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28 September 2018

**Market Announcements Office  
ASX Limited**

## **COMPANY ANNOUNCEMENT**

***Hawthorn Resources Limited***

***June 2018 Annual Financial Report***

Attached for release to the market is the Company's Financial Report for the year ended 30 June 2018.

The Company is pleased to advise that its gold mining project, the Trouser Legs Mining Joint Venture – Anglo Saxon Gold Project (Hawthorn 70% and GEL Resources Pty Ltd 30%), which commenced formal mining operations in November 2017 has since May 2018 achieved monthly surpluses.

A further update regarding monthly ore parcels, grades and ounces will be provided in the next working week upon receipt of final assay results.

**END**

For further information contact:  
Company Secretary, Mourice Garbutt – (03) 9605 5917



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# Hawthorn Resources Limited

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## FINANCIAL REPORT YEAR ENDED 30 JUNE 2018

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The Company's 2018 Corporate Governance Statement is available at  
[www.hawthornresources.com](http://www.hawthornresources.com)

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# Hawthorn Resources Limited

ABN 44 009 157 439

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## **Directors' Report 2018**

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# Hawthorn Resources Limited

## Directors' Report

The Directors of Hawthorn Resources Limited, a Company listed on the Australian Securities Exchange, present their report for the year ended 30 June 2018.

### 1 Directors

The Directors of the Company in office since 1 July 2017 and up to the date of this Report are:

**Mr Mark G Kerr - LL.B**  
**Chairman and Managing Director**  
**Appointed 22 November 2007; last re-elected 2014 AGM**

Mr Kerr was appointed as a Director and as Chairman of the Board of Directors of Hawthorn Resources Limited in November 2007, which merged with Ellendale Resources N.L in June 2008. In June 2016 the Board of Directors resolved to appoint Mr Kerr to be Managing Director and Chief Executive Officer with immediate effect from 24 June 2016.

Mr Kerr is an experienced director and advisor to listed and private companies and is a director of Berkeley Consultants Pty Ltd which specialises in public relations and reputation management consultancy. In addition to his business activities, Mr Kerr's community involvement currently extends to being a member of the Victorian Committee for Juvenile Diabetes Research Foundation; a committee member of the St Vincent's Institute Charity Golf Day Committee and a board member of International Specialised Skills Institute Inc.

Mr Kerr holds current directorships as non-executive director of Contango Income Generator Ltd (ASX: CIE); non-executive chairman of Think Childcare Limited (ASX: TNK) and non-executive director of Alice Queen Ltd (ASX: AQX).

Former directorships of listed entities during the past three-year period being: non-executive chairman of Contango Microcap Limited (ASX: CTN) - resigned 13 October 2017.

Mr Kerr is a member of the Company's Audit Committee.

**Mr Christopher D Corrigan - BEc**  
**Non-Executive Director**  
**Appointed 5 October 2017; and elected by shareholders 29 November 2017**

Mr C D Corrigan was appointed as a non-executive director of the Company with effect from 5 October 2017.

Mr Corrigan has had some earlier involvement in Hawthorn's Anglo-Saxon project where Hawthorn, in August 2017, announced its decision to mine.

Mr Corrigan, indirectly, by his associate Belfort Investment Advisors Limited, is a substantial shareholder in Hawthorn Resources Limited

Mr Corrigan is a member of the Company's Audit Committee.

Prior to his appointment to the Board of Directors of Hawthorn Resources Limited Mr Corrigan has during the past three years held directorships in listed entities:

- Qube Holdings Group – Chairman from September 2011 to June 2017;
- Webster Limited – Executive Chairman from February 2016 to December 2017. Mr Corrigan remains a non-executive Director of Webster Limited.

**Dr David S Tyrwhitt - PhD(Geology) BSc(Hons) FSEG(USA) FAusIMM CPGeo**  
**Non-Executive Director**  
**Appointed 14 November 1996; last re-elected 2016 AGM**

Dr Tyrwhitt has been a Director of the Company since 1996. He has more than 50 years of experience in the mining industry.

Dr Tyrwhitt holds current directorships of Merlin Diamonds Limited (December 2011 to current) and Northern Capital Resources Incorporated (January 2008 to current).

Former directorships being Top End Minerals Limited (April 2015 to June 2017); Quantum Resources Limited (November 1999 to April 2015), Golden River Resources Corporation (November 1996 to April

## Hawthorn Resources Limited Directors' Report

2015), Legend International Holdings Inc. (March 2005 to November 2015), Bassari Resources Limited and Astro Diamond Mines NL.

Dr Tyrwhitt worked for over 20 years with Newmont Mining Corporation in Australia, South East Asia and the United States. During this time, he was responsible for the discovery of the Telfer Gold Mine in Western Australia. He was Chief Executive of Newmont Australia Limited between 1984 and 1988 and Chief Executive Officer of Ashton Mining Limited between 1988 and 1991. He established his own consultancy business in 1991 working in South-East Asia and China with a number of Australian, Canadian and British mining and exploration groups as a consulting geologist.

Dr Tyrwhitt is the Chairman of the Company's Audit Committee.

**Mr Liao, Yongzhong – MBA**

**Non-Executive Director**

**Appointed 30 October 2012; last re-elected 2017 AGM**

Mr. Liao, Yongzhong has served Guangdong Fenghua Advanced Technology (Holding) Co., Ltd. for more than 20 years. Since joining it in 1993, he has held the following significant posts: Vice General Manager and Secretary of the Board of Directors from October 2003 to July 2007, Director and Vice General Manager from January 2007 to August 2008, Vice General Manager from August 2008 to May 2018.

He holds concurrent posts of investment adviser of Guangdong Ligguang New Material Co., Ltd. And Fenghua Mining Investment Holding (HK) Limited.

**Mr Li, Yijie**

**Non-Executive Director**

**Appointed 30 October 2012; last re-elected 2015 AGM**

Mr. Li Yijie is the Chairman of the Board of Lite Smooth Investment Limited. Mr. Li has been the President of Guangdong Carriton Real Estate Co., Ltd. since 2001, which is focused on real estate development, which has total assets of RMB 5 billion.

**Mr Liu, Zhensheng**

**Non-Executive Director**

**Appointed 9 December 2015; elected as a Director 2016 AGM**

Mr Liu, is a Geological professor-level senior engineer and a mineral processing senior engineer. He has worked on prospecting, exploration, mine construction, gold mine production and operation management for more than 30 years. He has extensive experience in prospecting, exploration, gold smelting, gold refining and mine management.

He has held the following significant posts: Technician and Mining Technical Manager of 719 geological brigade of Guangdong Geological and Mineral Bureau from December 1983 to August 1989, participating in and presiding over a large gold prospecting and exploration operation respectively; Geological Section Vice Chief and Mine Assistant of Guangdong Gaoyao Hetai Gold Mine from August 1989 to October 1991, in charge of construction and management of mines; Director and Vice Manager of Mine of Guangdong Gaoyao Hetai Gold Mine from October 1991 to March 2010, in charge of construction, production technology and operation management of mines; Director, General Manager and Chief Engineer of Guangdong Jinding Gold Co., Ltd from March 2010 to December 2013; Director and Vice General Manager of Guangdong Rising Investment Ltd from December 2013 to July 2016; Director of Fenghua Mining Investment Holding (HK) Limited and Guangdong Rising Holding (HK) Limited from 2014 to 2015; Director and General Manager of Guangdong Rising Mining Investment Ltd from July 2016 to January 2018; Investment Director of Guangdong Hongda Blasting Co., Ltd at present.

In addition, he was a member of the National Technical Committee on Gold of Standardization Administration of China and the Membership Committee of the Shanghai Gold Exchange. Currently, he serves as a chief of the Technical Committee on Precious Metals of Standardization Administration of Guangdong Province and a member of Senior Engineer (professor level) Commission on Accrediting of Guangdong Province

### **FORMER DIRECTORS**

During the financial year ended 30 June 2018 and up to the date of this Report there have been no resignations of directors from the Board of Directors.

### **DIRECTORSHIPS**

Other than the directorships noted above there have been no other directorships of listed entities held in the past three years.

# Hawthorn Resources Limited

## Directors' Report

### 2 Principal Activities and Review and Results of Operations

Hawthorn Resources Limited ("Hawthorn" or "the Company") is an Australian diversified base metals and gold mining and exploration company, with strategic and significant tenement holdings throughout the Central Yilgarn Iron Province and the South Laverton Gold Zone of Western Australia.

The principal activity of the Company during the financial year was the development and mining of the Trouser Legs Mining Joint Venture Project, in which the Company holds a 70 per cent interest. GEL Resources Pty Ltd ("GEL") owns the remaining 30% interest in the project. The Company also holds interests in exploration assets and continues exploration and evaluation activities on these assets.

As Hawthorn is deemed to control the operation it has accordingly consolidated in full the TLMJV Project assets and liabilities, plus income and expenditure, with the interest GEL holds being represented in the financial accounts as a non-controlling interest.

#### *Objective*

The Company's objective is to increase shareholder wealth through successful exploration activities whilst providing a safe workplace and ensuring best practice in relation to its environmental obligations.

#### *Consolidated Statement of Profit or Loss and Other Comprehensive Income*

As noted above the Company's TLMJV project has advanced and during the year the Company derived its first revenues from the project. As a result, the Company generated revenues of \$17,316,713 from ore sales. Mining costs and related development expenses amounted to \$20,667,899, including amortisation and impairment of previously capitalised exploration expenditure totalling \$2,332,687.

Exploration write-offs and impairment for the year amounted to \$476,792 compared to \$1,944,549 in 2017\*.

Administration expenses for 2018 were \$1,028,108 (2017: \$1,155,906). The consolidated loss for the year was \$4,841,174 (2017: \$3,048,655).

(\*) In line with the its accounting policy for exploration and evaluation expenditure the Company has ranked its exploration / development tenements according to their priority for economic exploitation as to short term (FY 2018/2019) and longer term (beyond FY 2019/2020). For the longer term tenements, the Company has impaired their carrying values – as and when the non-current tenements become ranked as current then the Company has the ability to reassess the previously impaired amounts.

#### *Consolidated Statement of Financial Position*

The Company had cash funds on hand at 30 June 2018 of \$1,088,416 (2017: \$1,298,430), receivables of \$6,937,411 (2017: \$491,647), available for sale securities, following impairment testing of carrying values, of \$2,231 (2017: \$2,231) and current liabilities totaled \$6,475,316 (2017: \$346,024).

At 30 June 2018, the Company had working capital of \$1,550,511 (2017: \$1,444,053), being current assets less current liabilities, and net assets of \$13,272,581 (2017: \$10,907,265) after the abovementioned impairment in carrying values.

#### *Cash Flow*

During the year, the Company used \$3,843,407 (2017: \$1,438,903) in operating activities, paid \$695,622 (2017: \$1,525,945) for exploration activities, \$2,877,475 (2017: Nil) for development and mining assets, and paid nil (2017: \$25,302) for plant and equipment. It also raised new equity capital of \$5,520,695 net of costs (2017: nil). In addition, it received \$1,685,795 in cash calls from the TLMJV partner. As a result, the Company has cash in bank at 30 June 2018 of \$1,088,416 (2017: \$1,298,430).

### 3 Significant Change in State of Affairs

As disclosed in the Principal Activities section of the Directors' Report, the Company's interest in the TLMJV project developed into a ore producing mining operation, and the Company generated revenues from ore sales during the year.

In addition, the Company raised \$6,000,079 from a Non-Renounceable Rights Issue during the year to fund development and exploration activities, issuing 150,001,969 ordinary shares at \$0.04 per share.

Other than these matters, the Directors are of the opinion that there has not been any significant change in the state of affairs of the Company during the year under audit.

# Hawthorn Resources Limited

## Directors' Report

### 4 Dividends

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of dividend since the end of the previous financial year and up to the date of this Annual Report.

### 5. Status of operations at reporting date

#### ***Exploration and Development***

In the interval between the end of the financial year and the date of this Report and, as reported to the ASX, the Company has continued its exploration and development on its Western Australia Gold Projects in South Laverton Zone. At the Trouser Legs - Anglo Saxon gold mine mining operations formally commenced in November 2017 and have continued per schedule.

#### ***Yundamindera – Box Well West Prospect***

No significant changes have occurred in the project area subsequent to the end of the financial year 2018. Further drilling programs are expected to commence in October 2018.

#### ***Deep South – Central Zone***

No significant changes have occurred in the project area subsequent to the end of the financial year 2018. Further drilling programs are expected to commence in late 2018.

Other than as noted above there are no items, transactions or events of a material and unusual nature which in the opinion of the Directors of the Company, have significantly affected or may significantly affect:

- the operations of the Company
- the results of those operations; and
- the state of affairs of the Company

in financial years subsequent to this financial year.

### 6. Events after the balance date

Other than matters reported elsewhere in this Report there has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

### 7. Future Developments and Results

The current focus is on the Anglo-Saxon mining activities, and the Company expects the project to run for a minimum of 6 months. The future results of the mine are all impacted by risk factors that impact the economic outcomes of the mine, including: -

- The gold price;
- Foreign exchange rates (as gold prices are linked to US dollars);
- Ore productions and reserves;
- Continued government approval for mining activities;
- Compliance with mining procedures
- The cost of restoring the mine site in accordance with government legislation.

Each of these factors may vary and impact the economic outcomes of the Anglo-Saxon mining operation.

The Company will also continue to develop its other exploration assets and will fund such operations from existing reserves, cash flows from the Anglo-Saxon mining operation and, where necessary, capital raising. Other than this there are no likely developments of which the Directors are aware of which could be expected to significantly affect the results of the Company's operations in subsequent financial years.

### 8. Issued Securities

#### **(a) Ordinary Shares**

At the date of this Report this Company has on issue a total of 321,265,613 shares (2017: 171,263,644 shares). During the year the Company undertook an Accelerated Pro Rata Non-Renounceable Rights Issue to shareholders resulting in the issue of 150,001,969 New Shares at an issue price of \$0.04 a share.

#### **(b) Options**

At the date of this Report the Company has no options on issue (2017: nil).

## Hawthorn Resources Limited Directors' Report

### (c) ESOP – Performance Rights

At the 2017 Annual General Meeting of Shareholders members resolved to approve the grant to Director Mr M Kerr and Dr D Tyrwhitt, in aggregate, a total of 8,250,000 Performance Rights subject to the achievement of the milestones set out in the Notice of Meeting documentation. As at the date of this Report the Company has not yet issued any of those Performance Rights.

As such during the 2017/2018 financial year, and up to the date of this Report, the Company has not issued options or performance rights over fully paid ordinary shares.

### 9. Directors Interest in Issued Securities

The declared relevant interest of each Director in the number of fully paid ordinary shares of the Company disclosed by that Director to the ASX Limited as at the date of this Report is:

Director	28.09.2018 Ordinary Shares	30.06.2017 Ordinary Shares
M G Kerr *	8,500,456	2,659,379
C D Corrigan **	56,095,028	-
D S Tyrwhitt	-	-
Liao, Yongzhong	-	-
Li, Yijie	-	-
Liu, Zhengsheng	-	-

\* Mr Kerr's shareholding is held indirectly through superannuation funds that Mr Kerr is trustee of (4,365,915 ordinary shares) and indirectly through Berkeley Consultants Pty Ltd (622,662 ordinary shares) and Paradyce Pty Ltd (3,511,879 ordinary shares), companies in which Mr Kerr is a director and shareholder.

\*\* Mr Corrigan was appointed to the Board during the year, and his holding not reported in 2017. His relevant interest in the Company's shares is held indirectly through Belfort Investment Advisors Limited, a company associated with Mr Corrigan.

### 10. Meetings of Directors

The number of meetings of Directors held including meetings of Committees of the Board during the financial year including their attendance was as follows:

	BOARD *		AUDIT COMMITTEE **	
	ELIGIBLE TO ATTEND	ATTENDED	ELIGIBLE TO ATTEND	ATTENDED
M G Kerr	3	3	2	2
C D Corrigan	2	2	1	1
D S Tyrwhitt	3	3	2	2
Liao, Yongzhong	3	2	-	-
Li, Yijie	3	3	-	-
Liu, Zhensheng	3	3	-	-

**Note:**

\* In between Board Meetings, Directors passed a total of eleven circulating resolutions which were then noted and ratified at the next occurring Board meeting.

\*\* Audit, Compliance and Corporate Governance Committee considerations are, when required, Chaired by Dr Tyrwhitt.

### 11. Company Secretary

Mr M Garbutt, appointed in May 2008, is the Company Secretary of the Company and its subsidiaries. Mr Garbutt is a Fellow of Governance Institute of Australia (FGIA) and Chartered Institute of Secretaries (FCIS) and until recently a Justice of the Peace in Victoria. He has over 30 years' commercial experience and currently conducts a corporate compliance and company secretarial company providing such services to a number of public and listed companies in Australia including Hawthorn Resources Limited group.

### 12. Directors' and Officers' Indemnity and Auditor Indemnity

#### **Directors:**

The Company has entered into an Indemnity Deed with each of the Directors and with certain former Directors which will indemnify them against liability incurred to a third party (not being the Company or any related company) where the liability does not arise out of conduct including a breach of good faith.



## Hawthorn Resources Limited Directors' Report

The Indemnity Deed will continue to apply for a period of 10 years after a Director ceases to hold office and a Director's Access and Insurance Deed with each of the Directors pursuant to which a Director can request access to copies of documents provided to the Director whilst serving the Company for a period of 10 years after the Director ceases to hold office. There will be certain restrictions on the Directors' entitlement to access under the deed.

Pursuant to the requirements of the Indemnity Deed, the Company has taken out Directors and Officers Liability Insurance the terms of which are subject to confidentiality prohibiting disclosure of the terms and conditions of the policy cover.

### **Auditors:**

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

### **13. Environment**

The mining and exploration activities of the Hawthorn group are conducted in accordance with, and controlled principally by, Australian state and territory government legislation. The group has extensive land holdings in Australia for exploration and exploitation of resources. The Company employs a system for reporting environmental incidents, establishing and communicating accountability, and rating environmental performance. During the year, data on environmental performance was reported as part of the periodic exploration reporting regime. In addition, as required under state legislation, procedures are in place to ensure that the relevant authorities are notified prior to the commencement of ground disturbing exploration activities. Mining activities are governed by licencing arrangements and the Company is committed to complying in full to all conditions and regulations associated with the TMLJV mining licence requirements.

The Company is committed to minimising the impact of its activities on the surrounding environment at the same time aiming to maximise the social, environmental and economic returns for the local community. To this end the environment is a key consideration in our mining and exploration activities and during the rehabilitation of disturbed areas. Generally rehabilitation occurs immediately following the completion of a particular phase of exploration or, in the case of TLMJV, after the completion of mining activities. In addition, the Company continues to develop and maintain mutually beneficial relationships with the local communities affected by its activities.

### **14. Non-Audit Services**

During the year, other than as noted below, BDO East Coast Partnership, the Company's auditor, has not performed other services in addition to their statutory duties.

Details of the amounts paid to the auditor of the Company, BDO East Coast Partnership, and its related practices, for audit and non-audit services provided during the year are set out below.

	<b>2018</b> <b>\$</b>	<b>2017</b> <b>\$</b>
<b>Statutory audit</b>		
Auditors of the Company - BDO		
- audit and review of financial reports	53,010	51,495
Other Services - BDO		
- other non-audit services	-	-
<b>Total fees</b>	<b>53,010</b>	<b>51,495</b>

## Hawthorn Resources Limited Directors' Report

### 15. Remuneration Report - Audited

The Remuneration Report sets out remuneration information for non-executive directors, executive directors and other key management personnel.

The Report contains the following sections:

- (i) Management Services – Berkeley Consultants Pty Ltd;
- (ii) Overview of Company Performance on Remuneration Structures;
- (iii) Non-Executive Directors;
- (iv) Executive Directors Remuneration;
- (v) Details of Directors, Executives and Remuneration; and
- (vi) Details of Directors and Executives Interest in Securities.

#### (i) Management Services – Berkeley Consultants Pty Ltd

The Company entered into a service arrangement with Berkeley Consultants Pty Ltd (“Berkeley Consultants”) effective from 1 April 2008.

Total fees paid or due during the 30 June 2018 financial year amounted to \$190,000 plus GST (2017: \$215,000) for the provision of serviced office facilities at 90 William Street, Melbourne.

This arrangement with Berkeley Consultants represented a related party transaction with Mr M Kerr having a material personal interest in the transactions through his interests in Berkeley Consultants Pty Ltd.

Given the nature of the related party interest in this matter, the non-related non-executive directors, in March 2014 conducted a review of the provision of serviced office facilities and executive functions offered to the Hawthorn Resources group of companies by Berkeley Consultants Pty Ltd noting the terms and procedures set out in Section 195 of the *Corporations Act 2001* and approved an extension to the term of the arrangement to 31 December 2017 and thereafter of a month to month basis.

In considering the extension of the Agreement to 31 December 2017 and beyond and the services to be provided by Berkeley Consultants Pty Ltd to the Hawthorn Resources group of companies, the non-related Directors noted the following:

- (i) the terms proposed are similar to the previous arrangements being on arms-length commercial terms; and
- (ii) the proposal includes provision of serviced offices with reception, boardroom and other facilities as required, payable quarterly in advance.

#### (ii) Overview of Company Performance on Remuneration Structures

The Company's performance, during the current year and over the past four years, has been as follows:

	2018 \$	2017 \$	2016 \$	2015 \$	2014 \$
	<u>Consolidated</u>	<u>Consolidated</u>	<u>Consolidated</u>	<u>Consolidated</u>	<u>Consolidated</u>
Revenue	17,339,153	70,669	161,679	285,152	499,578
Net loss	(4,841,174)	(3,048,655)	(1,760,756)	(4,125,198)	(1,604,405)
Basic earnings per share - cents	(1.666)	(1.780)	(1.028)	(2.409)	(0.937)
Diluted earnings per share-cents	(1.666)	(1.780)	(1.028)	(2.409)	(0.937)
Net assets	13,272,581	10,907,265	13,955,920	15,716,676	22,959,704

The Directors do not believe the financial or share price performance of the Company is an accurate measure when considering remuneration structures as the Company is in the mineral exploration industry. Companies in this industry do not have an ongoing source of revenue, as revenue is normally from ad-hoc transactions.

## Hawthorn Resources Limited Directors' Report

The more appropriate measure is the identification of exploration targets, identification and/or increase of mineral resources and reserves and the ultimate conversion of the Company from explorer status to mining status. The development of the TLMJV is the Company's first such development and will provide a measure of the Company's progress.

### **(iii) Non-Executive Directors**

Total remuneration for all Non-Executive Directors, last voted upon by shareholders in January 2008 at a General Meeting of shareholders and approved with a 99.65% acceptance in favour of the resolution, is not to exceed \$300,000 per annum. The current aggregate of Non-Executive Directors' base fees for the current year was \$162,192 per annum (2017: \$140,000). Non-Executive Directors do not receive performance related remuneration. Directors' fees cover all main Board activities and membership of Board committees. Non-Executive Directors do not receive any benefits on retirement.

However, and as permitted under the Company's Constitution, Non-Executive Directors are entitled to receive payment for services provided which are over and above their normal directorial duties and which have been specifically requested by the Board of Directors. For such additional services, consultancy fees are in addition to directors' fees and are outside of the shareholder approved aggregate for directors' fees.

There has been no change to the remuneration structure during the year, and as such no independent remuneration expert was engaged during the year.

### **(iv) Executive Directors Remuneration**

The Company seeks to reward executives with a level of remuneration based upon their position and responsibilities.

The Company's Managing Director/CEO, Mr M G Kerr, who was appointed on 24 June 2016, was remunerated on the same terms applicable under the Executive Service Agreement for Mr M Elliott (the former Managing Director) who resigned as a director of the Company on 24 June 2016. The key elements of the Executive Service Agreement were:

- (i) Term: to 31 December 2018, and thereafter, renewable annually;
- (ii) Remuneration: \$147,000 a year plus government superannuation levy;
- (iii) Bonus: the Board of Directors may, in its absolute discretion, set performance criteria which, if met, will entitle a bonus of 50 per cent of the annual remuneration to be paid in respect of each Financial Year or pro rata Financial Year;
- (iv) Termination: the Agreement may be terminated by:
  - (a) mutual agreement between the Company and the Executive;
  - (b) expiry of the Agreement at the agreed date as extended; and
  - (c) by being summarily terminated by the Company without notice or compensation where certain events have occurred. The Agreement does not contain a period of notice; and
- (v) Termination Benefits: subject to an entitlement to a bonus there are no other amounts payable on Termination.

No performance based remuneration was paid or is payable for the 30 June 2018 financial year (2017: nil).

Mr Kerr had previously been engaged as a Executive Chairman at a cost of \$75,000 per annum. His appointment as Managing Director resulted in this cost being replaced by the remuneration outlined above.

# Hawthorn Resources Limited

## Directors' Report

### (v) Details of Directors, Executives and Remuneration

The names of the Directors and Executives in office during the year are as follows:-

#### (a) Directors

M G Kerr – Executive Chairman and Managing Director (appointed 22 November 2007)

C D Corrigan – Non-Executive Director (appointed 5 October 2017)

D S Tyrwhitt – Non Executive Director (appointed 14 November 1996)

Liao, Yongzhong – Non Executive Director (appointed 30 October 2012)

Li, Yijie – Non Executive Director (appointed 30 October 2012)

Liu, Zhensheng – Non Executive Director (appointed 9 December 2015)

#### (b) Executives

M Garbutt – Company Secretary (appointed 5 May 2008)

Details of the nature and amount of each major element of remuneration of each Director of the Company and of each Executive of the Company are:

		Primary		Post-employment	Other Services	Total \$	s300A (1)(e)(i) Proportion of remuneration performance related %	s300A (1)(e)(ii) Value of options as proportion of remuneration %
		Salary & fees \$	Non-monetary benefits \$	Super-annuation \$	See Notes below \$			
<b>Directors</b>								
<i>Executive</i>								
M G Kerr (i) (iv) (v)	2018	147,000	-	13,965	-	160,965	nil	n.a.
	2017	147,000	-	13,965	-	160,965	nil	n.a.
	2016	75,000	-	7,125	-	82,125	nil	n.a.
M E Elliott (v)	2018	-	-	-	-	-	nil	n.a.
	2017	-	-	-	-	-	nil	n.a.
	2016	147,000	-	13,965	-	160,965	nil	n.a.
<i>Non-Executive</i>								
C Corrigan (vi)	2018	22,192	-	2,108	-	24,300	nil	n.a.
	2017	-	-	-	-	-	nil	n.a.
	2016	-	-	-	-	-	nil	n.a.
D S Tyrwhitt (ii)	2018	50,000	-	4,750	17,250	72,000	nil	n.a.
	2017	50,000	-	4,750	25,500	80,250	nil	n.a.
	2016	50,000	-	4,750	23,250	78,000	nil	n.a.
Liao, Yongzhong	2018	30,000	-	-	-	30,000	nil	n.a.
	2017	30,000	-	-	-	30,000	nil	n.a.
	2016	30,000	-	-	-	30,000	nil	n.a.
Li, Yijie	2018	30,000	-	-	-	30,000	nil	n.a.
	2017	30,000	-	-	-	30,000	nil	n.a.
	2016	30,000	-	-	-	30,000	nil	n.a.
Liu, Zhensheng	2018	30,000	-	-	-	30,000	nil	n.a.
	2017	30,000	-	-	-	30,000	nil	n.a.
	2016	22,500	-	-	-	22,500	nil	n.a.
Ye, Xiaohui	2018	-	-	-	-	-	nil	n.a.
	2017	-	-	-	-	-	nil	n.a.
	2016	7,500	-	-	-	7,500	nil	n.a.
Total all Directors	2018	309,192	-	20,823	17,250	347,265	nil	n.a.
	2017	287,000	-	18,715	25,500	331,215	nil	n.a.
	2016	362,000	-	25,840	25,250	411,090	nil	n.a.
<b>Executives</b>								
M Garbutt (iii)	2018	-	-	-	-	-	nil	n.a.
	2017	-	-	-	-	-	nil	n.s.
	2016	-	-	-	-	-	nil	n.a.
Total all Directors & Executives	2018	309,192	-	20,825	17,250	347,265	nil	n.a.
	2017	287,000	-	18,715	25,500	331,215	nil	n.a.
	2016	362,000	-	25,840	25,250	411,090	nil	n.a.

## Hawthorn Resources Limited Directors' Report

- (i) In addition to the above disclosed remuneration, \$190,000 (2017: \$215,000, 2016: \$315,000) was paid to Berkeley Consultants Pty Ltd during the year for serviced office facilities as noted in item 15(i) above. As noted, Berkeley Consultants Pty Ltd is an entity in which Mr. M Kerr has a material personal interest in the transactions through his interests in Berkeley Consultants Pty Ltd.
- (ii) In addition to directors duties, Dr Tyrwhitt undertook additional exploration 'field' duties at the request of the Board of Directors and received \$17,250 (2017: \$25,500, 2016: \$23,250) in consulting fees.
- (iii) K R Corporate Compliance Pty Ltd., a company related to and controlled by Mr Garbutt, has provided corporate secretarial, compliance and support services to the Hawthorn Resources Limited group for which it was paid fees of \$142,076 (2017: \$140,313, 2016: \$92,928).
- (iv) During the year the Company paid consulting fees totalling \$13,976 (2017: \$4,109, 2016: \$6,722) to Public Relations Exchange, an entity controlled by a related party of Mr. M Kerr.
- (v) Mr Elliott resigned as Managing Director on 24 June 2016 and Mr Kerr took over the role in addition to his duties as Executive Chairman. Mr Kerr took over the Managing Director salary of \$147,000 plus superannuation at that time, whilst relinquishing the Executive Chairman salary of \$75,000 plus superannuation at the same time.

There were no short term cash bonuses, post-employment prescribed benefits or termination benefits paid during the 30 June 2018 financial year (2017: nil).

There has been no change to the remuneration structure during the year, and as such no independent remuneration expert was engaged during the year.

### (vi) Details of Directors and Executives Interest in Securities

The only security that the Company has on issue is the fully paid ordinary share.

	01.07.2017	Movements	30.06.2018	
<b>Directors:</b>				
M G Kerr	2,659,379	5,841,077	8,500,456	1
C D Corrigan	-	56,095,028	56,095,028	2
D S Tyrwhitt	-	-	-	
Liao, Yongzhong	-	-	-	
Li, Yijie	-	-	-	
Liu, Zhensheng	-	-	-	
<b>Total Directors</b>	<b>2,659,379</b>	<b>61,936,105</b>	<b>64,595,484</b>	
<b>Executives</b>				
M Garbutt	-	-	-	
<b>Total Directors/Executives</b>	<b>2,659,379</b>	<b>61,936,105</b>	<b>64,595,484</b>	

1 2,329,198 ordinary shares acquired during rights issue during the year through being an eligible shareholder in the NRRI and 3,511,879 ordinary shares acquired as participating in the underwriting of the NRRI.

2 Initial holding as inducted onto Board of Directors.

***This concludes the Remuneration Report, which has been audited.***

Hawthorn Resources Limited  
Directors' Report

**Proceedings on behalf of the Company**

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

**Auditor's Independence Declaration:**

The auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 14.

Signed in accordance with a resolution of the Board of Directors at Melbourne this 28th day of September 2018.

A handwritten signature in dark ink, appearing to read 'Mark Kerr' with a stylized flourish at the end.

Mark Kerr  
Chairman

**DECLARATION OF INDEPENDENCE BY JAMES MOONEY TO THE DIRECTORS OF HAWTHORN RESOURCES LIMITED**

As lead auditor of Hawthorn Resources Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Hawthorn Resources Limited and the entities it controlled during the period.



James Mooney  
Partner

**BDO East Coast Partnership**

Melbourne, 28 September 2018

Hawthorn Resources Limited  
Consolidated Statement of Profit or Loss and Other Comprehensive Income  
for the year ended 30 June 2018

		<b>Consolidated</b>	
	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>\$</b>	<b>\$</b>
<b>Continuing operations</b>			
Revenue	3	17,339,153	70,669
<b>Expenses</b>			
Mining costs	4	(20,667,899)	-
Exploration expenditure impaired	9	(183,163)	(1,632,431)
Exploration expenditure expensed	9	(293,628)	(312,118)
Administration expenses		(1,028,109)	(1,155,906)
Depreciation expense	11	(7,528)	(18,869)
<b>Loss before income tax expense from continuing operations</b>		<b>(4,841,174)</b>	<b>(3,048,655)</b>
Income tax expense	5	-	-
<b>Loss for the year after tax from continuing operations</b>		<b>(4,841,174)</b>	<b>(3,048,655)</b>
<b>Other comprehensive income - items that may be reclassified subsequently to profit or loss</b>		<b>-</b>	<b>-</b>
<b>Total other comprehensive income/(loss) for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income/(loss) for the year</b>		<b>(4,841,174)</b>	<b>(3,048,655)</b>
<b>Loss attributable to members</b>		<b>(4,263,720)</b>	<b>(3,048,655)</b>
Loss attributable to non-controlling interests		(577,454)	-
		<b>(4,841,174)</b>	<b>(3,048,655)</b>
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
Basic loss per share for the year attributable to ordinary equity holder	6	(1.666)	(1.780)
Diluted loss per share for the year attributable to ordinary equity holders	6	(1.666)	(1.780)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes



Hawthorn Resources Limited  
Consolidated Statement of Financial Position as at 30 June 2018

		Consolidated	
	Note	2018 \$	2017 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	1,088,416	1,298,430
Trade and other receivables	8	6,937,411	491,647
<b>Total Current Assets</b>		<b>8,025,827</b>	<b>1,790,077</b>
<b>Non-Current Assets</b>			
Other financial assets		2,231	2,231
Exploration expenditure	9	5,892,921	9,438,389
Development and mining assets	10	5,811,854	-
Plant and equipment	11	15,064	22,592
<b>Total Non-Current Assets</b>		<b>11,722,070</b>	<b>9,463,212</b>
<b>TOTAL ASSETS</b>		<b>19,747,897</b>	<b>11,253,289</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	12	6,099,441	311,388
Provisions	13	375,875	34,636
<b>Total Current Liabilities</b>		<b>6,475,316</b>	<b>346,024</b>
<b>TOTAL LIABILITIES</b>		<b>6,475,316</b>	<b>346,024</b>
<b>NET ASSETS</b>		<b>13,272,581</b>	<b>10,907,265</b>
<b>EQUITY</b>			
Contributed equity	14	61,615,314	56,094,619
Accumulated losses		(49,451,074)	(45,187,354)
Equity attributable to the members of Hawthorn Resources Ltd		12,164,240	10,907,265
Non-controlling interest	15	1,108,341	-
<b>TOTAL EQUITY</b>		<b>13,272,581</b>	<b>10,907,265</b>

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes

Hawthorn Resources Limited  
Consolidated Statement of Cash Flows for the year ended 30 June 2018

	Note	Consolidated	
		2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		5,157,393	-
Payments in the course of operations (inclusive of GST)		(9,023,240)	(1,509,572)
Interest received		22,440	70,669
<b>Net cash used in operating activities</b>	17 (a)	(3,843,407)	(1,438,903)
<b>Cash flows from investing activities</b>			
Payments for exploration expenditure		(695,622)	(1,525,945)
Payments for plant & equipment		-	(25,302)
Payments for mine development		(2,877,475)	-
<b>Net cash used in investing activities</b>		(3,573,097)	(1,551,247)
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares		6,000,079	-
Cost of issuing shares		(479,384)	-
Receipts from JV partner		1,685,795	-
<b>Net cash provided by financing activities</b>		7,206,490	-
Net decrease in cash and cash equivalents		(210,014)	(2,990,150)
Cash and cash equivalents at beginning of year		1,298,430	4,288,580
<b>Cash and cash equivalents at end of year</b>	7	1,088,416	1,298,430

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes

Hawthorn Resources Limited  
Consolidated Statement of Changes in Equity for the year ended 30 June 2018

	Contributed Equity	Accumulated Losses	Non- controlling interest	Total Equity
	\$	\$	\$	\$
<b>CONSOLIDATED</b>				
<b>At 1 July 2016</b>	56,094,619	(42,138,699)	-	13,955,920
Loss for the year after income tax expense	-	(3,048,655)	-	(3,048,655)
Other comprehensive income for the year, net of tax	-	-	-	-
<b>Total comprehensive income for the year</b>	-	(3,048,655)	-	(3,048,655)
<b>At 30 June 2017</b>	56,094,619	(45,187,354)	-	10,907,265
Loss for the year after income tax expense	-	(4,263,720)	(577,454)	(4,841,174)
Other comprehensive income for the year, net of tax	-	-	-	-
<b>Total comprehensive income for the year</b>	-	(4,263,720)	(577,454)	(4,841,174)
Issued share capital	6,000,079	-	-	6,000,079
Share issue costs	(479,384)	-	-	(479,384)
Joint venturer	-	-	1,685,795	1,685,795
<b>At 30 June 2018</b>	61,615,314	(49,451,074)	1,108,341	13,272,581

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Reporting Entity**

Hawthorn Resources Limited (the "Company") is a public company incorporated and domiciled in Australia. The principal activity of the Company during the financial year was development and mining of gold ore, as well as exploration and evaluation of various base metals and gold.

The consolidated financial report of the Company as at, and for the year ended, 30 June 2018, comprises the Company and its subsidiaries. The financial report was authorised for issue by the Directors on the date of this report.

The registered office and principal place of business of the entity is Level 2, 90 William Street, Melbourne, Victoria, 3000.

**(b) Basis of Preparation**

The financial report is presented in Australian dollars. The financial report has been prepared on a historical cost basis, except for the valuation of available-for-sale financial assets and financial assets at fair value through profit or loss that have been measured at fair value in accordance with Australian Accounting Standards.

Separate financial statements for Hawthorn Resources Limited as an individual entity are no longer presented as a consequence of a change in the *Corporations Act 2001*, however limited information for Hawthorn Resources Limited as an individual entity is presented at Note 24.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make significant judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of Australian Accounting Standards have a significant effect on the financial report and estimates made in accordance with these Standards have a significant risk of material adjustment in the next year. The areas impacted are discussed in note 1(d)(xvii).

The accounting policies set out below have been applied consistently to all periods presented in the financial report.

The financial statements have been prepared on a going concern basis.

The Group incurred a consolidated net loss for the year of \$4,841,174 (2017: \$3,048,655) and had a consolidated cash outflow from operations of \$3,843,407 (2017: \$1,438,903). At 30 June 2018, the Group has net current assets of \$1,550,511 (2017: \$1,440,053). The Group has cash of \$1,088,416 at 30 June 2018 (2017: \$1,298,430), which, along with projected cash flows from ore sales, is sufficient to meet its operating costs for at least the next 12 months.

Cash flow forecasts prepared by management demonstrate that the Group has sufficient funds to meet commitments over the next twelve months. For this reason, the financial statements have been prepared on the basis that the Group is a going concern, which contemplates normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) Statement of Compliance**

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Accounting Interpretations) issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities.

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

**(d) Summary of Significant Accounting Policies**

**(i) Foreign Currency Translation**

The financial report is presented in Australian dollars, which is Hawthorn Resources Limited's functional and presentation currency.

**(ii) Foreign Currency Transactions**

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

**(iii) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

*Sale of goods*

Revenue is recognised when there has been a transfer of risks and rewards from the Group to an external party, no further processing is required by the Group, quality and quantity of the goods has been determined with reasonable accuracy, the selling price is fixed or determinable and collectability is probable. The point at which risk and rewards passes for the majority of the Group's commodity sales is when a contract for sale is entered into. If required, adjustments are made for variations in commodity price, assay or weight between the time of dispatch and the time of final settlement.

Gold sales are recognised based on the quantity and grade of the ore mined and processed at Saracen Mineral Holdings Ltd's ("Saracen") Carosue Dam Mill processing operation. The amount paid by Saracen is the amount billed, net of processing costs borne by Saracen.

*Interest*

Interest revenue is recognised as the interest accrues.

**(iv) Leases**

Operating lease payments are recognised as an expense in the Profit or Loss on a straight-line basis over the lease term.

**(v) Cash and Cash Equivalents**

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and short-term deposits whose maturity is within three months or less from the reporting date, net of bank overdrafts.

**(vi) Receivables**

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(vii) Impairment of Assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs.

When the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the asset or cash generating unit is impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

An assessment is also made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Profit or Loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**(viii) Income Tax**

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

Current tax is the expected tax payable on the taxable income for the period. The Company has not derived taxable income in either the current or previous period.

Deferred income tax is determined using the balance sheet method which calculates temporary differences on the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity and the same taxation authority.

Hawthorn Resources Limited (the 'head entity') and its wholly-owned Australian entities have formed an income tax consolidated group under the tax consolidation regime. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(ix) Other Taxes**

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

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

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

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

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

**(x) Plant and Equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses (see accounting policy (vii)).

Depreciation is charged to the Profit or Loss on a straight line basis over the estimated useful life of the assets. The estimated useful life of motor vehicles and plant and equipment is between 3 and 5 years.

The assets residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

**(xi) Exploration**

Exploration expenditure is capitalised for each separate area of interest where rights to tenure are current and:

- (a) such costs are expected to be recovered through successful development and exploitation or by sale; or
- (b) where activities in the area of interest have not yet reached a stage which permits reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing.

Ultimate recoupment of exploration expenditure carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas.

The carrying values of expenditures carried forward are reviewed for impairment at each reporting date when the facts, events or changes in circumstances indicate that the carrying value may be impaired. Accumulated expenditures are written off to the Profit or Loss to the extent to which they are considered to be impaired.

The key points that are considered in this review include:

- planned drilling programs and data evaluation;
- environmental issues that may impact the underlying tenements; and
- the estimated market value of assets at the review date.

Information used in the review process is rigorously tested to externally available information as appropriate.

The Company conducted an extensive review of its exploration areas of interest and identified four project areas that were deemed to be significant and current in terms of validating further exploration activity within the next twelve months, over and above the expenditure requirements to maintain the tenements in good standing. In addition, the Company has other areas of interests, classified as a lower priority over the next twelve months. These lower priority areas of interests have been fully impaired in the current year.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(xii) Development and mining operations**

Development expenditure incurred by or on behalf of the Company is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of the mine and the related infrastructure. The TLMJV project is a pre-existing open-cut mine. Therefore, the development decision and the mining decision was effectively made at the same time, with some initial development and stripping undertaken to confirm the operation. These costs were capitalised and all of the accumulated exploration and development costs classified into mining assets when it was deemed the mine was capable of operating in the manner intended by management. Amortisation is charged to using the units-of-production basis results in an amortisation charge proportional to the depletion of proved, probable and estimated reserves. Development properties are tested for impairment in accordance with the policy of impairment of assets.

**(xiii) Joint Operations**

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Company has recognised its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications.

**(xiv) Trade and Other Payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**(xv) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the risks specific to the liability.

**(xvi) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds.



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(xvii) Critical Accounting Estimates and Judgments**

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

Management discussed with the Board the development, selection and disclosure of the Company's critical accounting policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

**(a) Key Estimates**

*(1) Ore reserve and resource estimate*

Ore reserves are estimates of the amount of product that can be economically and legally extractable from the Company's current mining tenements. The Company estimates its ore reserves based on information compiled by appropriately qualified persons able to interpret the geological data. The estimation of recoverable reserves is based on factors such as estimates of foreign exchange rates, commodity prices, future capital requirements and production costs, along with geological assumptions and judgements made in estimating the size and grade of the ore body. Changes in the reserve or resource estimates may impact on the value of exploration and evaluation assets, mine properties and amortisation charges.

*(2) Units of production amortisation*

Estimated recoverable reserves are used in determining the amortisation of mine specific assets. This results in an amortisation charge proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure. The Company adopts a Run of Mine tonnes of ore produced methodology. This involves using tonnes of ore processed to estimate remaining recoverable reserves and requires accurate measurement of ore processed, the ore grade and the recoverable reserves.

*(3) Impairment*

The Company assesses impairment of non-current assets (other financial assets, exploration expenditure and plant and equipment) at each reporting date by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Where indicators of impairment exist, recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions or fair value less costs to sell.

*(4) Land rehabilitation*

The Company makes provision for the rehabilitation of the land used in its mining operations. The provision is required to estimate the costs that the Company will incur to rehabilitate the land in the future. The quantum of the rehabilitation work is uncertain, and therefore the estimates are subject to a number of factors that can vary. These factors include of the costs of performing the work, the volume of land to be rehabilitated, regulatory changes, technological changes and discounting factors.

**(b) Key Judgments**

*(1) Exploration and Evaluation Expenditure*

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off to profit or loss in the period when the new information becomes available.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(xviii) Principles of Consolidation**

*Subsidiaries*

The consolidated financial statements comprise the assets, liabilities and results of the Company, and the entities it controlled at the end of, or during, the financial year. The company and its controlled entities together are referred to in this financial report as the Company or Group.

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

The balances and effects of transactions between entities in the Group have been eliminated. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The accounting policies adopted in preparing the financial statements have been consistently applied by all entities in the Company.

The acquisition of Ellendale Resources NL ("Ellendale") on 10 June 2008 was treated as a reverse acquisition in accordance with AASB 3 "Business Combinations" whereby Ellendale is considered the accounting acquirer on the basis that Ellendale is the controlling entity in the transaction. As a result, Ellendale is the continuing entity for consolidated accounting purposes and the legal parent, Hawthorn Resources Limited, is the accounting subsidiary.

Investments in subsidiaries are accounted for at cost or recoverable amounts in the individual financial statements of Hawthorn Resources Limited.

**(e) Financial Risk Management**

The Company's principal financial instruments comprise receivables, payables, cash and term deposits. These instruments expose the Company to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk.

Although the Company does not have documented policies and procedures, Management manages the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate risk and by being aware of market forecasts for interest rate and commodity prices. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk, and liquidity risk is monitored through general business budgets and forecasts.

Further detail on Financial Risk Management is set out in Note 21.

**(f) Capital Management**

The Company's policy in relation to capital management is for management to regularly and consistently monitor future cash flows against expected expenditures. The Board determines the Company's need for additional funding by way of either share placements or loan funds depending on market conditions at the time. Management defines working capital in such circumstances as its excess liquid funds over liabilities and defines capital as being the ordinary share capital of the Company.

There were no changes in the Company's approach to capital management during the year.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Impact of Adopting New Accounting Standards and Accounting Standards Not Yet Effective**  
**New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

*AASB 9: Financial Instruments and associated amending standards (applicable to annual reporting periods beginning on or after 1 January 2018).*

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting. The key changes include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. The financial assets and liabilities of the Company consist of cash, receivables and payables. Therefore, the directors do not expect a material impact on transition to AASB 9.

*AASB 15: Revenue from Contracts with Customers and associated amending standards (applicable to annual reporting periods beginning on or after 1 January 2018 as further amended by AASB 2017-8).*

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers. The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the performance obligation is satisfied.

The Company does anticipate a material impact on the transition to AASB 15.

*AASB 16: Leases (applicable to annual reporting periods beginning on or after 1 January 2019)*

When effective, this standard will replace the current accounting requirements applicable to leases in AASB 117 and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new standard include:

- Recognition of a right-to-use asset and liability for all leases (excluding short term leases with less than 12 months of tenure and leases relating to low value assets);
- Depreciation of right-to-use assets in-line with AASB 116 Property, plant and equipment in profit or loss and unwinding of the liability in principal and interest components;
- Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- By applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account all components as a lease; and
- Additional disclosure requirements.

The directors expect that the adoption of AASB 16 will result in lease assets and liabilities being recognised on balance sheet and a change in how related expenses are incurred. The impact is not expected to have a material impact on transition to AASB 16.

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**2. OPERATING SEGMENTS**

The Company has adopted AASB 8 Operating Segments whereby segment information is presented using a “management approach”. Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Company operates predominately in one geographical location. The Company does not have any operating segments with discrete financial information. The Company does not have any customers outside Australia, and all the Company’s assets and liabilities are located within Australia.

The Board of Directors review internal management reports at regular intervals that are consistent with the information provided in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Financial Position and Consolidated Statement of Cash Flows. As a result no reconciliation is required because the information as presented is what is used by the Board of Directors to make strategic decision including assessing performance and in determining the allocation of resources.

**3. REVENUE**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Ore sales	17,316,713	-
Interest	22,440	70,669
Total revenue	17,339,153	70,669

**4. EXPENSES**

Loss before income tax expense includes the following expenses whose disclosure is relevant in explaining the performance of the Company:

(ii) Director expenses		
Salaries	309,192	287,000
Superannuation	20,823	18,715
Consulting fees	17,250	25,500
Total Director expenses	347,265	331,215
(iii) Unrealised gain/(loss) on foreign exchange	-	(149)
(iv) Fully serviced office rental expense	190,000	215,000
(v) Impairment of exploration expenditure	183,163	1,632,431
(vi) Write off of exploration expenditure	293,628	312,118
(ii) Mining costs		
Processing costs	8,505,139	-
Mine management and contract services	7,408,523	-
Camp costs	829,784	-
Amortisation	1,540,273	-
Decision to mine payment	733,950	-
Impairment *	792,414	-
Other expenses	857,816	-
Total mining costs	20,667,899	-

\* impairment upon transfer of exploration expenditure into development and mining

**5. TAXATION**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Income tax recognised in profit or loss</b>		
<b>Tax expense comprises:</b>		
Current tax benefit	(1,331,323)	(914,597)
Deferred tax expense relating to the origination and reversal of temporary differences	27,510	96,342
Tax losses not recognised	1,303,813	818,255
	<hr/>	<hr/>
Income tax expense	-	-

**The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:**

Loss from operations	(4,841,174)	(3,048,655)
Income tax expense at 27.5% (2017: 30%)	(1,331,323)	(914,597)
Non-deductible expenditure	272,028	609,617
Capital expenditure deduction	(180,982)	(465,872)
Decline of value of depreciating assets	(2,070)	(5,661)
Allowable deductions	(61,466)	(41,742)
Tax losses not recognised	1,303,813	818,255
	<hr/>	<hr/>
Income tax expense	-	-

**(b) Deferred tax assets and liabilities**

**Deferred tax liability comprises:**

Exploration costs	2,645,422	(2,831,517)
Amounts not recognised due to offset of deferred tax assets (detailed below)	(2,645,422)	2,831,517
	<hr/>	<hr/>
	-	-

**Deferred tax asset comprises:**

Investments	531,383	579,690
Accruals and payables	7,574	27,900
Employee entitlements	35,475	10,391
Blackhole expenditure	105,465	-
Tax Losses utilised to offset remaining DTL	1,869,733	2,213,536
Provisions	95,792	-
	<hr/>	<hr/>
	2,645,422	2,831,517

Tax Loss amounts where benefit not recognised (potential benefit of 27.5%) \*

30,267,668	23,312,998
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Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**5. TAXATION (continued)**

\*At 10 June 2008, the Company formed a tax consolidated group. These losses relate predominately to transferred losses incurred pre-tax consolidation. These losses are subject to further review by the Company to determine if they satisfy the necessary legislative requirements under the income tax legislation for the carry forward and recoupment of tax losses. Additionally, a deferred tax asset has not been recognised in respect of these items because at this stage of the Company's development, it is not currently considered probable that future taxable profits will exceed the value of the gross value of the deferred tax assets available to the Company. This is due to the uncertainties and risks associated with estimating economic benefits arising from the Trouser Legs Mining Joint Venture, due to the risk factors discussed in note 1(d)(xvii).

**6. EARNINGS PER SHARE**

**Basic and diluted earnings per share**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>

Basic and diluted earnings per share is calculated as follows:

Loss for the year	(4,841,174)	(3,048,655)
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	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares at the end of the financial year	290,646,471	171,263,644
Basic/Diluted Loss Per Share (cents)	(1.666)	(1.780)

There were no outstanding options at the reporting date (30 June 2017: NIL).

**7. CASH AND CASH EQUIVALENTS**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Cash at bank	728,132	490,483
Term deposits	360,284	807,947
Total Cash and Cash Equivalents	1,088,416	1,298,430

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**8. TRADE AND OTHER RECEIVABLES**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT</b>		
Trade receivables (i)	5,640,083	-
Accrued revenue (ii)	1,250,000	-
Other receivables (iii)	47,328	491,647
	<b>6,937,411</b>	<b>491,647</b>

- (i) Trade receivables relate to ore sales to Saracen Mining. All amounts are billed and due in accordance with the Ore Sale and Purchase Agreement. Under the agreement all amounts disputed due to ore quality are settled through an independent umpire. The Agreement deals with the processing of ore by Saracen and includes a discount on processing costs that is repayable to Saracen. As a result, the trade receivables balance represents a 'rolling balance' made up of initial sales invoices, payments, adjusting sales invoices, processing cost offsets and discounts. Consequently, there is no aged debtors listing. At 30 June 2018 the balance of trade receivables is not considered impaired.
- (ii) Accrued revenue relates to ore supplied to Saracen Mining but not yet invoiced. The final amount invoiced is subject to adjustment based on ore quality.
- (iii) Other debtors relate to GST and sundry debtors. In 2017 the other debtors included an amount of \$451,771 due from the joint venture operation. The joint venture operation is now a controlled entity.

**9. EXPLORATION EXPENDITURE**

Areas in the exploration phase		
At cost	<b>5,892,921</b>	<b>9,438,389</b>

Movement in the carrying value of exploration expenditure during the year was:

Opening balance at 1 July	<b>9,438,389</b>	<b>9,830,031</b>
Costs incurred during the year	<b>658,116</b>	<b>1,552,907</b>
Transfer to mining development assets (i)	<b>(3,726,793)</b>	<b>-</b>
Exploration expenditure written off during the year	<b>(293,628)</b>	<b>(312,118)</b>
Exploration expenditure impaired during the year (ii)	<b>(183,163)</b>	<b>(1,632,431)</b>
Balance at 30 June	<b>5,892,921</b>	<b>9,438,389</b>

- (i) During the year the company developed mining operations at the Trouser Legs Mining Joint Venture operations, and in accordance with AASB 6 transferred all costs incurred into mining and development assets.
- (ii) Impairment is estimated based on estimates made at year end. See Note 1(d)(xvii) for estimates and judgements made in relation to exploration and evaluation assets.

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**10. DEVELOPMENT AND MINING ASSETS**

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Areas in the mining phase		
At cost	5,811,854	-
Movement in the carrying value of development and mining assets during the year was:		
Opening balance at 1 July	-	-
Transfer from exploration and evaluation assets (i)	3,726,793	-
Costs incurred during the year (ii)	4,417,748	-
Amortisation during the year (iii)	(1,540,273)	-
Development expenditure impaired during the year (iv)	(792,414)	-
Balance at 30 June	5,811,854	-

- (i) Exploration and evaluation expenditure previously expended on the Area of Interest has been transferred to mining and development assets. At the point of transfer the amount was impairment tested.
- (ii) Costs incurred on mining operations are capitalised.
- (iii) Costs transferred and capitalised are amortised on the unit-of-production method.
- (iv) Development expenditure is expensed to the extent that future ore resources support the carrying value of the development assets.

**11. PLANT AND EQUIPMENT**

Plant, equipment and motor vehicles		
Cost balance at 1 July	155,830	130,528
Acquisitions	-	25,302
Balance at 30 June	155,830	155,830
Accumulated depreciation		
Balance at 1 July	133,238	114,369
Depreciation charge for the year	7,528	18,869
Balance at 30 June	140,766	133,238
Carrying amounts		
At 1 July	22,592	16,169
At 30 June	15,064	22,592



Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

	Consolidated	
	2018 \$	2017 \$
<b>12. TRADE AND OTHER PAYABLES</b>		
Trade and other payables	4,955,045	311,388
Production discount (i)	1,144,396	-
Payables and accrued expenses	6,099,441	311,388

(i) *The Joint Venture production arrangements include a production discount to assist the company's initial operational cash flows. The discount will be billed out of future production output. The amount is expected to be settled within one year and is not interest bearing.*

**13. PROVISIONS**

Employee entitlements	27,541	34,636
Land rehabilitation	348,334	-
Provisions	375,875	34,636
<i>Reconciliation of Land Rehabilitation provision</i>		
Opening balance	-	-
Provision made in the year	348,334	-
Closing balance	348,334	-

**14. CONTRIBUTED EQUITY**

	Consolidated	
	2018 \$	2017 \$
Ordinary shares	61,615,314	56,094,619

	2018 No. of Shares	2017 No. of Shares
Ordinary shares	321,265,613	171,263,644

The reconciliation of opening and closing equity is as follows:

	Consolidated	
	2018 No. of shares	2018 \$
Balance at 1 July 2017	171,263,644	56,094,619
Issued September 2017 for cash pursuant to non-renewable rights issues (at 4 cents per share)	150,001,969	6,000,079
Costs of issuing shares	-	(479,384)
At 30 June 2018	321,265,613	61,615,314

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**14. CONTRIBUTED EQUITY (continued)**

**Terms and Conditions of Issued Capital**

*Ordinary Shares (quoted): HAW*

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 winding up of the Company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

**15. NON-CONTROLLING INTERESTS**

Hawthorn Resources Limited has a 70% equity interest in the Trouser Legs Mining Joint Venture ("TLMJV") Project with GEL Resources Pty Ltd holding a 30% interest. As Hawthorn is deemed to control the operation it has accordingly consolidated in full the TLMJV Project assets and liabilities, plus income and expenditure, with the interest GEL holds being represented in the financial accounts as a non-controlling interest.

The movement in GEL's non-controlling interest during the year ended 30 June 2018 is shown below and is represented by contributed equity and adjusted for its share of the Joint Venture loss for the period.

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Contributed equity – cash calls	1,685,795	-
Share of losses for the year	(577,454)	-
At 30 June 2017	1,108,341	-

**16. INTEREST IN JOINT OPERATIONS**

	<u>2018</u>	<u>2017</u>
The Company has an interest in the following joint operation:		
Edjudina – Pinjin (Westgold Resources Limited)	80%	80%
Trouser Legs (Gel Resources Pty Limited) (i)	-	70%
Mt Bevan (Legacy Iron Ore Limited)	40%	40%

Notes:

(i) Edjudina – Pinjin: Westgold Resources Limited has a non-contributory 20% interest that is free carried to decision to mine;

(ii) Trouser Legs Project: The interests in the Project were converted into a controlled entity during the year and its assets and liabilities consolidated fully;

(iii) Mt Bevan: Whilst the Company's financial/contributing interest in the joint venture is 40 % the Company and Legacy Iron Ore Limited share management decision making on a 50/50 basis.

The principal activity of these joint ventures is mineral exploration all of which are located within Australia.

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**16. INTEREST IN JOINT OPERATIONS (continued)**

The Company's interest in this project is included in exploration expenditure (Note 9).

Included in the assets and liabilities of the Company are the following assets and liabilities employed in the joint operations:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Assets		
Exploration expenditure	3,402,610	7,051,568
Total Assets	3,402,610	7,051,568
Liabilities		
Trade and other payables	59,000	59,000
Total Liabilities	59,000	59,000

Included in the Company commitments (note 18) are the following commitments in relation to the joint ventures:

Exploration		
Not later than 1 year	354,810	354,810
Later than one year but not later than five years	1,419,240	1,039,840
More than five years	2,130,720	2,068,400
Total	3,904,770	3,463,050

**17. RECONCILIATION OF LOSS AFTER TAX TO NET CASH FROM OPERATING ACTIVITIES**

*(a) Reconciliation of loss after tax to net cash used in operating activities*

Loss for the year after tax	(4,841,174)	(3,048,655)
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*Adjustment for:*

Write off of exploration expenditure	293,628	312,118
Impairment of exploration expenditure	183,163	1,632,431
Impairment of development and mining expenditure	792,414	-
Unrealised (loss)/gain on foreign exchange	-	149
Depreciation	7,528	18,869

Net cash used in operating activities before change in assets and liabilities	(3,564,441)	(1,085,088)
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Change in assets and liabilities:		
Decrease/(increase) in receivables and other assets	(6,445,764)	(380,706)
Increase/(decrease) in trade and other payables	5,825,559	(1,609)
Increase/(decrease) in provisions	341,239	28,500

Net cash used in operating activities	(3,843,407)	(1,438,903)
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*(b) Reconciliation of cash*

For the purpose of the Consolidated Statement of Cash Flows, cash includes cash on hand and in banks (refer to Note 7).

*(c) Non-cash financing and investing activities*

During the year, there was no non-cash financing or investing activities (2017: Nil).

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**18. COMMITMENTS**

*(a) Exploration*

The Company has to perform minimum exploration work and expend minimum amounts of money on its tenements. The overall expenditure requirement tends to be limited in the normal course of the Company's tenement portfolio management through expenditure exemption approvals and expenditure reductions through relinquishment of parts or the whole of tenements deemed non prospective.

Should the Company wish to preserve interests in its current tenements the amount which may be required to be expended is as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Not later than one year	1,045,410	1,009,810
Later than one year but not later than five years	4,501,640	1,920,840
More than five years	4,268,320	2,571,800
	<b>9,815,370</b>	<b>5,502,450</b>

The terms and conditions under which the Company has title to its various mining tenements oblige it to meet tenement rentals and minimum levels of exploration expenditure as gazetted by the Department of Industry and Resources of Western Australia, as well as Local Government rates and taxes.

The "More than five years" component represents commitments of up to sixteen years in respect of mining licences which are granted for a period of twenty one years, but in common with prospecting licences and exploration licences they may be relinquished or sold by the Company before the expiry of the full term of the licence.

*(b) Operating Leases*

The company's lease for its principal place of business expired on 31 December 2017 and thereafter the company has leased the premises on a month to month basis.

Not later than one year	-	95,000
Later than one year but not later than five years	-	-
More than five years	-	-
	<b>-</b>	<b>95,000</b>

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**19. RELATED PARTIES**

**(a) Key Management Personnel Disclosures**

The key management personnel for the Company during the year are set out as follows:-

Directors

Mark G Kerr – Chairman and Managing Director	(Appointed 22 November 2007)
Christopher D Corrigan – Non-Executive Director	(Appointed 5 October 2017)
David S Tyrwhitt – Non Executive Director	(Appointed 14 November 1996)
Liao, Yongzhong – Non Executive Director	(Appointed 30 October 2012)
Li, Yijie – Non Executive Director	(Appointed 30 October 2012)
Liu, Zhensheng – Non Executive Director	(Appointed 9 December 2015)
Mourice Garbutt – Company Secretary	(Appointed 5 May 2008)

The key management personnel compensation is as follows:

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	326,442	312,500
Post-employment benefits	20,823	18,715
	<b>347,265</b>	<b>331,215</b>

In addition to the above disclosed remuneration, \$190,000 (2017: \$215,000) was paid to Berkeley Consultants Pty Ltd during the year for serviced office facilities. As noted, Berkeley Consultants Pty Ltd is an entity in which Mr. M Kerr has a material personal interest in the transactions through his interests in Berkeley Consultants Pty Ltd.

During the year the Company paid consulting fees totalling \$13,936 (2017: \$4,109) to Public Relations Exchange, an entity controlled by a related party of Mr. M Kerr.

K R Corporate Compliance Pty Ltd., a company related to and controlled by Mr Garbutt, has provided corporate secretarial, compliance and support services to the Hawthorn Resources Limited group for which it was paid fees of \$142,076 (2017: \$140,313).

At year end, no balance was outstanding (2017: NIL).

**(b) Wholly Owned Group Transactions**

During the year there were no transactions with controlled entities, other than movements in the respective inter-company loan accounts.

As at 30 June 2018, Hawthorn Resources Limited loan balances with its subsidiary companies were:

Payable to Ellendale Resources Pty Ltd	\$516,806 (2017: \$517,314)
Receivable from Northern Resources Australia Pty Ltd	\$261,290 (2017: \$261,036)
Receivable from Trouser Leg Mining Joint Venture	\$127,026 (2017: \$nil)

As at 30 June 2018, Ellendale Resources Pty Ltd loan balances with its subsidiary companies were:

Payable to Sunderland Pty Ltd	\$477,954 (2017: \$478,208)
Receivable from Northern Resources Australia Pty Ltd	\$140,738 (2017: \$140,738)

All loan balances have been provided on an interest free basis and have no fixed repayment date.

Movements in loan account during the year relate to payment of expenses. Expenses paid and charged through the loan accounts during the year relate to exploration, tenement costs and company administration expenses.

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

**20. CONSOLIDATED ENTITIES**

Name	Country of Incorporation	Ordinary Share	
		Consolidated Equity Interest	
		2018	2017
		%	%
<b>Parent entity</b>			
Hawthorn Resources Limited	Australia		
<b>Controlled entities</b>			
Ellendale Resources Pty Limited	Australia	100%	100%
Sunderland Pty Ltd *	Australia	100%	100%
Northern Resources Australia Pty Ltd *	Australia	100%	100%
Trouser Leg Mining Joint Venture**	Australia	70%	-

\* Sunderland Pty Ltd and Northern Resources Australia Pty Ltd are non-operating 100% owned subsidiaries of Ellendale Resources Pty Ltd.

\*\* Trouser Legs Mining Joint Venture is an unincorporated joint venture, set up upon a decision to mine within the joint venture exploration tenements.

**21. FINANCIAL RISK MANAGEMENT**

The Group's operations expose it to various financial risks including market, credit, liquidity and price risks. Risk management programmes and policies are employed to mitigate the potential adverse effects of these exposures on the results of the Group.

Financial risk management is carried out by the Board on a regular basis by reviewing current and potential sources of funding, cash flow and operating/capital expenditure forecasts, and the Company's investment profile, to manage market, credit, liquidity and price risk.

**(a) Market Risk**

**Foreign Exchange Risk**

Foreign currency risk is the risk of exposure to transactions that are denominated in a currency other than the Australian dollar.

The Group's operations are currently solely within Australia, and therefore are not exposed to any material foreign exchange risk.

**Interest Rate Risk**

Interest rate risk, is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates. Fluctuations in interest rates will not have any material risk exposure to the cash held in bank deposits at variable rates.

The Company's exposure to market interest rates relates primarily to the Company's short term cash deposits held.

**Sensitivity Analysis on Cash and Cash Equivalents**

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the average monthly closing balances. A 100 basis point increase or decrease is used when reporting interest rate risk internally and represents Management's assessment of the possible change in interest rates.

At the reporting date, if interest rates had been 100 basis points higher or lower and all other variables held constant, the Company's net result and net assets would increase by \$33,019 (2017: \$26,028) and decrease by \$33,019 (2017: \$26,028). This is mainly attributable to the Company's exposure to interest rates on its cash and cash equivalents.

## 21. FINANCIAL RISK MANAGEMENT (continued)

### (b) Credit Risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions. For banks and financial institutions, only major Australian banking institutions are used. For customers, individual risk limits are set based on internal or external ratings in accordance with limits set by the Board.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets (refer Notes 7 and 8). The Company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Company and cash assets are held with large Australian banks.

### (c) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Company does not have any committed credit lines. As at the reporting date, the Company has no significant liquidity risk, as available cash assets significantly exceed amounts payable.

### (d) Price Risk

The Company's revenue is derived from the sale of gold ore and is therefore impacted by fluctuations in the price of gold. The gold price is quoted in US dollars and as a result the Company's price risk is impacted by fluctuations in the exchange rate between the US and Australian dollars. The Company is limited in its ability to mitigate price risk as it is a new producer with little history of production, and limited financial resources to engage in forward contracts.

Whilst price risk is a risk facing the Company's future economic returns price risk does not impact any of the Company's financial assets at 30 June 2018.

### (e) Maturities of Financial Liabilities

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

#### Group – 30 June 2018

	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 - 5 years</i>	<i>5 + Years</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Non-Interest Bearing	(4,955,045)	(1,144,396)	-	-	(6,099,441)

#### Group - 30 June 2017

	<i>Less than 3 months</i>	<i>3 months to 1 year</i>	<i>1 - 5 years</i>	<i>5 + Years</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Non-Interest Bearing	(311,388)	-	-	-	(311,388)

**21. FINANCIAL RISK MANAGEMENT (continued)**

**(f) Net Fair Values**

The net fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value at the reporting date of financial assets and financial liabilities, such as receivables and payables, are assumed to approximate fair values due to their short term nature. For other financial assets, such as financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset.

The financial instruments recognised at fair value in the Consolidated Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

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

All financial instruments recognised at fair value at 30 June 2018 have been classified within Level 1, and relate to listed investments. The fair value of these financial assets has been based on the closing quoted bid prices at the end of the reporting period, excluding transaction costs.

**22. EVENTS AFTER THE BALANCE DATE**

Other than matters reported elsewhere in this Report there has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

**23. REMUNERATION OF AUDITORS**

The auditor of Hawthorn Resources Limited is BDO East Coast Partnership.

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Amounts received or due and receivable by BDO for:		
An audit and review of the financial report of the Company and any other companies in the consolidated group	53,010	51,495



Hawthorn Resources Limited  
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**24. PARENT ENTITY INFORMATION**

As at, and throughout the financial year ended 30 June 2018, the parent entity of the Group was Hawthorn Resources Limited.

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Current assets	941,774	1,792,380
Non-current assets	13,823,815	9,717,259
Total assets	14,765,589	11,509,567
Current liabilities	217,676	346,024
Non-current liabilities	255,516	256,278
Total liabilities	473,192	602,302
Net assets	14,292,397	10,907,265
Issued Capital	113,349,604	107,828,909
Accumulated Losses	(99,057,207)	(96,921,644)
Total equity	14,292,397	10,907,265
Loss of the parent entity	(2,135,563)	(3,048,655)
Comprehensive loss of the parent entity	(2,135,563)	(3,048,655)

The parent company has not provided any guarantees for its subsidiaries, nor does it have any contingent liabilities or contractual commitments to purchase plant and equipment. This is consistent with prior years.

**25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

There were no contingent liabilities and contingent assets in existence at 30 June 2018.

Hawthorn Resources Limited  
Notes to the Consolidated Financial Statements for the year ended 30 June 2018

In the directors' opinion:

- (a) the financial statements and notes set out on pages 15 to 40 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance, for the financial year ended on that date; and
- (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;
- (c) the financial report also complies with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as disclosed in Note 1 (c); and
- (d) the audited Remuneration Report set out on pages 9 to 12 of the Directors' Report is in accordance with the *Corporations Act 2001*.

The directors have been given declarations, as required by section 295A of the *Corporations Act 2001*, by the chief executive officer and the chief financial officer for the financial year ended 30 June 2018.

Signed in accordance with a Resolution of the Board of Directors at Melbourne this 28<sup>th</sup> day of September 2018.



M G Kerr  
Chairman

## INDEPENDENT AUDITOR'S REPORT

To the members of Hawthorn Resources Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Hawthorn Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### 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.

### *Recoverability of exploration expenditure*

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The company has incurred significant exploration expenditure which have been capitalised. As the carrying value of exploration expenditure represents a significant asset of the company, we considered it necessary to assess whether facts and circumstances existed to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i> contains detailed requirements with respect to both the initial recognition of such assets and ongoing requirements to continue to carry forward the assets.</p> <p>Note 1 to the financial statements contains the accounting policy and note 9 disclosures in relation to exploration expenditure.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Obtaining evidence that the Group has valid rights to explore in the areas represented by the capitalised exploration expenditure</li> <li>• Confirming whether the rights to tenure of the areas of interest remained current at the reporting date as well as confirming that rights to tenure are expected to be renewed</li> <li>• Reviewing the directors' assessment of the carrying value of the exploration and evaluation costs, ensuring that management have considered the effect of impairment indicators, commodity prices and the stage of the Group's project</li> <li>• Reviewing budgets and challenging assumptions made by the entity to ensure that substantive expenditure on further exploration for and evaluation of the mineral resources in the areas of interest were planned</li> <li>• Reviewing ASX announcements and minutes of directors' meetings to ensure that the company had not decided to discontinue activities in any of its areas of interest.</li> </ul>

### *Accounting for development and mining assets*

<b>Key audit matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Group's carrying value of development and mining assets is impacted by key accounting estimates and judgements, in particular the following:</p> <ul style="list-style-type: none"> <li>• Estimated ore reserves</li> <li>• Forecast production costs</li> <li>• Amortisation rates</li> </ul>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• Evaluating the Group's amortisation policy in accordance with the Australian Accounting Standards and relevant accounting interpretations</li> <li>• Agreeing the inputs including the ore reserve estimates of ounces of gold produced during the year and forecast</li> </ul>

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Furthermore, as the carrying value of development and mining assets represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>Note 1 to the financial statements contains the accounting policy and note 10 disclosures in relation to development and mining assets.</p>	<p>production costs that were used in the calculation of the amortisation rates to supporting documentation</p> <ul style="list-style-type: none"> <li>• Testing the mathematical accuracy and application of the amortisation rate applied to the carrying values of mine property in commercial production by recalculating amortisation for the year</li> <li>• Review Board minutes and ASX announcements to confirm mine has entered commercial production</li> <li>• Assessing the competency and objectivity of the expert used by management in preparation of the ore reserve report; and</li> <li>• Evaluating whether there were any indicators of impairment under the Australian Accounting Standard.</li> </ul>

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

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

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

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

## Responsibilities of the directors for the Financial Report

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



In preparing the financial report, the directors are responsible for assessing the 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 has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the Financial Report**

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

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

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

#### **Report on the Remuneration Report**

##### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Hawthorn Resources Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

##### **Responsibilities**

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

##### **BDO East Coast Partnership**

A handwritten signature in black ink, appearing to read 'James Mooney', is written over a faint, stylized 'BDO' logo.

James Mooney  
Partner

Melbourne, 28 September 2018