8,240,623
	(1,940,460)	5,793,480

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 6: CURRENT TRADE AND OTHER RECEIVABLES

	2022 \$	2021 \$
Trade receivables	108,026	108,248
Allowance for impairment	-	-
	108,026	108,248
Sundry debtors	187,766	211,543
Prepayments	245,546	125,031
Deposits paid	276,000	11,280
Other receivable – GST (net)	-	100,963
	709,312	448,817
Total trade and other receivables	817,338	557,065
	2022 \$	2021 \$
Analysis of other receivables		
<i>Within initial terms</i>	108,026	108,248
<i>Ageing of past due but not impaired</i>		
30 – 60 days	-	-
60 – 90 days	-	-
90+ days	-	-
	-	-
Gross amount of other receivables	108,026	108,248

Impairment of receivables

The Company measures the loss allowance for trade and other receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade and other receivables are estimated with reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtor, general economic conditions of the industry in which the debtor operates and an assessment of both the current and the forecast direction of conditions at the reporting date.

The Company writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery; for example, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

There was no significant change in the gross carrying amount of receivables as there was no lifetime expected credit loss for the years 2021 and 2022.

The impact of the Coronavirus (COVID-19) pandemic up to 30 June 2022 has not been financially material on trade and other receivables of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 7: INVENTORY

	2022	2021
	\$	\$
Raw materials	229,033	-
Finished Goods	32,557	-
Packaging & Consumables	171,141	-
Total Inventory	432,731	-

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment	Motor vehicles	Land and buildings	Total
	\$	\$	\$	\$
Year ended 30 June 2022				
At 1 July 2021, net of accumulated depreciation and impairment	415,730	68,192	4,000,000	4,483,922
Additions	248,714	129,278	387,419	765,411
Revaluation	-	-	-	-
Depreciation charge for the year	(246,132)	(18,839)	(24,065)	(289,036)
At 30 June 2022, net of accumulated depreciation and impairment	418,312	178,631	4,363,354	4,960,297
At 30 June 2022				
Cost or fair value	9,137,676	237,948	4,724,697	14,100,321
Accumulated depreciation and impairment	(8,719,364)	(59,317)	(361,343)	(9,140,024)
Net carrying amount	418,312	178,631	4,363,354	4,960,297

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 8: PROPERTY, PLANT AND EQUIPMENT (continued)

	Plant and equipment	Motor vehicles	Land and buildings	Total
	\$	\$	\$	\$
Year ended 30 June 2021				
At 1 July 2020, net of accumulated depreciation and impairment	160,573	33,473	3,649,856	3,843,902
Additions	358,966	43,393	-	402,359
Revaluation	-	-	373,397	373,397
Depreciation charge for the year	(103,809)	(8,674)	(23,253)	(135,736)
At 30 June 2021, net of accumulated depreciation and impairment	415,730	68,192	4,000,000	4,483,922
At 30 June 2021				
Cost or fair value	8,888,962	108,670	4,337,278	13,334,910
Accumulated depreciation and impairment	(8,473,232)	(40,478)	(337,278)	(8,850,988)
Net carrying amount	415,730	68,192	4,000,000	4,483,922

The useful life of the assets was estimated as follows for both 2022 and 2021:

- Plant and equipment 2 to 20 years
- Motor vehicles 4 to 6 years
- Leasehold improvements 10 to 13 years
- Buildings 40 years

The Company's land and buildings had a carrying value of \$3,649,856 prior to a revaluation undertaken by Acumentis (WA) Pty Ltd on 25 August 2021. The outcome of the valuation was an upward adjustment to the carrying value of the land and buildings by \$373,397 which was adjusted in the 2021 accounts (refer Note 15 for further details).

If land and buildings were stated under the historical cost convention, the carrying value would be \$1,774,608 (2021: \$1,681,824).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 9: MINE DEVELOPMENT EXPENDITURE

	2022	2021
	\$	\$
Balance at beginning of period	9,788,098	-
Reclassified from deferred exploration and evaluation expenditure	-	1,756,132
Wickepin plant project	10,252,009	8,031,966
Total mine development expenditure	20,040,107	9,788,098

NOTE 10: TRADE AND OTHER PAYABLES

	2022	2021
	\$	\$
Current		
Trade payables	2,070,493	2,590,050
Accruals	6,833	196,056
Other employment-related payables	68,424	43,024
	2,145,750	2,829,130

NOTE 11: BORROWINGS

	2022	2021
	\$	\$
Current		
Loans from related parties (i)	311,000	790,896
Loans from other parties (ii)	285,532	152,946
	596,532	943,842
Non-current		
Loans from related parties (i)	749,107	19,200,842
Loans from other parties (ii)	22,985,123	250,688
	23,734,230	19,451,530
Total borrowings	24,330,762	20,395,372

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 11: BORROWINGS (continued)

- (i) The Company has the following executed loan agreements in place with its related parties at the reporting date with the respective terms and conditions:
- (a) Lender: Wamco Industries Limited
 Agreement date: 20 September 2019
 Expiry date: 30 June 2027
 Interest rate: 0%
 Repayments: 1) Prior to the IPO date - \$144,000; 2) 10 Business days after the IPO date - \$150,000; 3) Second anniversary of the agreement - \$250,000; 4) Third anniversary of the agreement - \$61,000; 5) Fourth anniversary of the agreement - \$839,000; 6) Any balance repayable upon the Company achieving positive free cash flow for one quarter
 Collateral securities: None
 Amount due in less than 1 year: \$311,000
 Amount due in more than 1 year: \$839,000 (20 September 2023)
- (ii) The Company has the following executed loan agreements in place from other parties at the reporting date with the respective terms and conditions:
- (a) Lender: Boneyard Investments Pty Ltd
 Agreement date: 14 February 2022
 Expiry date: 14 February 2025
 Interest rate: 8%
 Repayments: The loan amount will be repaid in one lump sum on the expiry date
 Amount due in less than 1 year: \$51,507
 Amount due in more than 1 year: \$5,000,000 (14 February 2025)
- (b) There are two further finance agreements with Toyota Finance for the financing of plant and equipment and a small insurance premium funding facility which was repaid in 2022.
- (c) Lender: Scientific Management Associates (Operations) Pty Ltd
 Agreement date: 20 September 2019
 Expiry date: 30 June 2027
 Interest rate: 6% per annum
 Repayments: 1) 10 Business days after the IPO date - \$300,000; 2) Fourth anniversary of the agreement - \$8,000,000; 3) Any balance repayable upon the Company achieving positive free cash flow for one quarter
 Collateral securities: None
 Amount due in more than 1 year: \$8,000,000 (20 September 2023)
- (d) Lender: Scientific Management Associates (Victoria) Pty Ltd
 Agreement date: 20 September 2019
 Expiry date: 30 June 2028
 Interest rate: 0%
 Repayments: 1) 10 Business days after the IPO date - \$1,242,000; 2) Fourth anniversary of the agreement - \$4,635,000; 3) Fifth anniversary of the agreement - \$7,405,000; 4) Any balance repayable upon the Company achieving positive free cash flow for one quarter
 Collateral securities: None
 Amount due in more than 1 year: \$4,635,000 (20 September 2023)
 Amount due in more than 1 year: \$7,405,000 (20 September 2024)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 12: PROVISIONS

Employee Entitlements:

	2022	2021
	\$	\$
At 1 July	59,796	65,563
Net movements	113,358	(5,767)
At 30 June	173,154	59,796

Rehabilitation provision:

	2022	2021
	\$	\$
At 1 July	330,000	-
Net movements	44,533	330,000
At 30 June	374,533	330,000

2022	Employee benefits	Rehabilitation provision	Other	Total
	\$	\$	\$	\$
Current	149,625	-	125,766	275,391
Non-current	23,529	374,533	-	398,062
	173,154	374,533	125,766	673,453

2021	Employee benefits	Rehabilitation provision	Total
	\$	\$	\$
Current	59,796	-	59,796
Non-current	-	330,000	330,000
	59,796	330,000	389,796

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 13: CAPITAL AND RESERVES

	30 June 2022		30 June 2021	
	Number of shares	\$	Number of shares	\$
(a) Paid up capital	332,991,470	42,300,791	282,821,885	33,614,901
(b) Movements in ordinary share capital				
	Year to 30 June 2022		Year to 30 June 2021	
	Number of shares	\$	Number of shares	\$
Balance at beginning of year	282,821,885	33,614,901	150,000,000	3,070,081
Change to number of shares on issue above as a result of a share consolidation (0.8333:1) on 13 July 2020	-	-	125,000,000	3,070,081
Issue of shares to third parties	50,169,585	9,030,500	-	-
Issue of shares upon IPO	-	-	110,000,000	22,000,000
Issue of shares upon conversion of convertible notes	-	-	47,821,885	9,564,375
Capital raising costs	-	(344,610)	-	(1,019,555)
Balance at end of year	332,991,470	42,300,791	282,821,885	33,614,901

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. Upon a poll each share is entitled to one vote. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(c) Movements in unlisted performance rights

No.	Balance at start of period	# Granted during the period	Vested and Exercised	Cancelled/ Forfeited	Balance at end of period	Value vested during the period (\$)
1	5,500,000	-	-	-	5,500,000	-
2	5,500,000	-	-	-	5,500,000	-
3	8,250,000	-	-	-	8,250,000	-
4	8,250,000	-	-	-	8,250,000	-
	27,500,000	-	-	-	27,500,000	-

During the year ended 30 June 2021, the Company issued 27,500,000 Performance Rights to the chief executive, executive director and former director/founder. Each Performance Right is a right to be issued with a single ordinary share upon vesting of the Performance Right, free of encumbrances. No consideration will be payable upon the vesting or conversion of the Performance Rights.

Subject to two specific rights¹, Performance Rights will vest if and when the following milestones (each a Milestone) are achieved in the periods specified in the table below. In relation to performance hurdle no. 2 below, 5,500,000 had a time extension applied to them from 30th June 2022 to 30th September 2022.

¹(General meetings) The Performance Rights confer on the holder the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to holders of fully paid ordinary shares in the capital of the Company (**Shareholders**). Holders have the right to attend general meetings of Shareholders.

(No voting rights) The Performance Rights do not entitle the holder to vote on any resolutions proposed at a general meeting of the shareholders of the Company except:

- i) where the resolution is to amend the rights attaching to the Performance Rights; or
- ii) as otherwise required by law.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 13: CAPITAL AND RESERVES (continued)

No.	Milestone	30-Jun-22	30-Jun-23	30-Jun-24	30-Jun-25
1	Project Delivery – CAPEX: Wickepin production facility has been constructed and commissioned at or below 112.5% of budget (\$18 million)	5,500,000	-	-	-
2	Project Delivery – Production: Wickepin production achieves an average production rate equal to or exceeding 20t/hour of processed kaolin during a completion test, to be conducted over a 5-day period of scheduled plant operation hours	5,500,000	-	-	-
3	Revenue: Deliver operating revenue from the Wickepin plant of the amount specified or greater, as set out in the audited accounts for the period ending 30 June of the relevant Milestone.	Revenue Target	\$31.7m	\$44.8m	\$80.7m
		Rights	2,750,000	2,750,000	2,750,000
4	EBITDA: Deliver EBITDA of the amount specified or greater, as set out in the audited accounts for the period ending 30 June of the relevant Milestone.	EBITDA Target	\$5.7m	10.3m	21.4m
		Rights	2,750,000	2,750,000	2,750,000
	Total number of Performance Rights to vest across all holders (of a total on issue of 27,500,000):	11,000,000	5,500,000	5,500,000	5,500,000
	Percentage of a holder's Performance Rights to vest:	40%	20%	20%	20%

As at 30 June 2022, an expense of \$2,200,000 has been recognised in relation to the first and second tranches of performance rights (11,000,000), given the assessment that there is a high probability that the performance hurdle will be met. For the remaining tranches of performance rights, whilst the above milestones are possible, they are not yet probable, so no expense has been recognised during the year.

(d) Movements in unlisted options

	Year to 30 June 2022		Year to 30 June 2021	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Balance at beginning of financial period	\$0.27	167,232,813	-	-
Issue of Incentive options to directors and employees	-	-	\$0.35	30,500,000
Exercise of options to employees	-	-	-	-
Issue of options to Lead Manager (Tr1)	-	-	\$0.25	5,000,000
Issue of options to Lead Manager (Tr2)	-	-	\$0.30	5,000,000
Issue of free attaching IPO options	-	-	\$0.25	55,000,000
Issue of IPO options (to convertible note holders)	-	-	\$0.25	71,732,813
Balance at end of financial period	\$0.27	167,232,813	\$0.27	167,232,813

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 13: CAPITAL AND RESERVES (continued)

During the year ended 30 June 2021, the Company granted the following options on 20 November 2020:

- (i) 30,500,000 Incentive options to directors and key management personnel with a fair value of \$4,050,405 for the purchase of 30,500,000 ordinary shares at a price of \$0.35 for a period of five years from date of grant. The Incentive options vested immediately on the grant date. The share price at the date of grant was \$0.20.
- (ii) 5,000,000 Lead Manager options (Tranche 1) with a fair value of \$574,762 for the purchase of 5,000,000 ordinary shares at a price of \$0.25 for a period of three years from date of grant. The Lead Manager options (Tranche 1) vested immediately on the grant date. The share price at the date of grant was \$0.20.
- (iii) 5,000,000 Lead Manager options (Tranche 2) with a fair value of \$621,630 for the purchase of 5,000,000 ordinary shares at a price of \$0.30 for a period of four years from date of grant. The Lead Manager options (Tranche 2) vested immediately on the grant date. The share price at the date of grant was \$0.20.
- (iv) 55,000,000 free attaching IPO options for the purchase of 55,000,000 ordinary shares at a price of \$0.25 for a period of three years from date of grant. The IPO options will vest one year from the grant date. The share price at the date of grant was \$0.20.
- (v) 71,732,813 IPO options (to convertible note holders) with a fair value of \$8,243,723 for the purchase of 71,732,813 ordinary shares at a price of \$0.25 for a period of three years from date of grant. The IPO options will vest one year from the grant date. The share price at the date of grant was \$0.20.

(e) Asset revaluation reserve

	2022	2021
	\$	\$
Opening balance	2,318,174	1,944,779
Movement	-	373,395
Closing balance	2,318,174	2,318,174

(f) Capital contribution reserve

Opening balance	17,880,927	17,880,927
Closing balance	17,880,927	17,880,927

(g) Share-based payment reserve

Opening balance	13,490,359	2,939
Fair value of Incentive options	-	4,050,405
Fair value of Lead Manager options	-	1,196,392
Performance Rights	2,200,000	-
Fair value of IPO options (to convertible note holders)	-	8,240,623
Closing balance	15,690,359	13,490,359
Total reserves	35,889,460	33,689,460

Nature and purpose of reserves

Asset revaluation reserve

The asset revaluation reserve has been used to record increases in the fair value of land and decreases to the extent that such decreases relate to an increase on the same asset previously recognised in equity.

Capital contribution reserve

The capital contribution reserve has been used to record increases in net assets arising from transactions with owners in their capacity as owners and that are not recognised as income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 13: CAPITAL AND RESERVES (continued)

Share option reserve

The share option reserve arises as share-based payments are issued.

Options issue

Unlisted options over ordinary shares in the company are granted to key management personnel, employees and advisors as a long-term incentive component of their performance-based remuneration.

NOTE 14: EARNINGS PER SHARE

	2022	2021
Loss after income tax attributable to owners of WA Kaolin Limited used to calculate basic loss per share	(\$7,551,269)	(\$20,673,297)
	\$ per share	\$ per share
Basic (loss)/profit per share	(0.03)	(0.09)
Diluted (loss)/profit per share	(0.03)	(0.09)
	Number	Number
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	300,348,215	221,254,007

NOTE 15: FINANCIAL INSTRUMENTS

(a) Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings/(accumulated losses).

The Company is not subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

	2022 \$	2021 \$
(b) Categories of financial instruments		
Financial assets		
Cash and cash equivalents	6,364,612	10,915,712
Trade and other receivables	571,792	557,065
Financial liabilities		
Trade and other payables	2,145,750	2,829,130
Borrowings	24,330,762	20,395,372

(c) Financial risk management objectives

The Company is exposed to currency risk, market risk including fair value interest rate risk and price risk, credit risk, liquidity risk and cash flow interest rate risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 15: FINANCIAL INSTRUMENTS (continued)

Currency risk

The Company undertakes transactions denominated in foreign currencies. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The group manages its currency risk in accordance with approved policies.

The carrying amounts of foreign currency denominated monetary assets and monetary liabilities at the reporting date are:

	2022	2021
	\$	\$
United States Dollar denominated (in AUD)	24,000	11,000
	24,000	11,000

Sensitivity

As shown in table above, the Company is primarily exposed to changes in USD/AUD exchange rate. Impact on post tax profit as a result of movements in USD/AUD exchange rate were immaterial for both 2021 and 2022.

(d) Market risk

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and commodity prices.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

The Company does not have investments that would expose it to unmanageable market risks.

(e) Interest rate risk management

The Company is exposed to interest rate risk as the Company borrows funds at variable interest rates. The Company's policy is to manage its exposure to movements in interest rates by fixing the interest rate on financial instruments, including bank loans, finance leases and hire purchase liabilities, wherever possible. In addition, the Company utilises a number of financial institutions to obtain the best interest rate possible and to manage its risk. The Company does not enter into interest rate hedges.

Financial instruments	Interest bearing	Non-interest bearing	Total carrying amount	Fixed / variable rate
30 June 2022	\$	\$	\$	
<i>(i) Financial assets</i>				
Cash	-	6,364,612	6,364,612	Variable
Total financial assets	-	6,364,612	6,364,612	
<i>(ii) Financial liabilities</i>				
Borrowings	13,229,041	11,101,721	24,330,762	Fixed
Total financial liabilities	13,229,041	11,101,721	24,330,762	
30 June 2021				
<i>(i) Financial assets</i>				
Cash	-	10,915,712	10,915,712	Variable
Total financial assets	-	10,915,712	10,915,712	
<i>(ii) Financial liabilities</i>				
Borrowings	8,672,886	11,722,486	20,395,372	Fixed
Total financial liabilities	8,672,886	11,722,486	20,395,372	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 15: FINANCIAL INSTRUMENTS (continued)

No other financial assets or financial liabilities are expected to be exposed to interest rate risk.

Interest rate risk sensitivity analysis

The Company only had fixed rate borrowings at 30 June 2022 and 2021, therefore interest rate sensitivity analysis is not required to be undertaken for the purpose of this report.

(f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above.

This information is supplied by independent rating agencies where available and, if not available, the Company uses publicly available financial information and its own trading record to rate its counterparties. The Company's exposure and the credit ratings of its counterparties are continuously monitored.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following table outlines the Company's remaining contractual maturities for non-derivative financial liabilities. The amounts presented in the table are the undiscounted contractual cash flows of the financial liabilities, allocated to time bands based on the earliest date on which the Company can be required to pay.

	< 6 months	6-12 months	1-5 years	Total contractual cash flows	Carrying amount	Weighted average interest rate
30 June 2022	\$	\$	\$	\$	\$	
Payables	2,145,750	-	-	2,145,750	2,145,750	Nil
Borrowings	168,520	428,013	26,085,627	26,682,160	24,330,762	3.66%
Convertible Notes	-	-	-	-	-	-
	2,314,270	428,013	26,085,627	28,827,910	26,476,512	
30 June 2021						
Payables	2,829,130	-	-	2,829,130	2,829,130	Nil
Borrowings	234,919	708,923	23,140,895	24,084,737	20,395,372	2.54%
Convertible Notes	-	-	-	-	-	-
	3,064,049	708,923	23,140,895	26,913,867	23,224,502	

(h) Fair value of financial instruments

The directors consider that the carrying value of the financial assets and financial liabilities as recognised in the financial statements approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 15: FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables detail the company's assets and liabilities, measured or disclosed at fair value, using a three- level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Year ended 30 June 2022	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<i>Assets</i>				
Land and buildings	-	-	4,000,000	4,000,000
Total assets	-	-	4,000,000	4,000,000

Year ended 30 June 2021	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<i>Assets</i>				
Land and buildings	-	-	4,000,000	4,000,000
Total assets	-	-	4,000,000	4,000,000

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.

Valuation techniques for fair value measurements categorised within level 3

Land and buildings

The basis of the valuation of land and buildings is fair value. The land and buildings were last revalued on 30 June 2021 based on independent assessments by a member of the Australian Property Institute having recent experience in the location and category of land and buildings being valued. The directors do not believe that there has been a material movement in fair value since the revaluation date. Valuations are based on current prices for similar properties in the same location and condition.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 15: FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

	Assets	
	Land and buildings	Convertible notes
	\$	\$
Balance at 1 July 2020	3,649,865	(5,115,327)
Income recognised in other comprehensive income	373,395	-
Losses recognised in profit or loss	-	-
Additions (net)	-	(3,819,000)
Fair value adjustment and finance costs	-	(9,152,640)
Payment of interest	-	281,809
Conversion of convertible notes to share capital	-	9,564,375
Transfer to share payments reserve	-	8,240,624
Other adjustments (net)	(23,251)	159
Balance at 30 June 2021	4,000,000	-
Losses recognised in other comprehensive income	-	-
Additions	-	-
Other adjustments	-	-
Fair value adjustment and finance costs	-	-
Balance at 30 June 2022	4,000,000	-

The level 3 assets and liabilities unobservable inputs and sensitivity are as follows:

Description	Unobservable inputs	Value	Sensitivity
Assets			
Land and buildings	Direct comparison – market rate (\$/m ²)	\$140	\$5 change would increase / decrease fair value by \$141,500
	Capitalisation rate	5.50%	0.25% change would increase / decrease fair value by \$193,575

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 16: DIVIDENDS

No dividends were paid, declared or recommended since the start of the financial year (2021: \$Nil).

NOTE 17: AUDITOR'S REMUNERATION

	2022	2021
	\$	\$
Amounts paid and payable to BDO for:		
<i>(i) Audit and other assurance services</i>		
Audit of financial statements	89,074	122,393
Total audit and other assurance services	89,074	122,393
<i>(ii) Other non-audit services</i>		
Taxation services	-	35,976
Corporate finance services	-	79,777
Total non-audit services	-	115,753

NOTE 18: COMMITMENTS AND CONTINGENCIES

Capital commitments

At 30 June 2022, the Company had various commitments in the sum of \$498,815 (excluding GST) in relation to the construction of its processing facility, associated works and equipment at its Wickepin mine site in Western Australia.

No other capital expenditure commitments have been made for items of plant and machinery as at 30 June 2022 (2021: \$1,542,316).

Contractual commitments

The Company announced on 26 May 2021 that it had entered into a 15-year LNG Supply agreement, due to commence from the start of operations at its Wickepin plant, likely to be at the end of September 2022. As a result, the Company has commitments of approximately \$2,055,666 (excluding GST) in the first year of production and then approximately \$4,262,100 (excluding GST) per year, until such time as the Company commits to its Stage 2 project, which will see production capacity increased from 200,000 tonnes per year to 400,000 per year.

In addition, the Company announced on 10 September 2021 that it signed a 15-year agreement for the supply of water to the Company's Wickepin Kaolin Project with the Western Australian Water Corporation. Over the period of this agreement, the Water Corporation will make available up to 49kL of water per day or 343kL per week to the Company. The Company paid a one-off upfront capacity contribution and then a monthly variable charge depending on volume used (rates subject to annual review) with no minimum monthly requirement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 18: COMMITMENTS AND CONTINGENCIES (continued)

Contingencies

Royalty Deed

On 1 July 2019, a Royalty Deed was executed between the Company and Wamco Industries Group Pty Ltd, on behalf of several of the original and other owners of the Company since formation. Key details of the Royalty Deed are as follows:

Parties	WA Kaolin Wamco Industries Group Pty Ltd (WAMCO)
Brief description	WA Kaolin has agreed to pay a royalty (described below) to WAMCO until the earlier of 1 July 2049 and the date WA Kaolin relinquishes, surrenders or conveys to WAMCO all of the Tenements (other than L70/156 and G70/251).
Commencement date	1 July 2019.
Key terms	<p>Royalty: WA Kaolin owes to WAMCO a royalty for each quarter in which WA Kaolin either mines or sells kaolin ore ex-works, FCA or FOB or mines and processes kaolin ore to produce a kaolin product which is sold ex-works, FCA or FOB, which must be paid quarterly.</p> <p>The royalty is the greater of:</p> <p>(a) \$1.50 per tonne of dry kaolin ore or product sold in a quarter, provided that if kaolin product has been sold after processing, then tonnage used to calculate the royalty will be twice the actual tonnage of the processed kaolin; or</p> <p>(b) 1.5% of the price received for the sale of kaolin ore or product in a quarter.</p>

Tonnage Royalty Deed

On 1 July 2019, a Royalty Deed was executed between the Company and Wamco Industries Group Pty Ltd, on behalf of several of the original and other owners of the Company since formation. Key details of the Royalty Deed are as follows:

Parties	Wamco Industries Group Pty Ltd (WAMCO)
Brief description	WA Kaolin has agreed to pay a royalty (described below) to WAMCO until the earlier of 1 July 2049 and the date WA Kaolin relinquishes, surrenders or conveys to WAMCO all of the Tenements (other than L70/156 and G70/251).
Commencement date	1 July 2019.
Key terms	<p>Royalty: WA Kaolin owes to WAMCO a royalty for each quarter in which WA Kaolin either mines and sells kaolin ore ex-works, FCA or FOB or mines and processes kaolin ore to produce a kaolin product which is sold ex-works, FCA or FOB, which must be paid quarterly.</p> <p>The royalty is \$1.25 per tonne of dry kaolin ore or product sold in a quarter, provided that if kaolin product has been sold after processing, then tonnage used to calculate the royalty will be twice the actual tonnage of the processed kaolin.</p>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 18: COMMITMENTS AND CONTINGENCIES (continued)

Security Interest

Company has borrowed a line of credit of \$5,000,000 from Boneyard Investments Pty Ltd which is secured by the company's property located at East Rockingham.

As a result of a loan agreement between the Company and its major lender, Scientific Management Associates (Victoria) Pty Ltd (SMA), a security interest was previously granted in favour of SMA. The security interest was a fixed charge (in respect of freehold and leasehold land, fixtures, plant, equipment, intellectual property and fixed assets, among other things), a floating charge in regard to all other assets and has a maximum prospective liability of \$12,000,000.

The above security interest was formally released on 9 October 2020.

No other contingencies were noted as at 30 June 2022 (2021: Nil).

NOTE 19: EVENTS AFTER THE REPORTING PERIOD

On 7 July 2022, the Company announced that it had entered into a contract with ACFS Port Logistics Pty Ltd for transport of kaolin product between its Wickepin Processing Plant and Fremantle Port for a an initial one-year term, with two-year renewal plus a further 12-month extension option. The Company also announced the augmentation of its workforce at Wickepin with the appointment of an operations manager and maintenance manager.

On 9 September 2022, the Company announced that it was advancing its commissioning of the Wickepin Processing Plant, with nameplate capacity of 25 tonnes per hour scheduled to be produced by the end of September 2022.

On 20 September 2022, the Company also announced the resignation of two of its non-executive directors, as the Company heads into a transitional phase from commissioning to production.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

NOTE 20: RELATED PARTIES

Key management personnel compensation

The key management personnel compensation is as follows:

	2022 \$	2021 \$
Short-term employee benefits	955,361	772,889
Post-employment benefits	63,821	38,360
Share-based	1,144,000	3,917,603
	2,163,182	4,728,852

Other key management personnel and director transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

Mr A Baker is a director and major shareholder of the Company. During the reporting period, the Company has borrowed funds from several entities of which Mr Baker is a director and major shareholder. Details of those loans can be found in the table below and at Note 10(i).

Mr A Sorensen is a key management person of the Company and has advanced funds to the Company, as detailed below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 20: RELATED PARTIES (continued)

Related party borrowings

30 June 2022

Entities associated with:	A Baker ¹	A Sorensen ²
Opening balance	2,916,965	-
Interest	-	-
Funds advanced	-	-
Funds repaid	(1,766,965)	-
Other – finance cost on related party borrowing (Note 5)	-	-
Closing balance	1,150,000	-

30 June 2021

Entities associated with:	A Baker ¹	A Sorensen ²
Opening balance	3,751,440	95,000
Interest	-	-
Funds advanced	3,064	-
Funds repaid	(1,076,000)	(95,000)
Other – finance cost on related party borrowing (Note 5)	238,461	-
Closing balance	2,916,965	-

Entities associated with the following key management personnel are as follows:

¹ A Baker : Wamco Industries Group Pty Ltd, Wamco Industries Pty Ltd, Pacific Polymers R&D Pty Ltd, Pacific Polymers Pty Ltd, EMC Pacific Pty Ltd

² A Sorensen : Loans are held in Wamco Industries Group Pty Ltd on behalf of Mr Sorensen

Full details of the lenders can be found at Note 11 (Borrowings).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

NOTE 20: RELATED PARTIES (continued)

Fees and salaries

Director / Other Fees

Mr. A Baker, and Mr. A Sorensen chose not to be paid any director / other fees during previous financial years, instead allowing the Company to accrue such amounts, including amounts accrued in prior financial years, to be paid at a later date as the Company's cash flow allows. Details of the amounts owing can be found in the table below and are recorded in Trade and other payables within the Statement of Financial Position.

30 June 2022

	A Baker	A Sorensen
Opening balance	365,000	234,000
Director / Other fees	-	-
Payments	(64,000)	(45,000)
Closing balance	301,000	189,000

30 June 2021

	A Baker	A Sorensen
Opening balance	368,000	234,000
Director / Other fees	205,800	-
Payments	(208,800)	-
Closing balance	365,000	234,000

Other transactions

Remuneration arrangements of key management personnel are disclosed in the annual financial report.

During the period ended 30 June 2022, the Company paid:

- Director fees and superannuation of \$224,487 (2021: \$196,424)
- Salary and superannuation of \$107,959 to a part-time sales executive, who is the daughter of the Company's executive director (2021: \$39,628)
- Consulting fees of \$315,000 (ex GST) for services rendered by the Company's executive director through his associated entity (2021: \$181,800)
- Royalties of \$20,376 (2021: \$22,994) to an entity associated with the Company's executive director
- Building supplies (at arm's length or better) to an entity associated with the son of the Company's executive director
- Plant and equipment (at arm's length or better) to an entity associated with the Company's executive director

Following the Company's capital raising in February and March 2022, the Company repaid loans of \$1,766,965 (2021: \$1,076,000) during the period to companies associated with the Company's executive director.

DIRECTORS' DECLARATION

1. In the opinion of the directors of WA Kaolin Limited ("the 'Company'):
 - a. the accompanying financial statements and notes thereto, as set out on pages 20 to 59 are in accordance with the Corporations Act 2001, including:
 - i. complying with Australian Accounting Standards and the Corporations Regulations 2001, and other mandatory professional reporting requirements;
 - ii. as stated in Note 1 the financial statements also comply with International Financial Reporting Standards; and
 - iii. give a true and fair view of the financial position of the Company as at 30 June 2022 and of its performance for the year ended on that date.
 - b. there are reasonable grounds to believe that WA Kaolin Limited will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and Chief Financial Officer to the Directors, in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2022.

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



Dr John White
Chairman

Dated this 30 September 2022

INDEPENDENT AUDITOR'S REPORT

To the members of WA Kaolin Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of WA Kaolin Limited (the Company), which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Company's financial position as at 30 June 2022 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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(b) in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern and therefore the entity may be unable to realise its assets and discharge its liabilities in the normal course of business. 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.

Carrying value of mine development properties

Key audit matter	How the matter was addressed in our audit
<p>Accounting for mine development properties related to the Wickepin Project is a key audit matter due to:</p> <ul style="list-style-type: none"> The size of the mine development properties which represents 61% of the company's total assets as at 30 June 2022; and During the year the company capitalised significant construction expenditure as mine development properties. <p>Mine development properties are recorded by the company in accordance with AASB 116 <i>Property, Plant and Equipment</i>. The standard prescribes that expenditure shall be recognised as an asset if, and only if:</p> <ol style="list-style-type: none"> It is probable that future economic benefits associated with the item will flow to the entity; The cost of the item can be measured reliably. <p>The company uses judgement and estimates in the identification and allocation of costs between operating expenditure and capital expenditure. We focussed on:</p> <ul style="list-style-type: none"> The capitalisation and accuracy of expenditure recognised by the company in accordance with accounting standards. 	<p>Our procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> Verifying on a sample basis, mine development expenditure capitalised during the year for compliance with the measurement and recognition criteria of the accounting standards; Evaluating management's assessment of indicators of impairment as at 30 June 2022 under Australian Accounting Standards; Evaluating the reasonableness of management's accounting classification of the project; and Assessing the adequacy of the related disclosures in Note 1 and Note 9 to the financial report.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the Company's annual report for the year ended 30 June 2022 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 18 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of WA Kaolin Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

BDO Audit (WA) Pty Ltd

The image shows a handwritten signature in black ink. The signature appears to be 'Dean Just' written in a cursive, stylized script. Above the signature, the letters 'BDO' are handwritten in a simple, blocky font.

Dean Just

Director

Perth, 30 September 2022

Additional Information for Listed Public Companies

Additional information included in accordance with the Listing Rules of the Australian Securities Exchange Limited.
The information is current as at 29 September 2022.

1. Shareholdings

Substantial shareholders of WA Kaolin Limited:

Name of shareholder	Shares held
Silver Tropic Pty Ltd <Wamco Industries Unit A/C>	49,883,574
Scientific Management Associates (Victoria) Pty Ltd <Wamco Industries Unit A/C>	48,844,333
Mr Kenneth Joseph Hall <Hall Park A/C>	38,764,625
	137,492,532

2. Distribution of equity – Listed securities:

Holding Ranges	Holders	Total Units	% Issued Share Capital
above 0 up to and including 1,000	26	4,596	0.00%
above 1,000 up to and including 5,000	280	1,003,577	0.30%
above 5,000 up to and including 10,000	240	1,933,117	0.58%
above 10,000 up to and including 100,000	661	27,066,362	8.13%
above 100,000	252	302,983,818	90.99%
Totals	1,459	332,991,470	100.00%

At the date of this report there were 73 shareholders, with a total of 104,884 shares, who held less than a marketable parcel of shares, representing

Listed securities in WA Kaolin Limited (WAK) are quoted on all member exchanges of the Australian Securities Exchange.

Additional Information for Listed Public Companies (continued)

Updated as at 29 September 2022

Position	Holder Name	Holding	% IC
1	SILVER TROPIC PTY LTD <WAMCO INDUSTRIES UNIT A/C>	49,883,574	14.98%
2	SCIENTIFIC MANAGEMENT ASSOCIATES (VICTORIA) PTY LTD <WAMCO INDUSTRIES UNIT A/C>	48,844,333	14.67%
3	MR KENNETH JOSEPH HALL <HALL PARK A/C>	27,653,513	8.30%
4	MR KENNETH JOSEPH HALL <HALL PARK A/C>	11,111,112	3.34%
5	KAOLIN CT PTY LTD <KAOLIN A/C>	11,049,732	3.32%
6	CENTURY HORSE LIMITED	9,375,000	2.82%
7	MR HAN SWEE TAN	9,228,378	2.77%
8	CAJWM PTY LTD <CAJWM RETIREMENT FUND A/C>	7,000,000	2.10%
8	BONEYARD INVESTMENTS PTY LTD	7,000,000	2.10%
9	STEPHEN RICE <A/C THE RICE FAMILY TRUST>	5,366,452	1.61%
9	MR JAMES WOULFE & MRS CATHERINE MARIA WOULFE <DEBHULBH FAMILY A/C>	5,366,452	1.61%
9	PAUL LOWRY & KIM WATSON <THE PAUL LOWRY FAMILY A/C>	5,366,452	1.61%
10	CITICORP NOMINEES PTY LIMITED	4,423,225	1.33%
11	MR ANDREW BRIAN SORENSEN <WAMCO INDUSTRIES UNIT A/C>	4,156,964	1.25%
12	MS LAY HOON LEE	3,911,265	1.17%
13	MR BENG GIM TAN	3,500,000	1.05%
14	ANDREW SORENSEN HOLDINGS PTY LTD <SORENSEN FAMILY SUPER A/C>	2,197,259	0.66%
15	MR MENG LUO & MRS LAN LIU <LUO & LIU FAMILY A/C>	2,082,000	0.63%
16	MR KANISHKA RATHORE	2,050,371	0.62%
17	EXHIBITIONS PLUS PTY LTD <YARINGA LODGE UNIT A/C>	2,034,290	0.61%
18	G & N LORD SUPERANNUATION PTY LTD <GNR SUPERANNUATION FUND A/C>	1,916,667	0.58%
19	JASPER HILL RESOURCES PTY LTD <SUPERANNUATION ACCOUNT>	1,896,737	0.57%
20	MR KENNETH BIDDICK & MRS CATHERINE BIDDICK <CONQUEST SPORTS PL SFBEN A/C>	1,791,667	0.54%
	Total	227,205,443	68.23%
	Total issued capital - selected security class(es)	332,991,470	100.00%