HAWKSTONE
MINING

# Hawkstone Mining Limited
# Annual Report

## For the year ended 30 June 2019

ABN 15 008 720 223

ASX:HWK
hawkstonemining.com.au

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# Corporate Directory

| | |
|---|---|
| **Directors** | Mr Barnaby Egerton-Warburton - Non-executive Chairman<br>Mr Paul Lloyd - Managing Director<br>Mr Shaun Hardcastle - Non-executive Director<br>Ms Oonagh Malone - Non-executive Director |
| **Company Secretary** | Ms Oonagh Malone |
| **Registered Office** | Ground Floor, 24 Outram Street<br>West Perth WA 6005 |
| **Share Registry** | Automic Registry Services<br>Level 5, 126 Phillip Street<br>Sydney NSW 2000<br>Tel: 02 9698 5414 |
| **Auditor** | HLB Mann Judd (WA Partnership)<br>Level 4<br>130 Stirling Street<br>Perth WA 6000 |
| **Securities Exchange Listing** | Australian Securities Exchange<br>Level 40, Central Park<br>152 – 158 St Georges Terrace<br>Perth WA 6000<br>Code: HWK |

*Figure 1: Diamond drill rig on site at the Big Sandy lithium project for the Company's 37 hole diamond drill program.*

# Managing Director's Report

Dear Fellow Shareholders,

On behalf of the Board of Hawkstone Mining Limited, I am pleased to present to shareholders Hawkstone's Annual Report for the Financial Year ended 30 June 2019.

The financial year has been an important and exciting period for Hawkstone's directors, shareholders and employees alike. Our Big Sandy lithium project in Arizona USA has continually delivered high-grade lithium intersections successfully outlining extensions to the primary mineralisation which remain open to the north, south and west. As we've progressed through our 37 hole phase 2 diamond drill program, the outstanding results have continued to demonstrate the significant potential of the project.

As at June 30, we had completed 34 of the 37 planned drill holes, and with the completion of these final three holes announced on 14 August 2019, we were pleased to announce our Maiden JORC Indicated and Inferred Resource on 26 September 2019. The progression to a JORC Resource is a significant milestone for Hawkstone, and a substantial achievement for us, especially considering that USA Lithium Limited and the Big Sandy project was acquired less than 12 months ago in September 2018. The Maiden JORC resource is based on drilling over a mere 4% of the land holding at the Big Sandy project. With further drilling planned for 2019/20 financial year, we aim to further increase the maiden JORC Estimate Resource, as Hawkstone fast tracks from being a lithium explorer to developer.

During the financial year, we bolstered both our technical and corporate expertise, with the appointment of Dr David Deak as advisor to the Company, and Mr Barnaby Egerton-Warburton as Non-Executive Chairman. Dr Deak has held the position of Chief Technical Officer for Lithium Americas and various senior technical positions at Tesla Inc. He brings a wealth of technical experience to the Company, which will undoubtedly provide considerable benefits as we continue to advance the Big Sandy project and progress through further metallurgical test work.

As an experienced investment banker, corporate advisor and former non-executive director of ASX listed ioneer Ltd (ASX: INR), Mr Barnaby Egerton-Warburton's corporate experience in the lithium industry is invaluable to us as we aim to become a leading global supplier of lithium to the electric vehicle industry. At ioneer, Mr Egerton-Warburton was responsible for introducing the lithium-boron sedimentary-hosted deposit in Nevada state to a US investor group. These contacts and expertise will greatly assist Hawkstone during the 2019/20 financial year.

Our major objective going forward is to continue to deliver shareholder value. We now have the roadmap and the skill sets within leadership, management and staff, to guide the Company through its next stage of growth as we move towards development. On behalf of the Board of Directors, I would like to thank our shareholders for their ongoing support and we look forward to you continuing the journey with us over the coming year.

P Lloyd

**Paul Lloyd**
*Managing Director*

# Review of Operations

## HIGHLIGHTS

- 37-hole Phase 2 diamond drill program at Big Sandy lithium project in Arizona, USA, continually delivered high grade lithium intersections, which successfully outlined extensions to the primary mineralisation.
- Total Maiden Indicated and Inferred Resources of 32.5 Million Tonnes (Mt) grading 1,850ppm Li or 320,800 Lithium Carbonate Equivalent (LCE), reported above an 800ppm Li cut-off announced subsequent to the year end.
- Capital raise of $2.4 million completed, for 120 million shares at $0.02 per share, with the proceeds from the placement primarily being used to accelerate exploration activities and metallurgical test work on the Big Sandy lithium project.
- Preliminary metallurgical test work on a limited number of core samples from the Big Sandy lithium project proved that lithium could be extracted from fresh material through the use of sulphuric acid as a metallurgical process.
- Global lithium expert and former Chief Technical Officer for Lithium Americas, Dr David Deak, appointed as advisor to the Company.
- Experienced investment banker, corporate advisor and former non-executive director of ASX listed ioneer Ltd, Mr Barnaby Egerton-Warburton, appointed as Non-Executive Chairman.


*Figure 1: Hawkstone Lithium Projects, USA*

# Review of Operations

Hawkstone's 100% owned Big Sandy and Lordsburg projects (Figure 1) are located within the United States Battery Corridor, which includes Tesla Motors (NASDAQ: TSLA) Gigafactory 1, a lithium-ion battery and electric vehicle subassembly factory near Reno, Nevada.

The Company's flagship Big Sandy project is located some 2.5 hours' drive northwest of the state capital Phoenix, with access to world-class infrastructure including rail, road and grid power. The project is connected through the Interstate Highway System (I40) and cross-country Route 66, which both pass through the town of Kingman, 87km northeast of Big Sandy. Kingman is located on the Southern Transcon route of the BNSF Railway, the main transcontinental route between Los Angeles and Chicago.

Big Sandy's 25.2km$^2$ project area contains an 11km-long lithium horizon with simple geology, lithium mineralisation from surface to a depth of 90m, a Maiden Indicated and Inferred Resources of 32.5 Mt at 1,850ppm Li. This includes a higher grade zone of 12.7 Mt grading 2,360ppm Li above a cut-off of 2,000ppm Li for 159,500 tonnes LCE, representing 49% of the total contained LCE.

Arizona is a top 10 global mining investment destination with the Big Sandy project located within an area that has recently been designated as an economic opportunity zone, allowing companies to access tax concessions from state and federal authorities. Big Sandy's prospectivity is also bolstered by the recent designation of lithium by the US Commerce Department as a mineral deemed critical to U.S. national security and the economy by the US Federal Government.

## BIG SANDY LITHIUM PROJECT

### 37 Hole Diamond Drill Program at the Big Sandy Lithium Project

During the year, Hawkstone's 37-hole Phase 2 diamond drill program at its Big Sandy lithium project in Arizona, USA, continually delivered high grade lithium intersections, which has successfully outlined extensions to the primary mineralisation. As announced on 21 February 2019, the Company commenced a 37 hole diamond drill program for approximately 3,700 metres, with the aim of testing the lateral extents of mineralisation in the northern mineralised zone. Drill targets were identified through the Company's 2018 maiden drill program and geological mapping, which successfully identified high grade results across the mineralised zone measuring 3,000m x 1,000m. Results from the programs were used in the estimation of the Maiden 32.5Mt Resource.

*Figures 2 & 3: Hawkstone Managing Director, Paul Lloyd, and team, overseeing drilling at the Big Sandy lithium project in Arizona, USA*

# Review of Operations

The Company's 37 hole diamond drill program at the Big Sandy lithium project, intersected thick high grade lithium mineralisation at shallow depth.

The best intersections included:

- **DHQ3** 54.0m @ 2,041 ppm Li from 10.0m to 64.0m
- **DHQ4** 34.0m @ 1,941 ppm Li from 32.0m to 66.0m
- **DHQ5** 36.0m @ 1,892 ppm Li from 31.0m to 67.0m
- **DHQ10** 44.0m @ 2,040 ppm Li from 12.0m to 56.0m
- **DHQ28** 52.0m @ 1,953 ppm Li from 11.0m to 63.0m
- **DHQ22** 47.0m @ 2,130 ppm Li from 12.0m to 59.0m

As at 30 June 2019, the Company had completed 34 of the 37 holes, with diamond drilling continuing over the Northern Mineralised Zone. Results from the drill program included a peak value of 4,250 ppm Li. The results from the final three holes have since been received as per the announcement dated 14 August 2019.

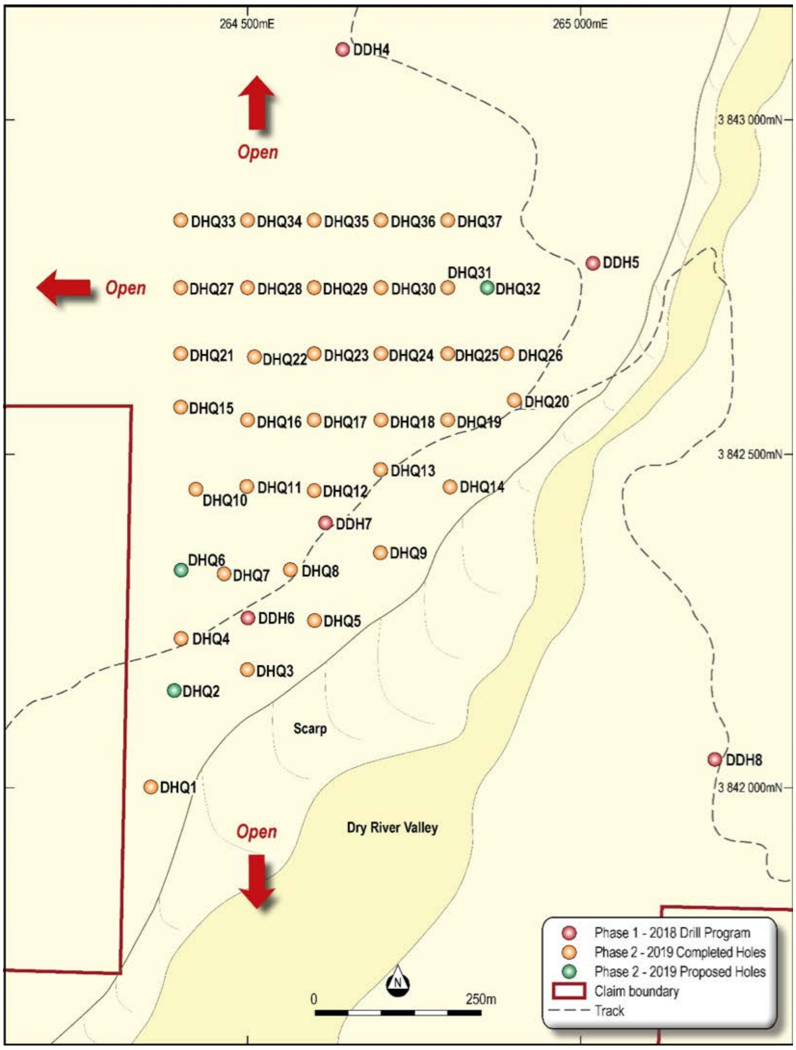


*Figure 4: Phase 2 drill plan with completed holes, including drill-holes completed during Phase 1 drilling*

# Review of Operations

During the June 2019 quarter, Hawkstone's drilling contractor continued to obtain excellent core recovery, improving Hawkstone's geological understanding of the project, which will be applied to ongoing metallurgical test work.


*Figures 5 & 6: Drill cores from Hawkstone's 37 hole diamond drill program*

# Review of Operations

## Maiden Drill Program

The 37 hole Phase 2 diamond drill program follows the Company's maiden drill program announced 25 July 2018. The maiden drill program for an initial 16 holes for ~1,600 of diamond drilling, aimed to test the highly anomalous results from the previous detailed mapping, surface sampling and shallow auger programmes, across the mapped 11km x 2km zone of lithium mineralised zone.

*Figure 7: Maiden Drilling at Hawkstone's Big Sandy Lithium Project*

On 3 August 2018, the Company announced that the initial diamond drill holes (DDH6 & 6A collared 1m to the north) had confirmed the presence of a total potential mineralised sedimentary interval of approximately 40 metres. The sedimentary intercepts supported the potential presence of stacked mineralised zones within the Big Sandy Formation.

Final results from the 16 hole maiden program confirmed significant lithium mineralisation with best intersections from the maiden drill program including:

- **DDH6/6A** 43.8 m @ 2,089 ppm Li from 8.2m to 52.0m including
  11.0 m @ 2,537 ppm Li from 12.0m to 23.0m
- **DDH7** 22.0m @ 2,020 ppm Li from 8.0m to 30.0m including
  3.0 m @ 2,416 ppm Li from 11.0m to 14.0m
  10.0 m @ 2,486 ppm Li from 18.0m to 28.0m

## Metallurgical Test Work

During November 2018, the Company announced the results of the preliminary metallurgical test work on limited number of core samples from the Big Sandy lithium project. The metallurgical testing followed the successful maiden drilling program and was purely designed as a proof of concept, that the lithium could be extracted from the Big Sandy fresh material, through the use of sulphuric acid as a metallurgical process. The metallurgical test work program proved highly successful, as samples recorded lithium recoveries of between 85% to 97%, during a maximum time period of 24 hours. This metallurgical test work was completed by independent consultants, Kappes Cassiday & Associates in Reno, Nevada.

# Review of Operations

## LORDSBURG LITHIUM PROJECT

Lordsburg comprises 355 BLM claims covering 28.7km$^2$ in the southwest corner of the state of New Mexico. It is easily accessed along the I10 interstate between Tucson, Arizona, and La Cruces, New Mexico, close to the Arizona-New Mexico border (Figure 1). Rail lines pass to the north of the claim block and through the lake system to the south.

Due to the current focus of the Company on the Big Sandy project, minimal work has been conducted to date on the Lordsburg project.

## KANGWANE SOUTH ANTHRACITE PROJECT

In September 2018, the Company announced the final assay results for the 4 borehole Phase 2 drill program conducted at the Kangwane South tenement in South Africa with results confirming low sulphur, low phosphorous and a medium ash anthracite. No work was undertaken on the project during the financial year.

Following the acquisition by the Company of USA Lithium Limited, the Board made the strategic decision to divest from the Kangwane South project and is currently undergoing this process.

## REVIEW OF CORPORATE ACTIVITIES

### Acquisition of USA Lithium

On 7 September 2018, Hawkstone announced that all conditions precedent to the acquisition of USA Lithium Limited had been satisfied or waived. Full details of the acquisition of USA Lithium Limited, which holds a 100% interest in the Big Sandy lithium project located in Arizona, USA and the Lordsburg lithium brine project, located in New Mexico, USA, are set out in the notice of meeting to Shareholders lodged with the ASX on 4 July 2018.

### Capital Raise for $2.4 Million Completed

On 22 May 2019, Hawkstone announced that it had received firm commitments for a placement of 120 million shares at $0.02 per share, to raise gross proceeds of approximately $2,400,000. The capital raise was led by PAC Partners with the proceeds from the placement primarily being used to accelerate exploration activities and metallurgical test work on the Company's Big Sandy lithium project, as Hawkstone built towards the estimation of a maiden JORC compliant resource in September 2019. The placement was completed on 29 May 2019, with strong support received from both new and existing shareholders.

### Appointment of Hawkstone Advisor, Dr David Deak

On 1 May 2019, Hawkstone announced the appointment of Dr David Deak as an advisor to the Board and Managing Director of the Company. Dr David Deak is the former chief technical officer for Lithium Americas Corp (TSX: LAC) and held the role of president of its subsidiary, Lithium Nevada Corp. At Lithium Americas, he was responsible for recruiting and leading a team that delivered the 2018 preliminary feasibility study on the Thacker Pass lithium project, located in Nevada, USA. Dr Deak is currently president of Marbex LLC, a private company that supports a portfolio of projects in upstream battery metals.

With over 10 years' experience working in renewable energy, energy storage and electric vehicles, including roles at Tesla Inc. (NASDAQ: TSLA) where he established and grew Tesla's supply chain for lithium and other battery materials, Dr Deak brings a wealth of experience to his role with Hawkstone.

### Board Appointment of Mr. Barnaby Egerton-Warburton

On 16 May 2019, the Company announced the appointment of Mr Barnaby Egerton-Warburton to the position of Non-Executive Chairman. As an experienced investment banker and corporate advisor, Mr Egerton-Warburton has held managing director and non-executive director positions in the investment banking, oil and gas and resource sectors.

# Review of Operations

Importantly, he was previously a non-executive director of ASX listed ioneer Ltd (formerly Global Geo-Science Ltd), where he was responsible for driving the initial introduction of the company's Rhyolite Ridge Lithium-Boron Project (located in Nevada USA) to the US investor group. His experience and involvement in this advanced lithium project will greatly assist the Company as it progresses towards estimating its maiden JORC resource in September 2019.

## Less Than Marketable Parcel Sale Facility

In February 2019, the Company announced the details of a share sale facility for holders of less than a marketable parcel of the Company's shares. Under the facility, holders of less than marketable parcels were given the opportunity to sell their shares without incurring costs that would otherwise make the sale of their shares uneconomical. Further, the Company was able to reduce administrative costs associated with maintaining a large number of small shareholdings.

### COMPETENT PERSON'S STATEMENT

The information in this announcement that relates to the Big Sandy project is based on and fairly represents information compiled by Mr Gregory Smith, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Smith has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Smith consults to the Company as its Chief Technical Officer and holds shares in the Company. The Company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

# Directors' Report

The Directors present their report on the consolidated group consisting of Hawkstone Mining Limited and the entities it controlled (referred to hereafter as the Group) for the year ended 30 June 2019 and the Auditor's Report thereon.

## PRINCIPAL ACTIVITIES OF THE GROUP

Hawkstone Mining Limited (the "Company" or "parent entity") is a mineral exploration and development company focusing on the Big Sandy and Lordsburg projects in USA exploring for lithium.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the year the Group acquired the Big Sandy and Lordsburg projects in USA via the 100% acquisition of USA Lithium Limited.

## SUMMARY OF RESULTS

The Group's loss attributable to members of the Company for the financial year ended 30 June 2019 was $12,621,063 (2018: loss of $1,255,408). The loss was largely due to the expensing of all mineral exploration expenditure including acquisition costs in accordance with the Group's accounting policy.

At 30 June 2019, the Group had net assets of $2,280,220 (2018: $832,354) and the Company had 690,317,995 (2018: 315,127,995) fully paid shares on issue.

## DIRECTORS

The Directors of Hawkstone Mining Limited in office at any time during or since the end of the year are set out below. Directors were in office for the entire period unless otherwise stated.

- Barnaby Egerton-Warburton (Non-Executive Chairman appointed 16 May 2019)
- Paul Lloyd (Managing Director appointed 7 September 2018)
- Shaun Hardcastle (Non-Executive Director)
- Oonagh Malone (Non-Executive Director)
- Richard Pearce (Non-Executive Director resigned 7 September 2018)

## INFORMATION ON CURRENT DIRECTORS

### Mr Barnaby Egerton-Warburton – Non-Executive Chairman (appointed 16 May 2019)

Barnaby Egerton-Warburton is an experienced investment banker and corporate advisor who has held managing director and non-executive director positions in the investment banking, oil and gas and resource sectors. He was previously a non-executive director of ASX listed ioneer Ltd (formerly Global Geo-Science Ltd), where he drove the initial introduction of the company's Rhyolite Ridge Lithium-Boron Project (located in Nevada USA) to US investor groups.

| | |
|---|---|
| Other Current Directorships: | Eneabba Gas Limited<br>Invictus Energy Limited<br>Isignthis Limited |
| Former Directorships in Last Three Years: | ioneer Ltd (to May 2017) |
| Interests in Shares: | 4,570,000 |
| Interests in Options: | 11,750,000 |

# Directors' Report

**Mr Paul Lloyd – Managing Director (appointed 7 September 2018)**

Paul Lloyd is a Chartered Accountant with over 30 years' commercial experience. Mr Lloyd operates his own corporate consulting business, specialising in the area of corporate, financial and management advisory services. After commencing his career with an international accounting firm, he was employed for approximately 10 years as the General Manager of Finance for a Western Australian based international drilling contractor working extensively in Asia and Africa. Paul has been responsible for a number of IPOs, RTOs, project acquisitions and capital raisings for ASX listed public companies.

| | |
|---|---|
| Other Current Directorships: | None |
| Former Directorships in Last Three Years: | European Lithium Limited (to 20 October 2017) |
| Interests in Shares: | 13,341,346 |
| Interests in Options: | 30,000,000 |

**Mr Shaun Hardcastle – Non-Executive Director (appointed 23 February 2015)**

Mr Hardcastle has over 10 years' experience as a corporate and finance lawyer and extensive experience in corporate governance, risk management and compliance. He has been involved in a broad range of cross-border and domestic transactions including joint ventures, corporate restructuring, project finance, resources and asset/equity sales and acquisitions. Mr Hardcastle has practiced law both in Australia and overseas and currently works with Bellanhouse, a boutique corporate law firm in West Perth. He graduated from the University of Western Australia in 2005 with a Bachelor of Laws and a Bachelor of Arts and is currently completing a Graduate Diploma in Energy Law.

| | |
|---|---|
| Other Current Directorships: | Schrole Group Limited<br>Sagon Resources Limited<br>Bunji Corporation Limited |
| Former Directorships in Last Three Years: | None |
| Interests in Shares: | Nil |
| Interests in Options: | 4,000,000 |

**Ms Oonagh Malone – Non-Executive Director and Company Secretary (appointed 23 February 2015)**

Ms Malone is a principal of a corporate advisory firm which provides company secretarial and administrative services. She has almost 10 years' experience in administrative and company secretarial roles for listed companies and is a member of the Governance Institute of Australia. She currently acts as company secretary for ASX-listed Boss Resources Limited, Bunji Corporation Limited, Carbine Resources Limited, Clancy Exploration Limited, Matador Mining Limited and New Century Resources Limited.

| | |
|---|---|
| Other Current Directorships: | Carbine Resources Limited |
| Former Directorships in Last Three Years: | New Century Resources Ltd (to 13 July 2017) |
| Interests in Shares: | Nil |
| Interests in Options: | 4,000,000 |

**DIVIDENDS**

No dividends were paid or are proposed to be paid to members during the financial year (2018: Nil).

**FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES**

Future developments for the Group depend on activity regarding the Big Sandy and Lordsburg lithium projects.

# Directors' Report

## EVENTS OCCURRING AFTER THE REPORTING PERIOD

No events that would have significant effect on the financial report have occurred since the end of the reporting period.

## OPTIONS

Unissued ordinary shares of Hawkstone Mining Limited under option during or since the year ended 30 June 2019 were as follows:

| Expiry date | Exercise price | Number under option | |
|---|---|---|---|
| | | 2019 | 2018 |
| 21 December 2020 | $0.048 | 6,000,000 | 6,000,000 |
| 7 September 2022 | $0.04 | 47,250,000 | - |
| 7 September 2022 | $0.05 | 47,250,000 | - |
| 30 December 2021 | $0.06 | 10,250,000 | - |
| 30 December 2021 | $0.07 | 6,500,000 | - |
| **Total** | | **117,250,000** | **6,000,000** |

## DIRECTORS' MEETINGS

During the financial year, 4 meetings of Directors were held and 4 circular resolutions signed. Attendances by each Director during the year were as follows:

| | Directors' meetings | |
|---|---|---|
| Name | No. of meetings eligible to attend | No. of meetings attended |
| Barnaby Egerton-Warburton | 1 | 1 |
| Shaun Hardcastle | 4 | 4 |
| Paul Lloyd | 4 | 4 |
| Oonagh Malone | 4 | 4 |
| Richard Pearce | - | - |

## AUDIT COMMITTEE

The Company does not have a formally constituted audit committee. The Board considers that the Company's current position in respect of the composition of the Board, the size of the Company and the minimal complexities involved in its financial activities at present, the Company is not in a position to justify the establishment of an audit committee. The full Board performs the duties of this committee.

# Directors' Report

## REMUNERATION REPORT (AUDITED)

The remuneration report outlines the remuneration arrangements for the Key Management Personnel (KMP) of the Group, being the Company's Board members, and is set out under the following main headings:

1. Principles used to determine the nature and amount of remuneration
2. Remuneration committee and board charter
3. Details of remuneration

### Principles Used to Determine the Nature and Amount of Remuneration

In determining competitive remuneration rates, the Board seeks independent advice as required on local and international trends among comparative companies and industry generally. Independent advice may be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

The Board recognises that the Company operates in a global environment. To prosper in this environment it must attract, motivate and retain key executive staff.

The principles supporting the remuneration policy are to:

- reward reflects the competitive global market in which the Company operates;
- rewards to executives are linked to creating value for shareholders;
- remuneration arrangements are equitable and facilitate the development of senior management across the Company;
- where appropriate, senior managers receive a component of their remuneration in equity to align their interests with those of the shareholders; and
- long term incentives are used to ensure that remuneration of key management personnel reflects the Group's financial performance, with particular emphasis on the Group's earnings and the consequence of the Group's performance on shareholder wealth.

Fees and payments to directors reflect the demands which are made on, and the responsibilities of, the directors. Directors' fees and payments are reviewed annually by the Board. The Board also ensures that directors' fees and payments are appropriate and in line with the market.

There are no retirement allowances or other benefits paid to directors.

### Remuneration Committee and Board Charter

The Charter of the Remuneration Committee extends the duties to that of a Nominations Committee. The Board considers that the Company's current position in respect of the composition of the Board and the size of the Company, the Company is not in a position to justify the establishment of a Remuneration Committee and the full Board performs the duties of this committee, with members abstaining from discussions and decisions as appropriate.

The Remuneration Committee is responsible for making recommendations on remuneration policies and packages applicable to Board members and for approval of remuneration for executive officers of the Company taking into account the financial position of the Company. The broad remuneration policy per the formal Charter is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

# Directors' Report

It is the Remuneration Committee's policy to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities though taking into account the financial position of the Company and the Company's shareholder approved limits. The Constitution of the Company specifies that the aggregate remuneration of directors, other than salaries paid to executive directors, shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is divided between those directors as they agree. The latest determination was at the Annual General Meeting held on the 20 April 2007 when shareholders approved an aggregate remuneration of $250,000 per year.

The Board as a whole determines the amount of the fees paid to each non-executive director. All Directors may be allocated options to acquire shares in the Company under the Director and Employee Share Option Plan approved by shareholders from time to time.

The Board approves remuneration packages for executive officers based on performance criteria and the Group's financial performance. Other employee remuneration packages are determined and approved by the Board based on salary market rate indicators, press advertisements, performance criteria and against the Group's financial state of affairs.

**Additional information for consideration of shareholder wealth**

This table summarises the earnings of the Group and other factors that are considered to affect shareholder wealth for the 5 years to 30 June 2019.

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| Profit/ (loss) after income tax attributable to shareholders ($) | (12,621,063) | (1,255,408) | 1,450,733 | (773,307) | (609,129) |
| Share price at year end ($) | 0.021 | 0.034 | 0.011 | N/A* | N/A* |
| Total dividends declared (cents per share) | - | - | - | - | - |
| Returns of capital (cents per share) | - | - | - | - | - |
| Basic profit/(loss) per share (cents) | (2.37) | (0.45) | 1.49 | (12.62) ** | (9.94) ** |

* Trading in shares of the Company were suspended from official quotation on ASX during these years.
** Comparative share price and basic profit/(loss) per share has been restated to reflect the 1:100 share capital consolidation in 2017.

**Details of Remuneration - Service Agreements**

| Director | Position held as at 30 June 2019 | Contract details (duration & termination) |
|---|---|---|
| Barnaby Egerton-Warburton | Non-Executive Chairman | Letter of appointment / In accordance with Constitution<br>No termination benefits payable |
| Shaun Hardcastle | Non-Executive Director | Letter of appointment / In accordance with Constitution<br>No termination benefits payable |
| Paul Lloyd | Managing Director | Service agreement<br>Remuneration of $200,000pa plus statutory superannuation<br>Termination without cause requires 6 months' notice or payment |
| Oonagh Malone | Non-Executive Director and Company Secretary | Letter of appointment / In accordance with Constitution<br>No termination benefits payable |

# Directors' Report

### Remuneration Details for the Year Ended 30 June 2019

The following table of benefits and payments details, in respect to the financial year, the components of remuneration for each member of the KMP of the Group. The aggregate remuneration of non-executive directors was less than the approved aggregate remuneration of $250,000 p.a.

### Table of Benefits and Payments for the Year Ended 30 June 2019

| | | Short-term Benefits Cash salary and fees $ | Post Employment Benefits Super-annuation $ | Termination benefit $ | Share based payment Options/ Rights $ | Total $ | Proportion of remuneration performance related % |
|---|---|---|---|---|---|---|---|
| B Egerton-Warburton | 2019 | 6,922 | 658 | - | 80,505* | 88,085 | 91% |
| | 2018 | - | - | - | - | - | - |
| P Lloyd | 2019 | 170,925 | 15,419 | - | 701,400 | 887,744 | 79% |
| | 2018 | - | - | - | - | - | - |
| S Hardcastle | 2019 | 36,000 | - | - | 46,760 | 82,760 | 57% |
| | 2018 | 36,000 | - | - | 40,240 | 76,240 | 53% |
| O Malone | 2019 | 42,000 | - | - | 46,760 | 88,760 | 53% |
| | 2018 | 36,000 | - | - | 40,240 | 76,240 | 53% |
| R Pearce | 2019 | 6,600 | - | - | 11,690 | 18,290 | 64% |
| | 2018 | 36,000 | - | - | 40,240 | 76,240 | 53% |
| ***Total*** | **2019** | **262,447** | **16,077** | **-** | **887,115** | **1,165,639** | **76%** |
| | **2018** | **108,000** | **-** | **-** | **120,720** | **228,720** | **53%** |

* This includes $23,025 for options issued to Mr Egerton-Warburton for services performed in February 2019 before he was appointed on 16 May 2019.

### Director related parties

Mr Hardcastle is a related party of Bellanhouse. Bellanhouse was paid legal fees of $112,500 for the year ended 30 June 2019 (2018: $120,000) with no outstanding creditor balance at year end.

Mr Lloyd is a related party of Coral Brook Pty Ltd. Coral Brook Pty Ltd was reimbursed administration fees of $20,510 for the year ended 30 June 2019 with no outstanding balance at year end.

Mr Lloyd was one of the shareholders of USA Lithium Limited that was acquired on 7 September 2018. Mr Lloyd received 13,341,346 ordinary shares in the Company and 13,341,346 Deferred Consideration Shares at completion of the acquisition, before he was appointed a director. Deferred Consideration Shares are ordinary shares in the Company that will only be issued on declaration by the Company of an inferred resource at the Big Sandy project of not less than 30Mt at a grade greater than 2,000ppm (or equivalent) within 36 months from Completion (occurred on 7 September 2018) along with ASX approval for this acquisition. There were no other transactions with KMP.

# Directors' Report

**KMP Shareholdings**

The number of ordinary shares in Hawkstone Mining Limited held by each KMP of the Company, as disclosed to the ASX, during the financial year is as follows:

| 30 June 2019 | Balance at beginning of year or appointment | Granted as remuneration during the year | Issued on exercise of options during the year | Other changes during the year | Balance at end of year or resignation |
|---|---|---|---|---|---|
| B Egerton-Warburton | 2,480,000 | - | - | - | 2,480,000 |
| S Hardcastle | - | - | - | - | - |
| P Lloyd | 13,341,346* | - | - | - | 13,341,346 |
| O Malone | - | - | - | - | - |
| R Pearce | - | - | - | - | - |

* Mr Lloyd was issued 13,341,346 shares in consideration for the shares he held in USA Lithium Limited, as part of the Company's acquisition of that company. In addition, Mr Lloyd was issued and still holds the 13,341,346 Deferred Consideration Shares described above.

| 30 June 2018 | Balance at beginning of year | Granted as remuneration during the year | Issued on exercise of options during the year | Other changes during the year | Balance at end of year or resignation |
|---|---|---|---|---|---|
| S Hardcastle | - | - | - | - | - |
| O Malone | - | - | - | - | - |
| R Pearce | - | - | - | - | - |

**KMP Option Holdings**

The number of share options in Hawkstone Mining Limited held by each KMP of the Company, as disclosed to the ASX, during the financial year is as follows:

| 30 June 2019 | Balance at beginning of year or appointment | Granted as remuneration during the year | Exercised during the year | Other changes during the year | Balance at end of year or resignation |
|---|---|---|---|---|---|
| B Egerton-Warburton* | 11,750,000 | - | - | - | 11,750,000 |
| S Hardcastle | 2,000,000 | 2,000,000 | - | - | 4,000,000 |
| P Lloyd** | 30,000,000 | - | - | - | 30,000,000 |
| O Malone | 2,000,000 | 2,000,000 | - | - | 4,000,000 |
| R Pearce | 2,000,000 | 500,000 | - | - | 2,500,000 |

* Mr Egerton-Warburton was issued 8,000,000 options on appointment on 16 May 2019 as part of his remuneration in addition to the 3,750,000 options he held previously.
** Mr Lloyd was issued 30,000,000 options on appointment on 7 September 2018 as part of his remuneration.

| 30 June 2018 | Balance at beginning of year or appointment | Granted as remuneration during the year | Exercised during the year | Other changes during the year | Balance at end of year or resignation |
|---|---|---|---|---|---|
| S Hardcastle | - | 2,000,000 | - | - | 2,000,000 |
| O Malone | - | 2,000,000 | - | - | 2,000,000 |
| R Pearce | - | 2,000,000 | - | - | 2,000,000 |

**Cash Bonuses, Performance-Related Bonuses and Share-Based Payments**

There were no cash bonuses, or other short term performance related bonuses, made to any KMP in the financial years ended 30 June 2019 or 30 June 2018.

# Directors' Report

Details of options over ordinary shares in the Company provided as remuneration to KMP during 2019 are set out below. When exercised, each option is convertible into one ordinary share of Hawkstone Mining Limited. These options were granted with nil additional consideration. These options fully vested during the year. No options issued to current or previous KMP expired or lapsed during the year.

| KMP | Grant date | Number granted | Exercise price ($) | Value per option ($) | Value of options granted ($) | Issue and vesting date | Expiry date |
|---|---|---|---|---|---|---|---|
| B Egerton-Warburton* | 28/02/2019 | 3,750,000 | 0.06 | 0.00614 | 23,025 | 28/02/2019 | 30/12/2021 |
| B Egerton-Warburton | 16/05/2019 | 4,000,000 | 0.06 | 0.00752 | 30,080 | 16/05/2019 | 30/12/2021 |
| B Egerton-Warburton | 16/05/2019 | 4,000,000 | 0.07 | 0.00685 | 27,400 | 16/05/2019 | 30/12/2021 |
| S Hardcastle | 3/08/2018 | 1,000,000 | 0.04 | 0.02389 | 23,890 | 7/09/2018 | 7/09/2022 |
| S Hardcastle | 3/08/2018 | 1,000,000 | 0.05 | 0.02287 | 22,870 | 7/09/2018 | 7/09/2022 |
| P Lloyd | 3/08/2018 | 15,000,000 | 0.04 | 0.02389 | 358,350 | 7/09/2018 | 7/09/2022 |
| P Lloyd | 3/08/2018 | 15,000,000 | 0.05 | 0.02287 | 343,050 | 7/09/2018 | 7/09/2022 |
| O Malone | 3/08/2018 | 1,000,000 | 0.04 | 0.02389 | 23,890 | 7/09/2018 | 7/09/2022 |
| O Malone | 3/08/2018 | 1,000,000 | 0.05 | 0.02287 | 22,870 | 7/09/2018 | 7/09/2022 |
| R Pearce | 3/08/2018 | 250,000 | 0.04 | 0.02389 | 5,973 | 7/09/2018 | 7/09/2022 |
| R Pearce | 3/08/2018 | 250,000 | 0.05 | 0.02287 | 5,717 | 7/09/2018 | 7/09/2022 |
| **Total** | | **46,250,000** | | | **887,115** | | |

* Mr Egerton-Warburton was issued 8,000,000 options on appointment on 16 May 2019 in addition to the 3,750,000 options he was issued in consideration for consulting services on 28 February 2019, before he became a director.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from issue date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, the risk-free interest rate for the term of the option and the liquidity of the share market. Refer to note 24.

Details of all options held by KMP, at the date of this report, are shown below.

| KMP | Grant date | Number granted | Value of options granted ($) | Vesting date | Expiry date | Vested (%) |
|---|---|---|---|---|---|---|
| B Egerton-Warburton | 28/02/2019 | 3,750,000 | 23,025 | 28/02/2019 | 30/12/2021 | 100 |
| B Egerton-Warburton | 16/05/2019 | 4,000,000 | 30,080 | 16/05/2019 | 30/12/2021 | 100 |
| B Egerton-Warburton | 16/05/2019 | 4,000,000 | 27,400 | 16/05/2019 | 30/12/2021 | 100 |
| S Hardcastle | 21/12/2017 | 2,000,000 | 40,240 | 21/12/2017 | 21/12/2020 | 100 |
| S Hardcastle | 3/08/2018* | 1,000,000 | 23,890 | 7/09/2018 | 7/09/2022 | 100 |
| S Hardcastle | 3/08/2018** | 1,000,000 | 22,870 | 7/09/2018 | 7/09/2022 | 100 |
| O Malone | 21/12/2017 | 2,000,000 | 40,240 | 21/12/2017 | 21/12/2020 | 100 |
| O Malone | 3/08/2018* | 1,000,000 | 23,890 | 7/09/2018 | 7/09/2022 | 100 |
| O Malone | 3/08/2018** | 1,000,000 | 22,870 | 7/09/2018 | 7/09/2022 | 100 |
| P. Lloyd | 3/08/2018* | 15,000,000 | 358,350 | 7/09/2018 | 7/09/2022 | 100 |
| P. Lloyd | 3/08/2018** | 15,000,000 | 343,050 | 7/09/2018 | 7/09/2022 | 100 |

* These options with an exercise price of $0.04 were granted, for accounting purposes, at the General Meeting on 3 August 2018, but issued on 7 September 2018 at completion of the USA Lithium acquisition.

** These options with an exercise price of $0.05 were granted, for accounting purposes, at the General Meeting on 3 August 2018, but issued on 7 September 2018 at completion of the USA Lithium acquisition.

**[END OF AUDITED REMUNERATION REPORT]**

# Directors' Report

### ENVIRONMENTAL REGULATION

The Group's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

### INDEMNIFYING OFFICERS OR AUDITORS

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every Officer of the Company shall be indemnified out of the property of the Company against any liability incurred by them in their capacity as Officer, or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal. The Company has agreed to pay a premium for Directors and Officers Insurance.

### PROCEEDINGS ON BEHALF OF THE COMPANY

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

### NON-AUDIT SERVICES

The Directors are satisfied that:

(a) any non-audit services provided during the financial period by HLB Mann Judd as the external auditor were compatible with the general standard of independence for auditors imposed by the Corporations Act; and
(b) any non-audit services provided during the financial period by HLB Mann Judd as the external auditor did not compromise the auditor independence requirements of the Corporations Act for the following reasons:
   i. HLB Mann Judd have not involved directors or staff acting in a managerial or decision making capacity within or been involved in the processing or originating of transactions;
   ii. a description of all non-audit services undertaken by HLB Mann Judd and the related fees have been monitored by the Board to ensure complete transparency in relation to services provided; and
   iii. none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

### AUDITORS' INDEPENDENCE DECLARATION

The auditors' independence declaration for the year ended 30 June 2019 has been received and is included on page 20.

Signed in accordance with a resolution of the Directors:

**Mr Barnaby Egerton-Warburton**
Non-Executive Chairman
Dated at Perth this 27th day of September 2019

HLB MANN JUDD
ADVISORY AND ACCOUNTING

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the consolidated financial report of Hawkstone Mining Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(b) any applicable code of professional conduct in relation to the audit.

| | |
|---|---|
| **Perth, Western Australia** | **L Di Giallonardo** |
| **27 September 2019** | **Partner** |

**hlb.com.au**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**
Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849
**T:** +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

# Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2019

| | Note | 2019<br>$ | 2018<br>$ |
|---|---|---|---|
| Revenue from continuing operations | 3 | 10,427 | 1,621 |
| | | | |
| Directors' fees | 4(b) | (272,524) | (108,000) |
| Consulting and advisory fees | | (72,900) | (70,920) |
| Share based payment expense | 24 | (2,118,892) | (120,720) |
| Corporate and regulatory expenses | | (81,374) | (35,837) |
| Exploration and evaluation | 4(c) | (1,666,510) | (286,602) |
| Legal fees | | (128,911) | (135,700) |
| Occupancy expenses | | (48,000) | (48,000) |
| Foreign exchange gain/ (loss) | | 906 | (10,406) |
| Administrative expenses | 4(a) | (466,218) | (225,187) |
| Impairment of financial asset | 10 | (201,965) | - |
| Exploration and evaluation expenditure expensed on acquisition of subsidiaries | 26 | (7,539,885) | - |
| **Loss before income tax** | | **(12,585,846)** | **(1,039,751)** |
| Income tax | 6 | **-** | **-** |
| **Loss after income tax from continuing operations attributable to members of Hawkstone Mining Limited** | | **(12,585,846)** | **(1,039,751)** |
| | | | |
| **Operations of disposal groups** | | | |
| Exploration and evaluation | 9 | (35,217) | (215,657) |
| **Loss for the year from disposal groups** | | **(35,217)** | **(215,657)** |
| **Loss attributable to members of Hawkstone Mining Limited** | | **(12,621,063)** | **(1,255,408)** |
| | | | |
| **Other comprehensive income** | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Exchange difference on translation of foreign controlled entities, net of tax | | 8,197 | - |
| **Other comprehensive income for the year** | | **8,197** | **-** |
| | | | |
| **Total comprehensive loss for the year** | | **(12,612,866)** | **(1,255,408)** |
| - attributable to members of the parent | | **(12,612,866)** | **(1,255,408)** |
| | | | |
| **Loss per share attributable to the ordinary equity holders of the company** | | | |
| Basic loss per share in cents | 19 | **(2.37)** | **(0.45)** |
| Diluted loss per share in cents | 19 | **(2.37)** | **(0.45)** |
| **Loss per share from continuing operations attributable to the ordinary equity holders of the company** | | | |
| Basic loss per share in cents | 19 | **(2.36)** | **(0.37)** |
| Diluted loss per share in cents | 19 | **(2.36)** | **(0.37)** |

The accompanying notes form part of these financial statements.

# Consolidated statement of financial position as at 30 June 2019

| | Notes | 30 June 2019 $ | 30 June 2018 $ | 1 July 2017 $ |
|---|---|---|---|---|
| | | | (restated) | (restated) |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 7 | 2,024,216 | 394,325 | 653,214 |
| Trade and other receivables | 8 | 33,310 | 46,162 | 57,419 |
| Prepayments | | 11,681 | 8,874 | - |
| Disposal group | 9 | - | - | - |
| | | | | |
| **TOTAL CURRENT ASSETS** | | **2,069,207** | **449,361** | **710,633** |
| | | | | |
| **NON-CURRENT ASSETS** | | | | |
| Other financial assets | 10 | 383,764 | 549,659 | 555,228 |
| | | | | |
| **TOTAL NON-CURRENT ASSETS** | | **383,764** | **549,659** | **555,228** |
| | | | | |
| **TOTAL ASSETS** | | **2,452,971** | **999,020** | **1,265,861** |
| | | | | |
| **CURRENT LIABILITIES** | | | | |
| Trade and other payables | 11 | 164,134 | 166,666 | 48,819 |
| Provisions | | 8,617 | - | - |
| | | | | |
| **TOTAL CURRENT LIABILITIES** | | **172,751** | **166,666** | **48,819** |
| | | | | |
| **TOTAL LIABILITIES** | | **172,751** | **166,666** | **48,819** |
| | | | | |
| **NET ASSETS** | | **2,280,220** | **832,354** | **1,217,042** |
| | | | | |
| **EQUITY** | | | | |
| Contributed equity | 12 | 70,625,549 | 58,683,709 | 57,933,709 |
| Reserves | 13 | 4,011,480 | 1,884,391 | 1,763,671 |
| Accumulated losses | | (72,356,809) | (59,735,746) | (58,480,338) |
| | | | | |
| **TOTAL EQUITY** | | **2,280,220** | **832,354** | **1,217,042** |

The accompanying notes form part of these financial statements.

# Consolidated statement of changes in equity for the year ended 30 June 2019

| | Issued Capital<br>$ | Share based payment reserve<br>$ | Foreign translation reserve<br>$ | Accumulated losses<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **At 1 July 2017** | | | | | |
| **Consolidated balance previously reported at 30 June 2017** | **57,933,709** | **3,974,050** | **(2,210,379)** | **(57,943,858)** | **1,753,522** |
| **Adjustments to balances for change in accounting policy** | - | - | - | (536,480) | (536,480) |
| **Restated balance at 1 July 2017** | **57,933,709** | **3,974,050** | **(2,210,379)** | **(58,480,338)** | **1,217,042** |
| | | | | | |
| **Comprehensive Income** | | | | | |
| Loss for the year | - | - | - | (1,255,408) | (1,255,408) |
| Other comprehensive income for the year<br><br>Exchange differences on translation of controlled entities | - | - | - | - | - |
| **Total comprehensive loss for the year** | **-** | **-** | **-** | **(1,255,408)** | **(1,255,408)** |
| **Transactions with owners, in their capacity as owners, and other transfers** | | | | | |
| Equity instruments issued during the period | 780,000 | - | - | - | 780,000 |
| Recognition of share based payments | - | 120,720 | - | - | 120,720 |
| Share issue costs | (30,000) | - | - | - | (30,000) |
| **At 30 June 2018** | **58,683,709** | **4,094,770** | **(2,210,379)** | **(59,735,746)** | **832,354** |

# Consolidated statement of changes in equity for the year ended 30 June 2019 (continued)

| | Issued Capital<br>$ | Unissued Shares<br>$ | Share based payment reserve<br>$ | Foreign translation reserve<br>$ | Accumulated losses<br>$ | Total<br>$ |
|---|---|---|---|---|---|---|
| **At 1 July 2018** | | | | | | |
| **Consolidated balance previously reported at 30 June 2018** | **58,683,709** | **-** | **4,094,770** | **(2,210,379)** | **(59,199,266)** | **1,368,834** |
| **Adjustments to balances for change in accounting policy** | - | - | - | - | (536,480) | (536,480) |
| **Restated balance at 1 July 2018** | **58,683,709** | **-** | **4,094,770** | **(2,210,379)** | **(59,735,746)** | **832,354** |
| | | | | | | |
| **Comprehensive Income** | | | | | | |
| Loss for the year | - | - | - | - | (12,621,063) | (12,621,063) |
| Other comprehensive income for the year<br><br>Exchange differences on translation of controlled entities | - | - | - | 8,197 | - | 8,197 |
| **Total comprehensive loss for the year** | **-** | **-** | **-** | **8,197** | **(12,621,063)** | **(12,612,866)** |
| **Transactions with owners, in their capacity as owners, and other transfers** | | | | | | |
| Equity instruments issued during the period | 8,631,800 | - | - | - | - | 8,631,800 |
| Contingent consideration shares | - | 3,625,000 | - | - | - | 3,625,000 |
| Recognition of share based payments | - | - | 2,118,892 | - | - | 2,118,892 |
| Share issue costs | (314,960) | - | - | - | - | (314,960) |
| **At 30 June 2019** | **67,000,549** | **3,625,000** | **6,213,662** | **(2,202,182)** | **(72,356,809)** | **2,280,220** |

The accompanying notes form part of these financial statements.

# Consolidated statement of cash flows for the year ended 30 June 2019

| | Note | 30 June 2019 $ | 30 June 2018 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Payments to suppliers and employees | | (2,723,256) | (776,510) |
| Interest received | | 10,427 | 1,621 |
| | | | |
| **Net cash used in operating activities** | 21(b) | **(2,712,829)** | **(774,889)** |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Payments to and on behalf of acquired entities after shareholder approval and before completion | 26 | (332,695) | - |
| Cash acquired on acquisition of subsidiaries | 26 | 22,068 | - |
| Bond refunded | | 23,519 | - |
| Payments for other financial assets | | (20,000) | - |
| | | | |
| **Net cash used in investing activities** | | **(307,108)** | **-** |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds of share issues | | 4,900,000 | 516,000 |
| Proceeds of option issues | | 3,000 | - |
| Share issue costs | | (211,160) | - |
| Proceeds from borrowings | | 100,000 | - |
| Repayment of borrowings | | (140,000) | - |
| | | | |
| **Net cash generated by financing activities** | | **4,651,840** | **516,000** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,631,903** | **(258,889)** |
| | | | |
| Cash and cash equivalents at the beginning of the period | | 394,325 | 653,214 |
| Effects of exchange rate changes on cash and cash equivalents | | (2,012) | - |
| **Cash and cash equivalents at the end of the period** | 7 | **2,024,216** | **394,325** |

The accompanying notes form part of these financial statements

# Notes to the financial statements

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements include the consolidated financial statements and notes of Hawkstone Mining Limited and controlled entities (the 'Group').

The significant accounting policies which have been adopted in the preparation of the financial statements are set out in this note 1.

### (a) Basis of preparation

The financial statements are general purpose financial statements, which have been prepared in accordance with the Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements of the Group comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs. The financial statements are presented in Australian dollars.

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and liabilities in the normal course of business.

The Group has incurred a net loss for the year of $12,621,063 (2018: $1,255,408) and net cash outflows from operating activities of $2,712,829 (2018: $774,889). The loss was largely due to the expensing of all mineral exploration expenditure including acquisition costs in accordance with the Group's accounting policy. The Group had cash assets of $2,024,216 at 30 June 2019 (2018: $394,325).

The Directors believe that it is appropriate to prepare the financial information on a going concern basis for the following reasons:

The Board recognises that additional funding is required to ensure that the Group can continue to fund its operations and further develop its mineral exploration and evaluation assets for a period of at least twelve months from the date of signing this financial report.

Such additional funding is potentially available from a number of sources including further capital raisings, sale of projects and managing cash flow in line with available funds. The Group's operations require the raising of capital on an on-going basis to fund its planned exploration program and to commercialise its projects.

The Directors believe the Group will obtain sufficient funding from one or more of the funding opportunities detailed above to enable it to continue as a going concern and therefore that it is appropriate to prepare the financial statements on a going concern basis. Should this funding not be obtained, there exists a material uncertainty that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The financial statements were authorised for issue by the directors on the 27th of September 2019.

Hawkstone Mining Limited is a for profit company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

# Notes to the financial statements (continued)

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Change in Accounting Policy – Mineral exploration & evaluation expenditure

The Group previously recognised costs of acquiring mineral exploration interests as an asset with subsequent exploration and evaluation costs expensed as incurred. The Group has changed this policy to fully expense mineral exploration expenditure, including acquisition costs. The directors believe this change would result in financial information that is more relevant to the needs of users, and more reliable in that:

- the financial statements would more faithfully represent the financial position and financial performance of the Group;
- the financial statements would more accurately reflect the economic substance of transactions and other events; and
- the financial statements would be more prudent and less subject to bias.

This matter is significant in 2019 because the acquisition of the USA Lithium projects, including contingent consideration, would dominate the financial position of the Group if it was not expensed, with recognition and measurement of the consideration determined by Directors' judgements.

Comparatives have been restated to both reflect this change in accounting policy and to reclassify balances as they were classified in the 30 June 2018 report.

### (c) Exploration and evaluation expenditure

Exploration and evaluation expenditure in relation to all areas of interest, including acquisition costs, are expensed as incurred.

### (d) Basis of consolidation

The consolidated financial statements comprise the financial statements of Hawkstone Mining Limited and entities (including special purpose entities) controlled by Hawkstone Mining Limited (its subsidiaries).

Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist. All inter-company balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the Group. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Specifically income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

# Notes to the financial statements (continued)

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit and loss or transferred to another category of equity as specified/permitted by the applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

### (e) Impairment of assets

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

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

### (f) Leases

Leases in which a significant portion of the risks and rewards of ownership remain with the lessor are classified as operating leases. Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

### (g) Foreign currency transactions

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

*Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item.

# Notes to the financial statements (continued)

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Income tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit and loss is the tax payable on the taxable income using applicable income tax rates enacted or substantially enacted as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

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

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. 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 accounting or taxable profit or loss.

Where temporary differences exist in relation to investments in subsidiaries and associates, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Research and development expenditure tax offsets receivable under Section 73Q of the Income Tax Assessment Act are recognised upon lodgement of the income tax return, when the Company has made the required election.

### (i) Share based payment transactions

The Group recognises the fair value of options granted to directors, employees and consultants as remuneration as an expense on a pro-rata basis over the vesting period in the statement of profit or loss and other comprehensive income with a corresponding adjustment to equity.

The Group provides benefits to directors, employees and consultants of the Group in the form of share based payment transactions, whereby directors, employees and consultants render services in exchange for shares or rights over shares ("equity-settled transactions"). The cost of these equity-settled transactions with directors, employees and consultants is measured by reference to fair value at the date they are granted. The fair value is determined using the Black Scholes option pricing model.

### (j) Provisions and contingencies

Provisions are recognised when the Group has a legal or constructive obligation, as a result of a past event, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### (k) Financial Instruments

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and are solely principal and interest. All other financial instrument assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income.

# Notes to the financial statements (continued)

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For financial liabilities, the portion of the change in fair value that relates to the Group's credit risk is presented in other comprehensive income. Hedge accounting requirements align the accounting treatment with the Group's risk management activities. The Group does not currently have any impaired financial assets, financial liabilities with changes in fair value due to credit risk presented in other comprehensive income, or financial instruments requiring hedge accounting.

*Impairment of financial assets*
Financial assets may be impaired based on an expected credit loss model to recognise an allowance. Such impairment is measured in a way that reflects: (a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (b) the time value of money; and (c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

### (l) Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash on hand and at bank, short term deposits with financial institutions maturing within less than three months and net of outstanding bank overdrafts.

### (m) Revenue recognition

Interest revenue is recognised as it accrues.

### (n) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian 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 statement of financial position are shown inclusive of GST. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### (o) Comparative figures

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

### (p) New Accounting Standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

- AASB 16 Leases (applicable for annual reporting periods commencing on or after 1 January 2019)
  AASB 16 introduces a single lessee accounting model that requires all leases to be accounted for on balance sheet. A lessee will be required to recognise an asset representing the right to use the underlying asset during the lease term (i.e. right-of-use asset) and a liability to make lease payments (i.e. lease liability). Two exemptions are available for leases with a term less than 12 months or if the underlying asset is of low value.

  The lessor accounting requirements are substantially the same as in AASB 117. Lessors will therefore continue to classify leases as either operating or finance leases.

  AASB 16 will replace AASB 117 Leases, Interpretation 4 Determining Whether an Arrangement contains a Lease, Interpretation 115 Operating Leases – Incentives and Interpretation 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

# Notes to the financial statements (continued)

## 1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Directors anticipate that the adoption of AASB 16 will have no material impact on the Group's net assets as the Group has no material lease contracts. Although the Group is party to a serviced office agreement, no specific offices are assigned to the Group.

### (q) New and Amended Accounting Policies adopted by the Group

The Group has adopted all of the new and revised Australian Accounting Standards that are relevant and applicable for the current reporting period. The adoption of these standards did not have a significant impact on the financial performance or position of the Group.

The Group adopted AASB 9: Financial Instruments from 1 July 2018. The adoption of this standard has resulted in the provision for impairment of the tenement bond, as detailed in note 10. This impairment has not been reflected in comparative balances as it is due to factors that arose during the current year. Future effects of the implementation of this standard will mostly depend on the form of any financial instruments held by the Group.

The Group has adopted AASB 15: Revenue from Contracts with Customers from 1 July 2018. The adoption of this standard has had no effect on the balances of the Group, as presented in this financial report, as no revenue or potential revenue of the Group would be recognised or measured differently under this standard. Future effects of the implementation of this standard will depend on the wording of relevant contracts.

### (r) Assets classified as held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Assets and liabilities classified as held for sale are presented separately as current items in the statement of financial position.
A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.
All other notes to the financial statements include amounts for continuing operations, unless indicated otherwise.

# Notes to the financial statements (continued)

## 2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these Financial Statements the Group has been required to make certain estimates and assumptions concerning future occurrences. There is an inherent risk that the resulting accounting estimates will not equate exactly with actual events and results.

### Significant accounting estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. 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 annual reporting period are:

*Share-based payment transactions*
The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Fair values of share options are determined using the Black Scholes model. Should the assumptions used in these calculations differ, the amounts recognised could significantly change.

*Acquisition of USA Lithium assets*
On 7 September 2018, the Group completed the acquisition of USA Lithium Limited and controlled entities, which hold the Big Sandy and Lordsburg Lithium projects. Accounting for this transaction as disclosed in note 26 required several significant judgements:

- The projects are not considered a business or businesses because they did not come with the processes required to meet the definition of a business. Consequently, the USA Lithium acquisition has been treated as an asset acquisition and not a business combination.
- The acquisition has been accounted for and valued at 7 September 2018, when the consideration shares were issued and control was obtained.
- The acquisition has not been treated as a reverse acquisition because insufficient securities were issued to give a controlling interest in the Company to the vendors.
- The 125,000,000 deferred consideration shares were recognised and valued at 7 September 2018 because the Board considered it highly likely as at that date that the conditions for issuing the deferred consideration shares would be met.
- While the 34,500,000 director options have been valued as at the shareholder approval and grant date of 3 August 2018, the 30,000,000 Advisor options and the 30,000,000 Executive options have been valued at their measurement date and issue date of 7 September 2018.

*Recognition of disposal group and assets classified as held for sale*
In 2018, the Group has classified the Kangwane South Project as an asset classified as held for sale, as disclosed in note 9, because the Group actively marketed this project and considered a sale highly likely. No comparative assets or liabilities are classified as a non-current asset held for sale, because the mining rehabilitation bond was expected to be replaced by a purchaser or otherwise treated in a manner outside the scope of the definition of assets classified as held for sale. There are no other assets or liabilities related to this asset that would form part of a disposal group because all administration functions are performed directly by the parent entity and no entity in the Group other than the parent operates bank accounts or processes accounts payable. Following difficulty selling the Kangwane South Project, the Directors have resolved to dispose of this project and South African subsidiaries, leading to recognition of a disposal group at 30 June 2019.

# Notes to the financial statements (continued)

*Impairment of security bond*

The Group has paid a $565,729 (ZAR 5,574,974) mining rehabilitation bond to secure access to the Kangwane South project. Following the decision to dispose of the Kangwane South Project and seek refund of this bond, the directors considered a range of potential scenarios and their associated probabilities and expected time frames before recognising a $201,965 or 35.7% impairment provision based on their best available estimate of the amount and timing of the potential refund, calculated in accordance with AASB 9 Financial Instruments.

## 3 REVENUE

| | **2019 $** | 2018 $ |
|---|---|---|
| Interest received | **10,427** | 1,621 |
| **Total revenue** | **10,427** | 1,621 |

## 4 LOSS BEFORE INCOME TAX

| | **2019 $** | 2018 $ |
|---|---|---|
| **(a) Individually significant items in administration expenses include:** | | |
| Accounting and administration fees | **124,990** | 179,661 |
| Travel and accommodation | **134,248** | - |
| Audit fees | **30,869** | 19,928 |
| Other | **176,111** | 25,598 |
| Total | **466,218** | 225,187 |
| **(b) Directors' fees:** | | |
| Director fees include annual leave accrual | **256,447** | 108,000 |
| Superannuation | **16,079** | - |
| Total | **272,524** | 108,000 |
| **(c) Exploration and evaluation:** | | |
| US Lithium exploration expenditure | **1,666,510** | - |
| US Lithium due diligence option fee paid in shares | **-** | 250,000 |
| Due diligence on US Lithium | **-** | 36,602 |
| Total | **1,666,510** | 286,602 |

## 5 AUDITORS' REMUNERATION

| | **2019 $** | 2018 $ |
|---|---|---|
| Remuneration of auditor for Audit or review of the financial report of the Company and controlled entities: | | |
| HLB Mann Judd (WA Partnership) | **28,180** | - |
| William Buck Audit (WA) Pty Ltd | **2,689** | 19,928 |
| | **30,869** | 19,928 |

## 6 TAXATION

| | **2019 $** | 2018 $ |
|---|---|---|
| **(a) Income tax expense/(benefit)** | | |
| Current tax | **-** | - |
| Deferred tax | **-** | - |
| | **-** | - |
| **(b) Reconciliation of income tax expense to prima facie tax payable:** | | |
| Loss before income tax expense | **(12,621,063)** | (1,255,408) |
| Tax at the Australian tax rate of 30% (2018: 27.5%) | **(3,786,319)** | (345,237) |
| Foreign tax rate adjustment | **60,958** | - |
| Tax effect amounts not deductible (taxable) in calculating taxable income | **635,719** | 88,811 |
| Deferred tax (liabilities)/asset not brought to account on tax losses and temporary differences | **3,089,642** | 256,426 |
| Realisation of deferred tax asset not previously recognised | **-** | - |
| Total income tax (benefit) | **-** | - |

# Notes to the financial statements (continued)

### 6 TAXATION (continued)

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **(c) Unrecognised deferred tax assets:** | | |
| Timing differences | **11,630,256** | 8,477,215 |
| Tax losses - revenue | **4,841,330** | 3,435,072 |
| Tax losses - capital | **16,473** | - |
| Deferred tax assets not brought to account | **16,488,059** | 11,912,287 |

An Australian income tax rate of 30% has been used for 2019 because the Company is not expected to be a base rate entity when it has future taxable profits. The Group has not recognised any deferred tax assets except to the extent that they offset deferred tax liabilities. The unrecognised deferred tax assets due to timing differences include balances from fully impaired investments in and loans to South African subsidiaries of $8,334,381 (2018: $8,334,381), and the fully expensed cost of US projects of $2,142,218 (2018: $68,750).

The ability of the Group to utilise the tax losses is subject to the Company satisfying either the continuity of ownership test or the same business test.

#### (d) Franking credits

The Company has no franking credits available.

### 7 CASH AND CASH EQUIVALENTS

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Cash at bank | **2,024,216** | 394,325 |
| | **2,024,216** | 394,325 |

### 8 TRADE & OTHER RECEIVABLES

| **CURRENT** | | |
|---|---|---|
| Other receivables | **33,310** | 46,162 |
| | **33,310** | 46,162 |

### 9 DISPOSAL GROUP

| | | |
|---|---|---|
| **Interest in Kangwane South Project** | **-** | **-** |
| | **-** | - |

The Group is actively seeking to dispose of the Kangwane South Project. This is recognised as a disposal group, as it would involve disposal of subsidiaries with legal structures that meet the recognition criteria for assets, despite being measured at nil value. This also meets the definition of a discontinued operation.

The following exploration expenditure for the Kangwane South Project has been attributed to this disposal group.

| **Operations of disposal group** | | |
|---|---|---|
| Exploration and evaluation | (35,217) | (215,657) |
| **Loss from disposal group** | **(35,217)** | **(215,657)** |

Exploration expenditure for the Kangwane South Project has been classified as relating to the disposal group with the following required disclosures. No gain or loss has been recognised on remeasurement to fair value less cost to sell. No asset or liability is recognised in this disposal group because mineral exploration expenditure is fully expensed. Although the assets have nil value, they are presented because they are qualitatively material.

# Notes to the financial statements (continued)

## 9 DISPOSAL GROUP (continued)

**Kangwane South Project**

| | 2019 $ | 2018 $ |
|---|---|---|
| Revenue | **-** | - |
| Exploration costs | **(35,217)** | (215,657) |
| Total expenses | **(35,217)** | (215,657) |
| Pre-tax loss from operation of disposal group | **(35,217)** | (215,657) |
| Income tax expense relating to operation of disposal group | **-** | - |
| Gain or loss recognised on the measurement to fair value less cost to sell | **-** | - |
| Income tax expense related to gain or loss on remeasurement | **-** | - |
| **Amount of income or loss from operation of disposal group attributable to owners of the parent** | **(35,217)** | (215,657) |
| | | |
| **Cash flow details** | | |
| Net cash flow attributable to operating activity for disposal group | **(35,217)** | (193,114) |
| Net cash flow attributable to investing activity for disposal group | **-** | - |
| Net cash flow attributable to financing activity for disposal group | **-** | - |
| **Net cash flow attributable to operation of disposal group** | **(35,217)** | (193,114) |

Although the mining rehabilitation bond of $363,764 disclosed in note 10 is for the Kangwane South project, this has not been reclassified as relating to a disposal group both because this bond may be treated in a manner outside the scope of the definition of a disposal group, and because impairment considerations for this bond under AASB 9 Financial Instruments are clearer if this bond is disclosed separately. The bond has not been included as relating to the disposal group because it may be recovered in a separate transaction. There are no other assets or liabilities related to this asset that would form part of a disposal group because all administration functions are performed directly by the parent entity and no entity in the Group other than the parent operates bank accounts or processes accounts payable.

A foreign currency translation reserve balance of $2,210,379 relates to this disposal group (30 June 2018: $2,210,379), but may only be reclassified to profit or loss on actual disposal.

## 10 OTHER FINANCIAL ASSETS

**NON CURRENT**

| | | |
|---|---|---|
| Mining rehabilitation bond | **363,764** | 549,659 |
| Other financial assets | **20,000** | - |
| | **383,764** | 549,659 |

**Mining rehabilitation bond**

In 2017, the Company paid a mining rehabilitation bond of $570,933 (ZAR 5,574,974) to secure access to the Kangwane South Project. This was revalued to $565,729 at 30 June 2019 (2018: $549,659) due to movements in the AUD:ZAR exchange rate, before a $201,965 (2018: nil) loss allowance was recognised against this asset based on the Directors' estimate of losses following consideration of unbiased probability-weighted amounts that are determined by evaluating a range of possible outcomes; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

## 11 TRADE AND OTHER PAYABLES

**CURRENT**

| | | |
|---|---|---|
| Unsecured liabilities: | | |
| Trade payables | **113,592** | 152,166 |
| Other payables | **50,542** | 14,500 |
| | **164,134** | 166,666 |

# Notes to the financial statements (continued)

## 12 CONTRIBUTED EQUITY

Contributed equity consisted of the following:

| | 2019 $ | 2018 $ |
|---|---|---|
| Issued capital | **67,000,549** | 58,683,709 |
| Contingent consideration shares | **3,625,000** | - |
| **Total** | **70,625,549** | 58,683,709 |

| | Number of shares 2019 | Number of shares 2018 | 2019 $ | 2018 $ |
|---|---|---|---|---|
| **Opening balance (fully paid ordinary shares)** | 315,127,995 | 276,127,995 | 58,683,709 | 57,933,709 |
| Sophisticated investor placement of 12,500,000 shares at an issue price of $0.02 each | - | 12,500,000 | - | 250,000 |
| Option fee for due diligence on USA Lithium, paid with 12,500,000 shares at a deemed value of $0.02 each | - | 12,500,000 | - | 250,000 |
| Sophisticated investor placement of 14,000,000 shares at an issue price of $0.02 each | - | 14,000,000 | - | 280,000 |
| 125,000,000 Deferred Consideration Shares relating to the acquisition of USA Lithium Limited valued at $0.029 each* | - | - | 3,625,000 | - |
| 125,000,000 shares issued as purchase consideration for USA Lithium Limited valued at $0.029 each | 125,000,000 | - | 3,625,000 | - |
| Placement of 125,000,000 shares at an issue price of $0.02 each | 125,000,000 | - | 2,500,000 | - |
| Shares issued to corporate adviser in payment of capital raising costs valued at $0.02 each | 5,190,000 | - | 103,800 | - |
| Issue of 15,000,000 4 year 4c options and 15,000,000 4 year 5c options for a total of $3,000** | | | 3,000 | |
| Placement of 120,000,000 shares at an issue price of $0.02 each | 120,000,000 | | 2,400,000 | |
| Transaction cost of share issues | - | - | (314,960) | (30,000) |
| **Closing balance** | **690,317,995** | **315,127,995** | **70,625,549** | **58,683,709** |

* These Deferred Consideration Shares are ordinary shares in the Company that will only be issued on declaration by the Company of an inferred resource at the Big Sandy project of not less than 30Mt at a grade greater than 2,000ppm (or equivalent) within 36 months from Completion (occurred on 7 September 2018) along with ASX approval for this acquisition. These deferred consideration shares have been valued at the Completion date at $0.029 each for a total value of $3,625,000 based on the share price at the Completion date . This was based on the estimated likelihood, as at the Completion date, that these deferred consideration shares would be issued.

** $3,000 was received for the following Corporate advisor options:

- 15,000,000 $0.04 Corporate advisor options with a total value of $300,450. These were issued for paid consideration of $0.0001 per option, amounting to $1,500. This amount has been deducted from the amount expensed and recognised in the share based payment reserve.
- 15,000,000 $0.05 Corporate advisor options with a total value of $285,900. These were issued for paid consideration of $0.0001 per option, amounting to $1,500. This amount has been deducted from the amount expensed and recognised in the share based payment reserve.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of the winding up of the Company ordinary shareholders rank after creditors and are fully entitled to any net proceeds on liquidation. Ordinary shares have no par value, and the Company does not have a limited amount of authorised capital. At 30 June 2019 there were 117,250,000 options to acquire fully paid ordinary shares in the Company (2018: 6,000,000).

# Notes to the financial statements (continued)

## 13 RESERVES

| Share-based payment reserve | 2019 $ | 2018 $ |
|---|---|---|
| Opening Balance | 4,094,770 | 3,974,050 |
| Movement for the year | 2,118,892 | 120,720 |
| Closing balance | **6,213,662** | 4,094,770 |
| | | |
| **Foreign translation reserve** | | |
| Opening balance | (2,210,379) | (2,210,379) |
| Foreign translation difference on translation of controlled entities | 8,197 | - |
| Closing balance | **(2,202,182)** | (2,210,379) |
| | **4,011,480** | 1,884,391 |

**Share-based payment reserve:**
The share-based payment reserve relates to shares and share options granted by the Company to its employees under its employee share plan and other suppliers in consideration for services rendered.

**Foreign translation reserve:**
Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Australian dollars) are recognised directly in other comprehensive income and accumulated in the foreign translation reserve. Exchange differences previously accumulated in the foreign translation reserve (in respect of translating the net assets of foreign operations) are reclassified to profit or loss on the disposal of the foreign operation.

## 14 CONTROLLED ENTITIES

| | Percentage Interest | | Country of incorporation |
|---|---|---|---|
| **Parent entity** | **2019** | **2018** | |
| Hawkstone Mining Limited | | | Australia |
| **Particulars in relation to controlled entities** | | | |
| ZYL Mining (SA) Proprietary Limited* | 100% | 100% | South Africa |
| Oakleaf Investment Holdings (Proprietary) Limited* | 100% | 100% | South Africa |
| Altius Trading 404 (Proprietary) Limited* | 70% | 70% | South Africa |
| USA Lithium Limited** | 100% | - | Australia |
| US Lithium Pty Ltd** | 100% | - | Australia |
| New Mexico Lithium Pty Ltd** | 100% | - | Australia |
| Big Sandy Inc** | 100% | - | United States |
| Lordsburg Resource Inc** | 100% | - | United States |

* Included with the disposal group disclosed in note 9.
** Acquired on 7 September 2018 as disclosed in note 26.

# Notes to the financial statements (continued)

## 15 PARENT ENTITY DISCLOSURES

The following details information related to the parent entity, Hawkstone Mining Limited at 30 June 2019. The information presented has been prepared using consistent accounting policies as stated in note 1.

### (a) Summary financial information

| | **2019** | 2018 |
|---|---|---|
| | **$** | $ |
| Current assets | 2,041,272 | 1,017,613 |
| Non-current assets | 9,656,350 | 549,659 |
| **Total assets** | **11,697,622** | **1,567,272** |
| | | |
| Current liabilities | 160,220 | 166,666 |
| **Total liabilities** | **160,220** | **166,666** |
| | | |
| Contributed equity | 70,625,549 | 58,683,709 |
| Reserves | 6,213,662 | 4,094,770 |
| Accumulated losses | (65,301,809) | (61,377,873) |
| **Total equity** | **11,537,402** | **1,400,606** |
| | | |
| Loss for the year | (3,923,936) | (1,255,408) |
| Other comprehensive income/ (loss) for the year | - | - |
| **Total comprehensive loss for the year** | **(3,923,936)** | **(1,255,408)** |

**(b)** The parent entity had not provided any material guarantees as at 30 June 2019.

**(c)** The parent entity did not have any material contingent liabilities as at 30 June 2019.

**(d)** The parent entity did not have any material contractual commitments as at 30 June 2019.

## 16 SEGMENT INFORMATION

During the year, the Group's operations consisted of exploration for lithium in USA, and corporate functions and South African exploration interests that were both managed from Australia. This differs from the prior year because of the acquisition of the USA lithium projects. The South African interests do not separately meet the definition of an operating segment.

The Board is the chief operating decision maker. All amounts reported to the Board are determined in accordance with accounting policies that are consistent with financial reporting requirements. 30 June 2018 balances are nil for the US segment because no US entities were controlled and all due diligence costs were recorded within the financial records of the parent entity to 30 June 2018. Intra-group loans are valued in Australian dollars with no interest charged. There are no intragroup eliminations because assets are used across the Group and all trade payables are paid by Australian entities, with all assets, liabilities and transactions controlled from Australia.

# Notes to the financial statements (continued)

## 16 SEGMENT INFORMATION (continued)

### (i) Segment performance

| | Australia & South Africa | | United States | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2019 $ | 2018 $ | 2019 $ | 2018 $ | 2019 $ | 2018 $ |
| Interest revenue | 10,427 | 1,621 | - | - | 10,427 | 1,621 |
| **Total revenue** | **10,427** | **1,621** | **-** | **-** | **10,427** | **1,621** |
| | | | | | | |
| **Segment result:** | | | | | | |
| Share based payment expense | (2,118,892) | (120,720) | - | - | (2,118,892) | (120,720) |
| Exploration and evaluation | (35,217) | (502,259) | (1,666,510) | - | (1,701,727) | (502,259) |
| Exploration and evaluation expensed on acquisition of subsidiaries | - | - | (7,539,885) | - | (7,539,885) | - |
| Administrative expenses | (454,039) | (225,187) | (12,179) | - | (466,218) | (225,187) |
| Other expenses | (757,963) | (408,863) | (46,805) | - | (804,768) | (408,863) |
| **Loss after income tax** | **(3,355,684)** | **(1,255,408)** | **(9,265,379)** | **-** | **(12,621,063)** | **(1,255,408)** |

### (ii) Segment financial position

| | Australia & South Africa | | United States | | Consolidated | |
|---|---|---|---|---|---|---|
| | 2019 $ | 2018 $ | 2019 $ | 2018 $ | 2019 $ | 2018 $ |
| | | | | | | |
| Segment assets | 2,425,037 | 999,020 | 27,934 | - | 2,452,971 | 999,020 |
| Segment liabilities | (160,221) | (166,666) | (12,530) | **-** | (172,751) | (166,666) |
| | | | | | | |
| **Segment net assets** | **2,264,816** | **832,354** | **15,404** | **-** | **2,280,220** | **832,354** |

## 17 KEY MANAGEMENT PERSONNEL COMPENSATION

### Compensation of key management personnel

Refer to the remuneration report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2019.

| | 2019 $ | 2018 $ |
|---|---|---|
| Short term employment benefit | **262,447** | 108,000 |
| Post-employment benefits | **16,077** | - |
| Share based payments | **887,115** | 120,720 |
| | **1,165,639** | 228,780 |

# Notes to the financial statements (continued)

## 18 RELATED PARTY TRANSACTIONS AND BALANCES

Mr Hardcastle is a related party of Bellanhouse. Bellanhouse was paid legal fees of $112,500 for the year ended 30 June 2019 (2018: $120,000) with no outstanding creditor balance at year end. Mr Lloyd is a related party of Coral Brook Pty Ltd. Coral Brook Pty Ltd was reimbursed administration fees of $20,510 for the year ended 30 June 2019 with no outstanding balance at year end.

Mr Lloyd was one of the shareholders of USA Lithium Limited that was acquired on 7 September 2018. Mr Lloyd received 13,341,346 ordinary shares in the Company and 13,341,346 Deferred Consideration Shares at completion of the acquisition, before he was appointed a director. Deferred Consideration Shares are ordinary shares in the Company that will only be issued on declaration by the Company of an inferred resource at the Big Sandy project of not less than 30Mt at a grade greater than 2,000ppm (or equivalent) within 36 months from Completion (occurred on 7 September 2018) along with ASX approval for this acquisition. There were no other transactions with KMP.

## 19 LOSS PER SHARE

| **Loss per share attributable to the ordinary equity holders of the company** | **2019** | **2018** |
|---|---|---|
| Basic/diluted loss per share in cents | **(2.37)** | **(0.45)** |
| Weighted average number of ordinary shares used in the calculation of basic/diluted loss per share | **532,597,146** | **281,714,296** |
| Basic/diluted loss | **(12,585,846)** | **(1,255,408)** |
| | | |
| **Loss per share from continuing operations attributable to the ordinary equity holders of the company** | | |
| Basic/diluted loss per share in cents from continuing operations | **(2.36)** | **(0.37)** |
| Weighted average number of ordinary shares used in the calculation of basic/diluted loss per share | **532,597,146** | **281,714,296** |
| Basic/diluted loss from continuing operations | **(12,621,063)** | **(1,039,751)** |

The options on issue at 30 June 2019 were anti-dilutive, and therefore diluted loss per share was the same as basic loss per share.

## 20 FINANCIAL INSTRUMENTS

The Group has exposure to various risks from the use of financial instruments. The Group's financial instruments consist mainly of deposits with banks, short-term investments, and accounts receivable and payable.

The main purpose of non-derivative financial instruments is to raise finance for Group operations.

### (a) Financial risk exposure and management

Financial risks including credit risk, liquidity risk, and market risk (interest rate risk, and foreign currency risk) are managed such to maintain on optimal capital structure. The Group does not enter into derivative transactions to manage financial risks. In the current period, the Group's financial risk arises principally from cash financial assets. The Group invests its cash in term deposits and other appropriate bank accounts to obtain market interest rates.

# Notes to the financial statements (continued)

## 20 FINANCIAL INSTRUMENTS (continued)

### (b) Capital risk management

In previous years the Group incurred significant debts to finance project acquisition and development. Following effectuation of the DOCA, all historic borrowings have been repaid or extinguished and capital is now funded by issued capital. The Group consistently monitors expenditure and adjusts expenditure and raises capital as required. The capital of the Group now consists of equity of the Group (comprising issued capital and reserves as detailed in notes 12 and 13, and retained earnings).

### (c) Market rate risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk in relation to the acquisition of goods and services in South African Rand (ZAR) and United States Dollars (USD). The Group does not hedge this exposure by using financial instruments. The Group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollar, was as follows:

| | **2019** **$** | 2018 $ |
|---|---|---|
| **Financial Assets** | | |
| Cash and cash equivalents (USD) | **27,434** | - |
| Other financial assets (ZAR) | **363,764** | 549,659 |
| | | |
| **Financial Liabilities** | | |
| Trade payables (USD) | **77,255** | 36,349 |
| Trade payables (ZAR) | **4,532** | 38,115 |

The following tables show the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the presentation currency.

| | **Net Financial Assets/(Liabilities) in $AUD** | | |
|---|---|---|---|
| | **ZAR** | **USD** | **Total** |
| 2019 | 359,232 | (49,821) | 309,411 |
| 2018 | 511,544 | (36,349) | 475,195 |

In respect of the above ZAR and USD foreign currency risk exposure in existence at the reporting date a sensitivity of 10% lower and 10% higher has been applied. With all other variables held constant, post tax loss and equity would have been affected as follows:

ZAR: AUD $35,923 loss; AUD $35,923 gain (2018: AUD $51,154 loss; AUD $51,154 gain)
USD: AUD $4,982 gain; AUD $4,982 loss (2018: AUD $3,635 gain; AUD $3,635 loss)

# Notes to the financial statements (continued)

**20 FINANCIAL INSTRUMENTS (continued)**

(ii) Interest rate risk

The following table details the Group's exposure to interest rate risk at the end of the reporting period.

| | Average Interest Rate % | Floating Interest Rate $ | Fixed Interest Rate $ | Non-Bearing Interest $ | Total $ |
|---|---|---|---|---|---|
| | | | Maturing within 12 months | | |
| **2019** | | | | | |
| *Financial assets* | | | | | |
| Cash at bank | 0.70% | 1,996,781 | - | 27,435 | **2,024,216** |
| Trade and other receivables | - | - | - | 33,310 | **33,310** |
| Other financial assets | 0.13% | - | 20,000 | 363,764 | **383,764** |
| | | **1,996,781** | **20,000** | **424,509** | **2,441,290** |
| *Financial liabilities* | | | | | |
| Trade and other payables | - | - | - | 164,134 | **164,134** |
| | **-** | **-** | **-** | **164,134** | **164,134** |
| **2018** | | | | | |
| *Financial assets* | | | | | |
| Cash at bank | 0.18% | 394,325 | - | - | **394,325** |
| Trade and other receivables | - | - | - | 46,162 | **46,162** |
| Other financial assets | - | - | - | 549,659 | **549,659** |
| | | **394,325** | **-** | **595,821** | **990,146** |
| *Financial liabilities* | | | | | |
| Trade and other payables | - | - | - | 166,666 | **166,666** |
| | | **-** | **-** | **166,666** | **166,666** |

*Sensitivity analysis*

At 30 June 2019, the effect on the Group's loss and equity as a result of changes in the interest rates, with all other variables remaining constant, would be as follows:

| | | **2019 Interest rate risk** | | 2018 Interest rate risk | |
|---|---|---|---|---|---|
| | | **+ 0.1%** | **- 0.1%** | + 0.1% | -0.1% |
| *Financial assets* | | | | | |
| Cash at bank | 0.70% | **1,997** | **(1,997)** | $394 | ($394) |
| Other financial assets | 0.13% | **20** | **(20)** | | |
| | | **2,017** | **(2,017)** | $394 | ($394) |

# Notes to the financial statements (continued)

## 20 FINANCIAL INSTRUMENTS (continued)

### (d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure that it will have sufficient cash to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of credit facilities or other fund raising initiatives.

*Maturities of financial liabilities*
The table below analyses the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all financial liabilities:

| **Contractual maturities of financial liabilities** | **Less than 6 months $** | **6-12 months $** | **Over 12 months $** |
|---|---|---|---|
| **2019** | | | |
| **Non-derivatives** | | | |
| Trade and other payables | 164,134 | - | - |
| **Total non-derivatives** | **164,134** | **-** | **-** |
| | | | |
| **2018** | | | |
| **Non-derivatives** | | | |
| Trade and other payables | 166,666 | - | - |
| **Total non-derivatives** | **166,666** | **-** | **-** |

### (e) Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, trade and other receivables, and other financial assets. The maximum exposure to credit risk, excluding the value of any collateral or other security, at the end of the reporting period to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The Group has adopted the policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Any term deposits are to be held by at least AA rated banks thereby mitigating the risk of default on these deposits. The Group's policy is to review all outstanding debtors at the end of the reporting period and, based on directors' view on credit risk, an appropriate provision for impairment is raised. At the end of the reporting period, examination of the Group's trade debtors ledger reveals no reason for an impairment adjustment.

The Group does not have any material credit risk exposure to any single receivable or Company or any receivables under financial instruments entered into by the Group.

# Notes to the financial statements (continued)

## 20 FINANCIAL INSTRUMENTS (continued)

In 2017 the Group paid a $565,729 (ZAR 5,574,974) mining rehabilitation bond to secure access to the Kangwane South project. Following the decision to dispose of the Kangwane South Project and seek refund of this bond, the directors considered a range of potential scenarios and their associated probabilities and expected time frames, before recognising a $201,965 or 35.7% impairment provision based on their best available estimate of the amount and timing of the potential refund, calculated in accordance with AASB 9 Financial Instruments. While this bond is held by a financial intermediary to mitigate against the risk of loss, this factor has been incorporated in the calculation of the impairment provision.

### (f) Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements is considered a reasonable approximation of their respective net fair values.

## 21 NOTES TO STATEMENT OF CASH FLOWS

### (a) Reconciliation of Cash

For the purpose of the statement of cash flow, cash includes cash on hand and at bank.

Cash at the end of the financial year is reconciled to the related items in the statement of financial position as follows:

| | **2019** **$** | 2018 $ |
|---|---|---|
| Cash | **2,024,216** | 394,325 |

### (b) Reconciliation of Profit/(Loss) After Income Tax to Net Cash (Used In) Operating Activities

| | | |
|---|---|---|
| Loss after income tax | **(12,621,063)** | **(1,255,408)** |
| Add/(less) non-cash items: | | |
| Net exchange differences | (8,638) | 5,569 |
| Impairment of financial asset | 201,965 | - |
| Loss on acquisition of subsidiaries | 7,539,885 | - |
| Loan repaid on behalf of acquired subsidiary | 40,000 | |
| Option fee paid with shares | - | 250,000 |
| Share based payment expense | 2,118,892 | 120,720 |
| Net cash generated by/(used in) operating activities before change in assets and liabilities | **(2,728,959)** | **(879,119)** |
| Change in assets and liabilities: | | |
| Decrease/ (increase) in receivables | 12,852 | (4,743) |
| (Increase)/decrease in prepayments | (2,807) | (8,874) |
| Increase/ (decrease) in provisions | 8,617 | - |
| (decrease)/ increase in payables | (2,532) | 117,847 |
| **Net cash used in operating activities** | **(2,712,829)** | **(774,889)** |

### (c) Non-cash Financing and Investing Activities

In 2019, 125,000,000 Initial Consideration shares, valued at a total of $3,625,000, and 125,000,000 Deferred Consideration shares, valued at a total of $3,625,000 were issued in consideration for the USA Lithium projects as described in note 26. A total of 5,190,000 shares with a total value of $103,800 were issued in 2019 for payment of capital raising costs.

# Notes to the financial statements (continued)

## 21 NOTES TO STATEMENT OF CASH FLOWS (continued)

A total of 12,500,000 shares with a total value of $250,000 were issued during 2018 in payment for the option fee for due diligence on USA Lithium. A total of 1,500,000 shares with a total value of $30,000 were issued in 2018 for payment of capital raising costs.

### (d) Financing Facilities

There were no financing facilities in place at the end of the period (2018: Nil) other than a credit card facility with a $20,000 limit that is repaid in full monthly and secured by a $20,000 deposit.

## 22 EVENTS OCCURRING AFTER THE REPORTING PERIOD

No events that would have significant effect on the financial report have occurred since the end of the reporting period.

## 23 CONTINGENT LIABILITIES AND COMMITMENTS

As a condition for the execution of the Kangwane South mining right, an environmental bond of ZAR5,574,974 ($363,764 at 30 June 2019 after recognition of a $201,965 impairment provision) was required by the South African Department of Mineral Resources prior to the commencement of mining activities on the tenement. This was paid on 17 February 2017 and is disclosed in note 10. However, as the Group was undertaking further exploration activities prior to any decision to mine, no related liability was included in the Consolidated Statement of Financial Position at 30 June 2019. Following the cessation of exploration activity on the project by the Group and the intended disposal, this contingent liability has been replaced by the impairment provision.

Except for the above, as at the end of the reporting period, the Directors were not aware of any other contingent liabilities or contingent assets.

The following agreements create expenditure commitments that are not recognised as liabilities in the financial statements:

| | **2019 $** | 2018 $ |
|---|---|---|
| **Administrative and legal services commitments** | | |
| Due within 1 year | **82,500** | 90,000 |
| Due greater than 1 year and less than 5 | **-** | - |
| **Total** | **82,500** | 90,000 |
| | | |
| **Executive services commitments** | | |
| Due within 1 year | **155,745** | - |
| Due greater than 1 year and less than 5 | **-** | - |
| **Total** | **155,745** | - |

# Notes to the financial statements (continued)

## 24 SHARE BASED PAYMENTS

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Share based payments in the financial statements** | | |
| Share based payments for directors expensed | **(887,115)*** | (120,720) |
| Share based payments for other employees and advisors | **(1,231,777)** | - |
| **Total** | **(2,118,892)** | (120,720) |

***** This includes $23,025 for options issued to Mr Egerton-Warburton for services performed in February 2019 before he was appointed on 16 May 2019.

The following share options were issued and fully vested during the year:

- 17,250,000 $0.04 Director options with a total value of $412,103.
- 17,250,000 $0.05 Director options with a total value of $394,507.
- 15,000,000 $0.04 Employee options with a total value of $300,450. These options were all issued to Chief Technical Officer Mr Greg Smith.
- 15,000,000 $0.05 Employee options with a total value of $285,900. These options were all issued to Chief Technical Officer Mr Greg Smith.
- 15,000,000 $0.04 Corporate advisor options with a total value of $300,450. These were issued for paid consideration of $0.0001 per option, amounting to $1,500. This amount has been deducted from the amount that is expensed and is recognised in contributed equity instead of the share based payment reserve.
- 15,000,000 $0.05 Corporate advisor options with a total value of $285,900. These were issued for paid consideration of $0.0001 per option, amounting to $1,500. This amount has been deducted from the amount that is expensed and is recognised in contributed equity instead of the share based payment reserve.
- 3,750,000 $0.06 options issued to Mr Egerton-Warburton for services performed in February 2019 before he was appointed on 16 May 2019, with a total value of $23,025.
- 2,500,000 $0.06 options issued to an external advisor for services performed in February 2019 with a total value of $15,350.
- 2,500,000 $0.07 options issued to an external advisor for services performed in February 2019 with a total value of $13,975.
- 4,000,000 $0.06 Director options issued to Mr Egerton-Warburton with a total value of $30,080.
- 4,000,000 $0.07 Director options issued to Mr Egerton-Warburton with a total value of $27,400.

Additional amounts have been recognised for the following share options agreed to be issued to service providers, where the options have not yet been issued:

- 1,000,000 $0.06 share options expiring 30/12/2021 have been agreed to be issued to an advisor but are subject to shareholder approval. The value of these options of $7,670 has been measured based on the value of the options as at the best estimate of the date when the services were performed being 14/05/2019.
- 5,000,000 $0.06 share options expiring 30/12/2021 have been agreed to be issued to an advisor but are subject to performance conditions and have not yet been issued. The value of these options, measured based on the value of the options as at the best estimate of the date when the services commenced, being 1/02/2019, is $30,300. $25,082 has been expensed during the year as these options are expensed over their expected vesting period.

# Notes to the financial statements (continued)

## 24 SHARE BASED PAYMENTS (continued)

Set out below are the summaries of Options issued as share based payments:

| Issue Date | Expiry Date | Exercise Price ($) | Balance 01/07/18 | Granted during the year | Exercised during the year | Expired or change due to resigning | Balance 30/06/19 | Number vested & exercisable |
|---|---|---|---|---|---|---|---|---|
| 21/12/2017 | 21/12/2020 | 0.048 | 6,000,000 | - | - | - | 6,000,000 | 6,000,000 |
| 7/09/2018 | 7/09/2022 | 0.04 | - | 47,250,000 | - | - | 47,250,000 | 47,250,000 |
| 7/09/2018 | 7/09/2022 | 0.05 | - | 47,250,000 | - | - | 47,250,000 | 47,250,000 |
| 28/02/2019 | 30/12/2021 | 0.06 | - | 6,250,000 | - | - | 6,250,000 | 6,250,000 |
| 28/02/2019 | 30/12/2021 | 0.07 | - | 2,500,000 | - | - | 2,500,000 | 2,500,000 |
| 16/05/2019 | 30/12/2021 | 0.06 | - | 4,000,000 | - | - | 4,000,000 | 4,000,000 |
| 16/05/2019 | 30/12/2021 | 0.07 | - | 4,000,000 | - | - | 4,000,000 | 4,000,000 |
| | | | 6,000,000 | 111,250,000 | - | - | 117,250,000 | 117,250,000 |
| Weighted average exercise price ($) | | | 0.048 | 0.0478 | - | - | 0.0479 | 0.0479 |

# Notes to the financial statements (continued)

## 24 SHARE BASED PAYMENTS (continued)

Fair values of share options issued are determined using the Black-Scholes model based on information available as at the measurement date, considering the exercise price, term of option, the share price at grant date, expected price volatility of the underlying share, expected yield and the risk-free interest rate for the term of the option. Parameters for all share options issued or granted during the year were:

| | | | | |
|---|---|---|---|---|
| **Measurement date** | 3/08/2018 | 3/08/2018 | 7/09/2018 | 7/09/2018 |
| **Issue date** | 7/09/2018 | 7/09/2018 | 7/09/2018 | 7/09/2018 |
| **Expiry date** | 3/08/2022 | 3/08/2022 | 7/09/2022 | 7/09/2022 |
| **Dividend yield (%)** | - | - | - | - |
| **Expected volatility (%)** | 112% | 112% | 109% | 109% |
| **Risk-free interest rate (%)** | 2.27% | 2.27% | 2.11% | 2.11% |
| **Expected life of options (years)** | 4.00 | 4.00 | 4.00 | 4.00 |
| **Underlying share price** | $0.033 | $0.033 | $0.029 | $0.029 |
| **Option exercise price** | $0.040 | $0.050 | $0.040 | $0.050 |
| **Value of option** | $0.02389 | $0.02287 | $0.02003 | $0.01906 |
| **Number of options issued or expected to be issued** | 17,250,000 | 17,250,000 | 30,000,000 | 30,000,000 |
| **Value of options** | $412,103 | $394,507 | $600,900 | $571,800 |
| **Consideration received for options** | - | - | $1,500 | $1,500 |
| **Amount expensed during year** | $412,103 | $394,507 | $599,400 | $570,300 |

| | | | | |
|---|---|---|---|---|
| **Measurement date** | 1/02/2019 | 14/05/2019 | 28/02/2019 | 28/02/2019 |
| **Issue date** | NA | NA | 28/02/2019 | 28/02/2019 |
| **Expiry date** | 30/12/2021 | 30/12/2021 | 30/12/2021 | 30/12/2021 |
| **Dividend yield (%)** | - | - | - | - |
| **Expected volatility (%)** | 95% | 100% | 97% | 97% |
| **Risk-free interest rate (%)** | 1.74% | 1.25% | 1.64% | 1.64% |
| **Expected life of options (years)** | 2.91 | 2.63 | 2.84 | 2.84 |
| **Underlying share price** | $0.018 | $0.021 | $0.018 | $0.018 |
| **Option exercise price** | $0.060 | $0.060 | $0.060 | $0.070 |
| **Value of option** | $0.00606 | $0.00767 | $0.00614 | $0.00559 |
| **Number of options issued or expected to be issued** | 5,000,000 | 1,000,000 | 6,250,000 | 2,500,000 |
| **Value of options** | $30,300 | $7,670 | $38,375 | $13,975 |
| **Amount expensed during year** | $25,082 | $7,670 | $38,375 | $13,975 |

# Notes to the financial statements (continued)

## 24 SHARE BASED PAYMENTS (continued)

| | | |
|---|---|---|
| **Measurement date** | 16/05/2019 | 16/05/2019 |
| **Issue date** | 16/05/2019 | 16/05/2019 |
| **Expiry date** | 30/12/2021 | 30/12/2021 |
| **Dividend yield (%)** | - | - |
| **Expected volatility (%)** | 99% | 99% |
| **Risk-free interest rate (%)** | 1.20% | 1.20% |
| **Expected life of options (years)** | 2.63 | 2.63 |
| **Underlying share price** | $0.021 | $0.021 |
| **Option exercise price** | $0.060 | $0.070 |
| **Value of option** | $0.00752 | $0.00685 |
| **Number of options issued or expected to be issued** | 4,000,000 | 4,000,000 |
| **Value of options** | $30,080 | $27,400 |
| **Amount expensed during year** | $30,080 | $27,400 |

The weighted average remaining contractual life of share-based payment options outstanding as at 30 June 2019 was 2.98 years (2018: 2.48 years).

The weighted average fair value of options outstanding as at 30 June 2019 was $0.0188 (2018: $0.0201).

# Notes to the financial statements (continued)

## 25 CHANGE IN ACCOUNTING POLICY FOR MINERAL EXPLORATION & EVALUATION EXPENDITURE

As disclosed in note 1, the Group has voluntarily changed its accounting policy to fully expense mineral exploration and evaluation expenditure, including acquisition costs. This has resulted in the previously recognised assets classified as held for sale of $536,480 at 30 June 2018 being fully expensed. There has been no change recognised in the foreign currency translation reserve balance associated with South African subsidiaries because this mostly resulted from accumulated foreign exchange differences on intragroup loans. This policy change has the following effects on 30 June 2018 balances.

**Consolidated Statement of Financial Position**

| | Previous amounts reported for 30 June 2018 $ | Adjustment to balances $ | Restated comparatives as at 30 June 2018 $ |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Assets classified as held for sale | 536,480 | (536,480) | - |
| **TOTAL CURRENT ASSETS** | 985,841 | (536,480) | 449,361 |
| **TOTAL ASSETS** | 1,535,500 | (536,480) | 999,020 |
| **NET ASSETS** | **1,368,834** | **(536,480)** | **832,354** |
| **EQUITY** | | | |
| Accumulated losses | (59,199,266) | (536,480) | (59,735,746) |
| **TOTAL EQUITY** | **1,368,834** | **(536,480)** | **832,354** |

**Consolidated Statement of Changes in Equity as at 30 June 2018**

| | Previous amounts reported for 30 June 2018 $ | Adjustment to balances $ | Restated comparatives as at 30 June 2018 $ |
|---|---|---|---|
| **Accumulated losses** | **(59,199,266)** | **(536,480)** | **(59,735,746)** |

# Notes to the financial statements (continued)

## 26 ACQUISITION OF USA LITHIUM PROJECTS

During 2018 the Company agreed terms to acquire USA Lithium Limited (USA Lithium) which owns 100% interests in the Big Sandy Lithium Clay project (Big Sandy) and the Lordsburg Lithium Brine project (Lordsburg). Following shareholder approval on 3 August 2018, the acquisition was completed on 7 September 2018.

The terms of the transaction included:

- An option fee for due diligence on USA Lithium of $250,000 paid in the prior year with the issue of 12,500,000 shares at a deemed value of $250,000. This amount was expensed during the prior year.
- 125,000,000 Initial Consideration Shares in the Company. These shares have been valued at the Completion date at $0.029 each for a total value of $3,625,000 as disclosed in note 12.
- 125,000,000 Deferred Consideration Shares. These are ordinary shares in the Company that will only be issued on declaration by the Company of an inferred resource at the Big Sandy project of not less than 30Mt at a grade greater than 2,000ppm (or equivalent) within 36 months from Completion (occurred on 7 September 2018) along with ASX approval for this acquisition. These deferred consideration shares have been valued at the Completion date at $0.029 each for a total value of $3,625,000, as disclosed in note 12. This was based on the estimated likelihood, as at Completion, that these deferred consideration shares would be issued.
- Transfer of $250,000 to USA Lithium within 2 business days of shareholder approval. A total of $332,695 was actually advanced from the Company to USA Lithium Limited and its subsidiaries between shareholder approval on 3 August 2018 and Completion.

Details of the purchase consideration and the net assets acquired are as follows:

| | **7 September 2018 $** |
|---|---|
| **PURCHASE CONSIDERATION PAID BY THE COMPANY** | |
| 125,000,000 Initial Consideration Shares | 3,625,000 |
| 125,000,000 Deferred Consideration Shares | 3,625,000 |
| Payments to and on behalf of acquired entities between shareholder approval and Completion | 332,695 |
| **Total purchase consideration** | **7,582,695** |
| | |
| **FAIR VALUE OF ASSETS AND LIABILITIES RECOGNISED AS A RESULT OF THE ACQUISITION** | |
| Cash acquired | 22,068 |
| Other debtors acquired | 21,476 |
| Creditors acquired | (734) |
| **Net assets acquired at fair value** | **42,810** |
| | |
| **Excess of purchase consideration over net assets acquired – allocated to Mineral Exploration and Evaluation Expenditure *** | **7,539,885** |

* In accordance with the Group's accounting policy, all exploration and evaluation expenditure incurred as well as acquisition costs, are expensed. As a result, this excess allocated to Mineral Exploration and Evaluation Expenditure has been expensed in the current period.

# Directors' Declaration

1) In the opinion of the Directors of Hawkstone Mining Limited:

   a) the financial statements and notes, set out on pages 21 to 51 are in accordance with the Corporations Act 2001, including:

      (i) compliance with Accounting Standards, which, as stated in accounting policy Note 1(a) to the financial statements, constitutes explicit and unreserved compliance with International Reporting Standards (IFRS); and

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

   b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2) The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:

**Mr Barnaby Egerton-Warburton**
Non-Executive Chairman
Dated at Perth this 27th day of September 2019

**INDEPENDENT AUDITOR'S REPORT**
To the members of Hawkstone Mining Limited

**Report on the Audit of the Financial Report**

*Opinion*

We have audited the financial report of Hawkstone Mining Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year 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:

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

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

*Basis for opinion*

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

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

*Material uncertainty related to going concern*

We draw attention to Note 1 (a) in the financial report, which indicates that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

*Key audit matters*

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| **Acquisition of USA Lithium Limited**<br>(Note 26 to the financial report) | |
| During the year the Group acquired USA Lithium Limited which owns 100% interests in the Big Sandy Lithium Clay project and the Lordsburg Lithium Brine project. This was considered a significant purchase for the Group.<br><br>The terms of the transaction included an option fee for due diligence on USA Lithium of $250,000 paid in the prior year with the issue of 12,500,000 shares at a deemed value of $250,000, 125,000,000 Initial Consideration Shares in the Company and 125,000,000 Deferred Consideration Shares. In addition, the transfer of $250,000 to USA Lithium was required, however a total of $332,695 was actually advanced from the Company to USA Lithium and its subsidiaries.<br><br>This acquisition was considered a key audit matter as accounting for this transaction is a complex and judgemental process, requiring management to determine the fair value of the consideration paid and net identifiable assets acquired. | Our audit procedures included but were not limited to the following:<br><br>- We read the sale and purchase agreement to understand key terms and conditions;<br><br>- We agreed the fair value of the gross consideration paid to supporting information;<br><br>- We obtained audit evidence that the acquisition date assets and liabilities of USA Lithium Limited were fairly stated;<br><br>- We considered the allocation of the excess of the value of the consideration over the net assets acquired to exploration and evaluation expenditure; and<br><br>- We assessed the adequacy of the Group's disclosures in the financial report with respect to this asset acquisition. |
| **Change of accounting policy – Exploration and Evaluation Expenditure**<br>(Note 25 to the financial report) | |
| During the year the Group changed its accounting policy regarding its treatment of exploration and evaluation expenditure. In previous financial reporting periods, exploration and evaluation expenditure was capitalised under AASB 6 *Exploration for and Evaluation of Mineral Resources*. The new accounting policy is to expense exploration and evaluation expenditure as incurred.<br><br>Management has assessed this change against accounting standards requirements with respect to voluntary changes in accounting policies and the change in accounting policy is on the basis that it will result in more relevant and reliable information in the financial report.<br><br>The change in accounting policy resulted in the restatement of affected 30 June 2018 balances and the disclosure of the impact of the change for each financial statement line item affected.<br><br>The change in accounting policy was considered a key audit matter due to the size and scope of the change and impact on the presentation of the financial statements. | Our audit procedures included but were not limited to the following:<br><br>- We considered the appropriateness of the change in accounting policy ensuring that the disclosure requirements set out in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* were complied with, including that the change provided more relevant financial information to the users of the financial report;<br><br>- We reconciled the restated balances to the prior year audited balances ensuring that the change was correctly calculated and disclosed; and<br><br>- We assessed the adequacy of the Group's disclosures in the financial report with respect to this change of accounting policy. |

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

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

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

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

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

*Responsibilities of the directors for the financial report*

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

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

*Auditor's responsibilities for the audit of the financial report*

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

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 directors.
- Conclude on the appropriateness of the directors' 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.

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on the Remuneration Report**

*Opinion on the Remuneration Report*

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

In our opinion, the Remuneration Report of Hawkstone Mining Limited for the year ended 30 June 2019 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.

HLB Mann Judd

**HLB Mann Judd**
**Chartered Accountants**

**L Di Giallonardo**
**Partner**

**Perth, Western Australia**
**27 September 2019**

# Corporate Governance

As part of the process of re-listing the Company on the ASX, the present Board has adopted a Corporate Governance plan with reference to the ASX Corporate Governance Council Corporate Governance Principles and Recommendations (3rd Edition) in order to achieve the highest standards of corporate governance. The Company intends to follow each Recommendation where the Board has considered the Recommendation to be an appropriate benchmark for corporate governance practices, taking into account factors such as the size of the Company, the Board, resources available and activities of the Company. Where, after due consideration, the Company's corporate governance practices depart from the Recommendations, the Board will offer disclosure of the nature of, and reason for, the adoption of its own practice.

For the financial year ended 30 June 2019, the Company advises that all the principles and recommendations of the ASX Corporate Governance Council have been applied with the exception of the disclosures contained in the table set out below.

**Diversity Policy**

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's success is the result of the quality and skills of our people. As such, the Company has adopted a Diversity Policy to guide all recruitment and employment decisions.

Our policy is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance.

The Company's strategies are to:

1. recruit and manage on the basis of an individual's competence, qualification and performance;
2. create a culture that embraces diversity and that rewards people to act in accordance with this policy;
3. appreciate and respect the unique aspects that individual brings to the workplace;
4. foster an inclusive and supportive culture to enable people to develop to their full potential;
5. identify factors to be taken into account in the employee selection process to ensure we have the right person for the right job;
6. take action to prevent and stop discrimination, bullying and harassment; and
7. recognise that employees at all levels of the Company may have domestic responsibilities.

The Board is accountable for ensuring this policy is effectively implemented. Each employee has a responsibility to ensure that these objectives are achieved.

**Compliance with ASX Recommendations**

| Recommendation | | Current Practice |
|---|---|---|
| 1.1 | A listed entity should disclose:<br>(a) The respective roles and responsibilities of its board and management; and<br>(b) Those matters expressly reserved to the board and those delegated to management. | The Company's Board Charter sets out the roles and responsibilities of the Board and Management. It is available for review on the Company's website. |
| 1.2 | A listed entity should:<br>(a) Undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and<br>(b) Provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. | The Company has implemented a policy of undertaking police and bankruptcy checks on any senior employees and directors before appointment or putting to shareholders for election.<br>The Company provides all relevant information on all directors in its annual report and in the notice of meeting in which a director is proposed to be elected. |
| 1.3 | A listed entity should have a written agreement with each director and senior executive setting out the terms of their employment. | The Company requires that a detailed letter of appointment or employment contract is agreed with each director and employee. |
| 1.4 | The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board. | Due to the current size of the Company and with regard to its current situation, the role of the Company Secretary is undertaken by a non-executive director. Notwithstanding this, the Company Secretary is accountable directly to the other Board members in company secretarial matters. |
| 1.5 | A listed entity should:<br>(a) Have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;<br>(b) Disclose that policy or a summary of it; and<br>(c) Disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:<br>i. The respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or<br>ii. if the entity is a "relevant employer" under the Workplace Gender Equality Act, the | The Company has adopted a formal Diversity Policy, a summary of which is provided above.<br>As at 30 June 2019:<br>• The Board of Hawkstone Mining Limited was comprised four members, three of whom were male and one female.<br>• In addition to the Board, there is one employee who is male. |

# Corporate Governance

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| | entity's most recent "Gender Equality Indicators", as defined in and published under that Act. | |
| 1.6 | A listed entity should:<br>(a) Have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and<br>(b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | The Board Performance Evaluation Policy is available on the Company's website.<br>During the reporting period, the Board collectively assessed their respective roles and contributions to the Company and determined they were appropriate for that point in the Company's development. The appointment of Barnaby Egerton-Warburton was a result of such review.<br>The Board will continue to review its composition as the Company progresses and consider if additional or different members can add value to the growth of the Company and relevance of the Board. |
| 1.7 | A listed entity should:<br>(a) Have and disclose a process for periodically evaluating the performance of its senior executives; and<br>(b) Disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. | Due to the current position of the Company, there are currently no senior executives employed. The Company will undertake period evaluations of senior executives at the appropriate stage of the Company's development. |
| 2.1 | The board of a listed entity should:<br>(a) Have a nomination committee which:<br>i. has at least three members, a majority of whom are independent directors; and<br>ii. is chaired by an independent director;<br>and disclose:<br>iii. the charter of the committee;<br>iv. the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period, and the individual attendances of the members at those meetings; or<br>(b) If it does not have a nomination committee, disclose the fact and the processes it employs to address board succession issues and to ensure the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively. | The Board considers that given the current size of the Board and the Company, this function is efficiently achieved with full Board participation. Accordingly, the Board has not established a nomination committee. |
| 2.2 | A listed entity should have and disclose a board skills matrix setting out the mix of skills and | The Board Charter, which is available on the Company's website, incorporates a set of skills |

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| | diversity that the board currently has or is looking to achieve in its membership. | and abilities that are desirable for the composition of the Board. The Board is satisfied that it an appropriate mix of desired skills for the current position of the Company.<br><br>The Board will continue to review its composition as the Company progresses and consider if additional or different members can add value to the growth of the Company and relevance of the Board. |
| 2.3 | A listed entity should disclose:<br>(a) The names of the directors considered by the board to be independent directors;<br>(b) If a director has an interest, position, association or relationship of the type described in Box 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and<br>(c) The length of service of each director. | The Company considered that Shaun Hardcastle, Oonagh Malone and Barnaby Egerton-Warburton are independent directors.<br><br>The Company discloses the length of service for each director in the Director's Report of its annual report. |
| 2.4 | A majority of the board of a listed entity should be independent directors. | The composition of the Board is in compliance with this recommendation with 3 of the 4 directors considered to be independent. |
| 2.5 | The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity. | The Company complies with this recommendation. |
| 2.6 | A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their roles as directors effectively. | The Company has implemented an induction program for all new directors to appropriately familiarise them with the policies and procedures of the Company as part of its Corporate Governance plan.<br><br>The Company encourages and facilitates all Directors to develop their skills, including with the provision of in-house seminars to maintain compliance in areas such as risk and disclosure. |
| 3.1 | A listed entity should:<br>(a) Have a code of conduct for its directors, senior executives and employees; and<br>(b) Disclose that code or a summary of it. | The Company's Code of Conduct is available on the Company's website. |
| 4.1 | The board of a listed entity should:<br>(a) Have an audit committee which:<br>i. has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and<br>ii. is chaired by an independent director, who is not the chair of the board; | The Company does not have an audit committee due the current size of the Board and Company. The Company has adopted a policy whereby the full Board fulfils the duties of the audit committee and abides by the adopted Audit Committee Charter (available on the Company's website). |

# Corporate Governance

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| | and disclose:<br>iii. the charter of the committee;<br>iv. the relevant qualifications and experience of the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period, and the individual attendances of the members at those meetings; or<br>(b) If it does not have an audit committee, disclose the fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. | The Board has adopted a formal policy regarding the appointment, removal and rotation of the Company's external auditor and audit partner. |
| 4.2 | The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal controls which is operating effectively. | The Board receives a section 295A declaration from the consultants who act as equivalent to the CFO for each half yearly and full year report in advance of approval of these reports. |
| 4.3 | A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit. | The Company's auditor is required to attend the Company's AGM and is available to answer questions relevant to the audit. |
| 5.1 | A listed entity should:<br>(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and<br>(b) disclose that policy or a summary of it. | The Board has adopted a formal Continuous Disclosure Policy to ensure compliance with the ASX Listing Rules. The Policy is available on the Company's website. |
| 6.1 | A listed entity should provide information about itself and its governance to investors via its website. | The Company complies with this recommendation. |
| 6.2 | A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors. | The Company has developed a Shareholder Communications Strategy to ensure all relevant information is identified and reported accordingly. |
| 6.3 | A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders. | The Company encourages all shareholders to attend General Meetings of the Company via its notices of meeting, and in the event they cannot attend, to participate by recording their votes. The Company has implemented an |

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| | | online voting system to further encourage participation by shareholders. |
| 6.4 | A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically. | The Company and its share registry actively encourage electronic communication. All new shareholders will be issued with a letter encouraging the registration of electronic contact methods. |
| 7.1 | The board of a listed entity should:<br>(a) have a committee or committees to oversee risk, each of which:<br>i. has at least three members, a majority of whom are independent directors; and<br>ii. is chaired by an independent director;<br>and disclose:<br>iii. the charter of the committee;<br>iv. the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings: or<br>(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework. | The Company does not have a risk committee due the current size of the Board and Company. The Company has adopted a policy whereby the full Board fulfil the duties of the risk committee and abides by the adopted Risk Management Policy (available on the Company's website).<br>The Directors require that they are updated regularly on all financial, legal and commercial aspects of the Company to ensure that they are familiar with all aspects of corporate reporting and believe this to mitigate the risk of not having an independent committee. |
| 7.2 | The board or a committee of the board should:<br>(a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and<br>(b) disclose, in relation to each reporting period, whether such a review has taken place. | The Board reviews its risk management strategy annually. |
| 7.3 | A listed entity should disclose:<br>(a) if it has an internal audit function, how the function is structured and what role it performs; or<br>(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. | The Company is not of the size or scale to warrant the cost of an internal audit function. This function is undertaken by the Board as a whole via the regular and consistent reporting in all risk areas. |
| 7.4 | A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks. | The Company has the normal exposure to economic and environmental risks as would be expected for a junior mineral exploration company. The Company manages the economic risks by closely monitoring expenditure and foreign currency fluctuations. The Company manages environmental risks by |

# Corporate Governance

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| | | ensuring that any contractors undertaking operations at the Company's project follow industry best practice. |
| 8.1 | The board of a listed entity should:<br>(a) have a remuneration committee which:<br>i. has at least three members, a majority of whom are independent directors; and<br>ii. is chaired by an independent director;<br>and disclose:<br>iii. the charter of the committee;<br>iv. the members of the committee; and<br>v. as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or<br>(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive. | The Board consider that given the current size of the Board, this function is efficiently achieved with full Board participation. Accordingly, the Board has not established a formal remuneration committee.<br>The Board will consider industry peers when evaluating the remuneration. The Board is cognisant of the fact that it wishes to attract and retain the best people, and will consider strategies other than monetary to balance the need for the best people and the financial position of the Company. |
| 8.2 | A listed entity should separately disclose its policies and practises regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives. | The Company discloses its policies on remuneration in the Remuneration Report set out in its annual report. |
| 8.3 | A listed entity which has an equity-based remuneration scheme should:<br>(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and<br>(b) disclose that policy or a summary of it. | The Company recognises that Director, executives and employees may hold securities in the Company and that most investors are encouraged by these holdings. The Company's Securities Trading Policy (available on the Company's website) explains and reinforces the Corporations Act 2001 requirements relating to insider trading. The Policy applies to all Directors, executives, employees and consultants and their associates and closely related parties. |

# ASX ADDITIONAL INFORMATION

The following information is based on share registry information processed up to 19 September 2019.

### Ordinary Share Capital

690,317,995 shares are held by 830 individual holders.

### Voting Rights

The voting rights attaching to ordinary shares are that on a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote. Options do not carry any voting rights.

### Restricted Securities

The Company has no restricted securities on issue.

### Distribution of Holders of Equity Securities – Fully Paid Ordinary Shares

| | Holders |
|---|---|
| 1 – 1,000 | 134 |
| 1,001 – 5,000 | 22 |
| 5,001 – 10,000 | 6 |
| 10,001 – 100,000 | 254 |
| 100,001 and over | 414 |
| **Total** | **830** |

### Unmarketable Parcels

| | |
|---|---|
| Holders: | 200 |
| Units: | 1,120,667 |

### On-market Buy Back

There is no current on-market buy-back.

### Substantial Shareholders

There are no substantial shareholders with holdings greater than 5%.

# ASX ADDITIONAL INFORMATION

### Twenty Largest Holders of Quoted Fully Paid Ordinary Shares

| Name | Number of Shares | % |
|---|---|---|
| Paranoid Enterprises Pty Ltd | 28,038,462 | 4.06 |
| Troca Enterprises Pty Ltd <Coulson Super A/C> | 15,000,000 | 2.17 |
| Mr Gavin Jeremy Dunhill | 14,000,000 | 2.03 |
| DXB Holdings Pty Ltd <The DXB A/C> | 13,600,000 | 1.97 |
| BNP Paribas Nominees Pty Ltd <IB AU Noms RetailClient DRP> | 13,445,692 | 1.95 |
| Coral Brook Pty Ltd <Lloyd Super Fund A/C> | 13,341,347 | 1.93 |
| Mr Hans-Rudolf Moser | 11,616,988 | 1.68 |
| KM Pilgrim Family Pty Ltd <K&M Pilgrim Family A/C> | 10,913,389 | 1.58 |
| Hollywood Marketing (WA) Pty Ltd | 10,843,750 | 1.57 |
| HSBC Custody Nominees (Australia) Limited | 10,685,441 | 1.55 |
| Neometals Investments Pty Ltd | 10,000,000 | 1.45 |
| Mr Antonius Joseph Smit | 10,000,000 | 1.45 |
| Mr Dominic Virgara | 9,650,001 | 1.40 |
| Razorback Ridge Investments Pty Ltd <Greg Smith Super Fund A/C> | 9,250,000 | 1.34 |
| Stewart David Lloyd | 9,250,000 | 1.34 |
| Ocean View WA Pty Ltd | 9,000,000 | 1.30 |
| Blu Bone Pty Ltd | 9,000,000 | 1.30 |
| Mr Tim Powe | 8,600,000 | 1.25 |
| Mr John Henderson Manson & Mrs Karen Ann-Marie Manson <Mayflower A/C> | 8,515,000 | 1.23 |
| Mr Andrew William Spencer <Spencer Super Fund A/C> | 7,814,588 | 1.13 |
| **TOTAL** | **232,564,658** | **33.68** |

### Unquoted Securities

| Class | Number |
|---|---|
| Options exercisable at $0.048 each on or before 21 December 2020 | 6,000,000 |
| Options exercisable at $0.04 each on or before 7 September 2022 | 47,250,000 |
| Options exercisable at $0.05 each on or before 7 September 2022 | 47,250,000 |
| Options exercisable at $0.06 each on or before 30 December 2021 | 10,250,000 |
| Options exercisable at $0.07 each on or before 30 December 2021 | 6,500,000 |

### Unquoted Securities >20% Holders

| Class | Holder | Number | Percentage |
|---|---|---|---|
| Options exercisable at $0.048 each on or before 21 December 2020 | CYM Holdings Pty Ltd <GCM A/C> | 2,000,000 | 33.33% |
| | Ms Oonagh Jane Malone | 2,000,000 | 33.33% |
| | Ms Rachel Pearce <The Pearce Family A/C> | 2,000,000 | 33.33% |
| Options exercisable at $0.04 each on or before 7 September 2022 | Mr Gregory Smith | 15,000,000 | 31.75% |
| | Mr Paul Lloyd | 15,000,000 | 31.75% |
| Options exercisable at $0.05 each on or before 7 September 2022 | Mr Gregory Smith | 15,000,000 | 31.75% |
| | Mr Paul Lloyd | 15,000,000 | 31.75% |
| Options exercisable at $0.06 each on or before 30 December 2021 | BXW Ventures Pty Ltd | 7,750,000 | 76.00% |
| | Union Square Capital Advisors LLC | 2,500,000 | 24.00% |
| Options exercisable at $0.07 each on or before 30 December 2021 | BXW Ventures Pty Ltd | 4,000,000 | 61.54% |
| | Union Square Capital Advisors LLC | 2,500,000 | 38.46% |

# ASX ADDITIONAL INFORMATION

### Company Secretary

Oonagh Malone

### Registered Office in Australia

Ground Floor, 24 Outram Street
West Perth WA 6005

### Share Registry

Automic Registry Services
Level 5, 126 Phillip Street
Sydney NSW 2000
Tel: 1300 288 664

### Schedule of Mining Tenements

| Tenement | Location | Interest |
|---|---|---|
| Kangwane South | Mpumalanga, South Africa | 70% |
| Big Sandy WIK-001 to WIK-112 | Arizona, USA | 100% |
| Big Sandy BSL-001 to BSL-146 | Arizona, USA | 100% |
| Lordsburg LLP-49 to LLP-72 | New Mexico, USA | 100% |
| Lordsburg LLP-81 to LLP-120 | New Mexico, USA | 100% |
| Lordsburg LLP-129 to LLP-354 | New Mexico, USA | 100% |