

AEP Corporation Pty Limited

ACN 627 617 976

Consolidated Financial Statements

For the period from 19 July 2018 to 31 December 2018

Contents

	Page
Directors' Report	1
Auditor's Independence Declaration under Section 307C of the Corporations Act 2001	3
Consolidated Statement of Profit or Loss and Other Comprehensive Income	4
Consolidated Statement of Financial Position	5
Consolidated Statement of Cash Flows	6
Consolidated Statement of Changes in Equity	7
Notes to the Financial Statements	8
Directors' Declaration	15
Independent Audit Report	16

Director's Report

31 December 2018

The director presents his report, together with the financial statements of the Group, being the Company and its controlled entities, for the financial period from incorporation to 31 December 2018.

Information on director

The names of each person who has been a director during the period and to the date of this report is:
Kris Knauer

The Director has been in office since the start of the financial period to the date of this report unless otherwise stated.

Principal activities

AEP Corporation Pty Limited ("AEP") was incorporated on 19 July 2018. On 2 August 2018, AEP acquired two subsidiaries, Ecuador Mining Pty Limited and Afro-Asian Resources Pty Limited.

No significant change in the nature of these activities occurred during the year.

Operating results

The consolidated profit of the Group amounted to \$162,264 for the period.

Dividends paid or recommended

No dividends were paid or declared during the period.

Significant changes in state of affairs

There have been no significant changes in the state of affairs of the Group during the period other than that stated.

Events after the reporting date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

Future developments and results

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental issues

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

Director's Report

31 December 2018

Indemnification and insurance of officers and auditors

The Group has not insured the Director against liabilities for costs and expenses incurred by him in defending any legal proceedings arising out of his conduct while acting in the capacity of Director of the Group.

Auditor's independence declaration

The lead auditor's independence declaration in accordance with section 307C of the Corporations Act 2001, for the year ended 31 December 2018 has been received and can be found on page 3 in the consolidated financial report.

Signed in accordance with a resolution of the Director:

Director: 

Dated 10 MAY 2019

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the Director of AEP Corporation Pty Ltd

I declare that, to the best of my knowledge and belief, during the period ended 31 December 2018, there have been:

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


PKF

MARTIN MATTHEWS
PARTNER

10 MAY 2019
NEWCASTLE, NSW

AEP Corporation Pty Limited
ACN 627 617 976
Consolidated Statement of Profit and Loss and Other Comprehensive Income
For the period 19 July 2018 to 31 December 2018

	2018
	<u>\$</u>
INCOME	
Interest received	14
Capital gains	<u>300,000</u>
Total income	300,014
EXPENSES	
Accountancy	497
Bank fees & charges	100
Consultants fees	38,740
Legal fees	<u>51,386</u>
Total expenses	<u>90,723</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX	<u>209,291</u>
Income Tax Expense	(<u>47,025</u>)
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX	162,264
Other Comprehensive income	<u>-</u>
TOTAL COMPREHENSIVE INCOME	<u>162,264</u>

The accompany notes form part of these financial statements

AEP Corporation Pty Limited
ACN 627 617 976
Consolidated Statement of Financial Position as at 31 December 2018

	2018
	<u>\$</u>
CURRENT ASSETS	
Cash Assets	
Cash at bank	690,029
Receivables	
CEL	<u>200,000</u>
TOTAL CURRENT ASSETS	<u>890,029</u>
NON-CURRENT ASSETS	
Intangible Assets	
Goodwill on Acquisition	148,248
Exploration & Evaluation	<u>1,433,213</u>
TOTAL NON-CURRENT ASSETS	<u>1,581,461</u>
TOTAL ASSETS	<u>2,471,490</u>
CURRENT LIABILITIES	
Financial Liabilities	
Unsecured:	
- Accrued Expenses	<u>1,002</u>
TOTAL CURRENT LIABILITIES	<u>1,002</u>
NON-CURRENT LIABILITIES	
Financial Liabilities	
Unsecured:	
- Shareholders Loans	1,673
Deferred Tax Liabilities	
Deferred income tax	<u>47,025</u>
TOTAL NON-CURRENT LIABILITIES	<u>48,698</u>
TOTAL LIABILITIES	<u>49,700</u>
NET ASSETS	<u>2,421,788</u>
EQUITY	
Issued Capital	
Issued & paid up capital	2,258,740
Reserves	
Share Option Reserve	784
Retained earnings	<u>162,264</u>
TOTAL EQUITY	<u>2,421,788</u>

The accompany notes form part of these financial statements

AEP Corporation Pty Limited
ACN 627 617 976
Consolidated Statement of Cash Flows
For the period 19 July 2018 to 31 December 2018

	2018
	<u>\$</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Payments to suppliers and employees	(98,426)
Interest received	<u>14</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(98,412)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Loans advanced to third parties	(200,000)
Payment for subsidiaries, net of cash acquired	1,002
Expenditure on exploration	<u>(1,016,699)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(1,215,697)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of shares	<u>2,004,136</u>
NET CASH FROM FINANCING ACTIVITIES	<u>2,004,136</u>
Net (decrease) / increase in cash held	<u>690,027</u>
Cash and cash equivalents upon incorporation	<u>2</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>690,029</u>

The accompany notes form part of these financial statements

AEP Corporation Pty Limited
ACN 627 617 976
Consolidated Statement of Changes in Equity
as at 31 December 2018

	Issued capital	Retained earnings	Reserves	Total
	\$	\$	\$	\$
Upon incorporation on 19 July 2018	2	-	-	2
Profit for the period	-	162,264	-	162,264
Issue of share capital and options	<u>2,258,738</u>	<u>-</u>	<u>784</u>	<u>2,258,522</u>
At 31 December 2018	<u>2,258,740</u>	<u>162,264</u>	<u>784</u>	<u>2,421,788</u>

The accompany notes form part of these financial statements

AEP Corporation Pty Limited
ACN 627 617 976
Notes to the Financial Statements
For the period 19 July 2018 to 31 December 2018

Note 1: Summary of Significant Accounting Policies

The director has prepared the financial statements on the basis that the company is a non-reporting entity because there are no users dependant on general purpose financial statements. The financial statements are therefore special purpose financial statements that have been prepared in order to meet the needs of the members.

This financial report includes the consolidated financial statements and notes of AEP Corporation Pty Limited and controlled entities ('Consolidated Entity' or 'Group'). AEP Corporation Pty Limited was incorporated on 19 July 2018. Accordingly this financial report reflects the activity between 19 July 2018 and 31 December 2018.

The financial statements have been prepared in accordance with the significant accounting policies disclosed below, which the director has determined are appropriate to meet the needs of the members. Such accounting policies are consistent with the previous period unless stated otherwise.

The Consolidated Entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Consolidated Entity.

The financial statements have been prepared on an accruals basis and are based on historical costs unless otherwise stated in the notes. The accounting policies that have been adopted in the preparation of the statements are as follows:

(a) Intangibles

Goodwill

Goodwill is recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities acquired at date of acquisition.

Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold.

(b) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(c) Revenue and Other Income

Revenue is measured at the value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. For this purpose, deferred consideration is not discounted to present values when recognising revenue.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

AEP Corporation Pty Limited
ACN 627 617 976
Notes to the Financial Statements
For the period 19 July 2018 to 31 December 2018

Note 1: Summary of Significant Accounting Policies (cont'd)

(c) Revenue and Other Income (cont'd)

Revenue recognised related to the provision of services is determined with reference to the stage of completion of the transaction at the reporting date and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

All revenue is stated net of the amount of goods and services tax (GST).

(d) Goods and Services Tax (GST)

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

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

(e) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by AEP as at 31 December 2018 and the results of all controlled entities for the period then ended.

Subsidiaries are all those entities over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. All controlled entities have a June financial year end.

(f) Exploration and Evaluation Assets

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal rights to explore an area are recognised in the statement of profit or loss and other comprehensive income.

Exploration and evaluation assets are only recognised if the rights of interest are current and either:

- The expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- 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.

AEP Corporation Pty Limited
ACN 627 617 976
Notes to the Financial Statements
For the period 19 July 2018 to 31 December 2018

Note 1: Summary of Significant Accounting Policies(cont'd)

(f) Exploration and Evaluation Assets (cont'd)

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

An impairment exists when the carrying amount of capitalised exploration and evaluation expenditure relating to an area of interest exceeds its recoverable amount. The asset is then written down to its recoverable amount. Any impairment losses are recognised in the statement of profit or loss and other comprehensive income.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mining property and development assets within property, plant and equipment and depreciated over the life of the mine.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Where applicable, such costs are determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

(g) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on either accounting profit or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of profit or loss and other comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax Consolidation

AEP and its wholly-owned Australian subsidiaries have not formed an income tax consolidated group under tax consolidation legislation.

AEP Corporation Pty Limited
ACN 627 617 976
Notes to the Financial Statements
For the period 19 July 2018 to 31 December 2018

Note 1: Summary of Significant Accounting Policies(cont'd)

(h) Receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is raised when some doubt as to collection exists.

(i) Contributed Equity

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, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(j) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as noncurrent

(k). Significant accounting estimates, judgments and assumptions

The preparation of financial statements requires management to make judgments and estimates relating to the carrying amounts of certain assets and liabilities. Actual results may differ from the estimates made. Estimates and assumptions are reviewed on an ongoing basis.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next accounting period are:

i) Impairment of exploration and evaluation assets and investments in and loans to subsidiaries

The ultimate recoupment of the value of exploration and evaluation assets, the Company's investment in subsidiaries, and loans to subsidiaries is dependent on the successful development and commercial exploitation, or alternatively, sale, of the exploration and evaluation asset.

Impairment tests are carried out on a regular basis to identify whether the asset carrying values exceed their recoverable amounts. There is significant estimation and judgement in determining the inputs and assumptions used in determining the recoverable amounts.

AEP Corporation Pty Limited
ACN 627 617 976
Notes to the Financial Statements
For the period 19 July 2018 to 31 December 2018

Note 1: Summary of Significant Accounting Policies(cont'd)

(k). Significant accounting estimates, judgments and assumptions (cont'd)

The key areas of judgement and estimation include:

- Recent exploration and evaluation results and resource estimates;
- Environmental issues that may impact on the underlying tenements;
- Fundamental economic factors that have an impact on the operations and carrying values of assets and liabilities.

ii) Income tax expenses

Judgement is required in assessing whether deferred tax assets and liabilities are recognised on the statement of financial position. Deferred tax assets, including those arising from temporary differences, are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised. Refer to note 4 for further details.

iii) Carrying Value of Exploration and Evaluation Assets

The Company assessed the carrying value of its exploration expenditure for indicators of impairment and concluded that impairment testing of the project was not required.

Note 2: Commitments for Expenditure

2.1 Hualilan Project

Afro Asian Resources Pty Ltd (**AAR**) is a wholly owned subsidiary of AEP. AAR has entered into a binding Farmin Agreement with Golden Mining SRL (GML). GML is the current holder of the concessions constituting the Cerro Sur Project and has entered into an agreement with the current holders of the Cerro Norte project. Under this Agreement AAR has the right to earn 75% of both the Cerro Sur and Cerro Norte projects (which comprise the Hualilan Project) on the following terms:

Cerro Sur and Exploration licence application covering 26 sq. km's surrounding the projects

- Minimum expenditure of A\$1 million (on the Cerro Sur and Cerro Norte projects combined) and the issue of 6.667 million shares (being shares in CEL assuming the Transaction completes) no later than 1 July 2020 to acquire a 25% interest in the project
- A milestone payment of 1.667 million shares (being shares in CEL assuming the Transaction completes) due on 22 June 2019.
- Completion of a Definitive Feasibility Study within five years¹ to move from 25% to 75% of the project.

Cerro Norte

- A payment of 1.667 million shares (being shares in CEL assuming the Transaction completes) to Cerro Sur owners for assignment of Cerro Norte farmin due no later than one month after re-listing on the ASX.
- Minimum expenditure of A\$1 million (on the Cerro Sur and Cerro Norte projects combined) and the issue of 5 million shares (being shares in CEL assuming the Transaction completes) no later than 1 February 2021 to acquire a 25% interest in the project.

AEP Corporation Pty Limited
ACN 627 617 976
Notes to the Financial Statements
For the period 19 July 2018 to 31 December 2018

Note 2: Commitments for Expenditure (cont'd)

2.1 Hualilan Project (cont'd)

Completion of a Definitive Feasibility Study within five years and the issue of 50 million shares (being shares in CEL assuming the Transaction completes) to move from 25% to 75% of the project

2.2 El Guayabo Project

Ecuador Mining Pty Limited ("EMP") is a wholly owned subsidiary of AEP and has entered into a farmin agreement under which it can acquire 100% of the El Guayabo Concession from Torata Mining Resources TMR S.A., a company duly incorporated and registered under the laws of Ecuador, having its principal offices in Buenavista 2619 y Av. Bolívar, La Providencia, Machala, El Oro, Ecuador, the current owner of the property comprising the El Guayabo Project:

Under this agreement EMP has earned an initial 19.9% interest in the project and can acquire up to 100% of the El Guayabo project via a staged Farm-in agreement.

The proposed terms of the Staged Farm-in Agreement are summarised below:

- Stage 1: Expenditure of A\$2 million by 15 June 2020 (~1 year after relisting) to move from 19.9% to a 35% interest in the Project. It should be noted that as at Dec 31 2018 AEP had spent \$1.43 million towards this commitment;
- Stage 2: Expenditure of an additional A\$3 million by 1 June 2022 to move to a 51% interest in the Project;
- Stage 3: At any time on or before Dec 15, 2022, and at the sole discretion of EMP (being controlled by the Board of CEL), issue 180m ordinary shares to Torata SA to acquire 49% of the Project. These shares will be subject to necessary regulatory and shareholder approvals.

Summary Table

Project Interest	Cumulative Interest	Consideration / Expenditure Commitment
19.9%	19.9%	Existing interest in the project
15.1%	35%	Minimum expenditure on project of A\$2m - ~1 Year after relisting
16%	51%	Minimum expenditure on project of A\$3m - ~3 Years after relisting
49%	100%	180m CEL shares payable at the sole discretion of the Board of CEL. Shares to be issued no later than Dec 15, 2022

The farm in agreement outlined above includes the following mechanisms to ensure security of the project for Ecuador Mining Pty Limited. These agreements result from detailed Ecuador based legal advice and are not relevant to project earn in terms

- A Loan and Option Agreement, whereby all exploration expenses and annual option payments will be treated as a loan secured over the El Guayabo Concession until the acquisition of 100% of the concession has been completed by EMP or EMP elects to withdraw from the farm in agreement.

AEP Corporation Pty Limited
ACN 627 617 976
Notes to the Financial Statements
For the period 19 July 2018 to 31 December 2018

Note 2: Commitments for Expenditure (cont'd)

2.2 El Guayabo Project (cont'd)

- A Pledge Agreement, which is the Ecuadorian equivalent of a fixed and floating charge, over the El Guayabo Project concessions in favour of EMP.
- An Irrevocable Promise to Transfer Agreement, which has been lodged and stamped by the Ecuador Mines Department, which is effectively a pre-authorization to the Mines Department to transfer the El Guayabo concession to EMP upon completion of the terms of the Staged farmin and Loan and Option Agreements by EMP.

Note 3 Going Concern

These financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. As at 31 December 2018 the Group had net assets of \$2,421,788 and \$690,029 in cash and cash equivalents.

The ability of the Company and Group to continue to pay its debts as and when they fall due and meeting the commitments outlined in Note 2 is dependent on the Company successfully raising additional share capital and ultimately developing its mineral properties.

The director believes it is appropriate to prepare these financial statements on a going concern basis because:

- The company has received a letter of financial support from Pitt Street Absolute Return Fund who will provide the funds as necessary to enable AEP to meet their liabilities and obligations both certain and contingent as they fall due for the foreseeable future
- The director has appropriate plans to raise additional funds as and when required. In light of the Group's current exploration projects, the director believes that the additional capital can be raised in the market; and
- The director has an appropriate plan to contain certain operating and exploration expenditure if required funding is not available.

These financial statements have been prepared on the basis that the Company and Group can meet its commitments as and when they fall due and can therefore continue normal business activities, and the realisation of its assets and settlement of its liabilities can occur in the ordinary course of business.

In the event that the Group is unable to satisfy future funding requirements, a material uncertainty would arise that may cast significant doubt on the Group's ability to continue as a going concern with the result that the Group may be required to realise its assets at amounts different from those currently recognised, settle liabilities other than in the ordinary course of business and make provisions for costs which may arise as a result of cessation or curtailment of normal business operations.

AEP Corporation Pty Limited
ACN 627 617
Director's Declaration

The director has determined that the company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies prescribed in Note 1 to the financial statements.

The director of the company declares that:

1. the financial statements and notes, present fairly the company's financial position as at 31 December 2018 and its performance for the period ended on that date in accordance with the accounting policies described in Note 1 to the financial statements;
2. in the director's opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Kris David Knauer

Director

Dated: **10 May 2019**

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF AEP CORPORATION PTY LIMITED AND CONTROLLED ENTITIES

Report on the Financial Report

Opinion

We have audited the accompanying financial report, being a special purpose financial report of AEP Corporation Pty Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the period then ended; and
- (ii) complying with Australian Accounting Standards to the extent described in Note 1 and the *Corporations Regulations 2001*.

Basis for Opinion

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

We 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 qualified opinion.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Material Uncertainty related to Going Concern

Without Modifying our opinion, we draw attention to Note 3 in the financial report, which indicates that the Group will be reliant on future capital raisings to continue as a going concern. This, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty that may cast significant doubt over the Group's ability to continue as a going concern and therefore, the consolidated entity's may be unable to release its assets and discharge its liabilities in the normal course of business. The financial report of the consolidated entity does not include any adjustments in relation to the recoverability and classification of the recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not be able to continue as a going concern.

Responsibilities of Director for the Financial Report

The director of the Company is responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members. The director's responsibility also includes such internal control as the director determines necessary to enable the preparation of a 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 director is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the director.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

Auditor's Responsibilities for the Audit of the Financial Report (cont'd)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



PKF



MARTIN MATTHEWS
PARTNER

10 MAY 2019
NEWCASTLE, NSW