# Montem Resources Limited

**ABN 87 623 236 831**

# Annual Report - 31 December 2019

| | |
|---|---|
| Directors | Mark Lochtenberg, Chairman (Appointed as Chairman on 13 February 2020) and Non-executive Director (Appointed 1 March 2019)<br>Peter Doyle, Managing Director<br>Rob Tindall, Non-executive Director<br>Susie Henderson, Non-executive Director<br>William Souter, Non-executive Director |
| Company secretary | Melanie Leydin |
| Registered office | Level 4, 100 Albert Road<br>South Melbourne VIC 3205 |
| Principal place of business | Level 4, 100 Albert Road<br>South Melbourne VIC 3205 |
| Auditor | William Buck<br>Level 20, 181 William Street<br>Melbourne VIC 3000 |
| Solicitors | Dentons Australia Pty Ltd<br>567 Collins Street<br>Melbourne VIC 3000<br><br>McLennan Ross<br>600 McLennan Ross Building<br>12220 Stony Plain Road<br>Edmonton, AB, Canada T5N 3Y4 |
| Bankers | National Australia Bank<br>800 Bourke Street<br>Docklands VIC 3008<br><br>BMO Bank of Montreal<br>595 Burrard Street<br>Vancouver BC Canada V7X1L7<br><br>Royal Bank of Canada<br>1025 West Georgia Street<br>Vancouver BC Canada V6E 3N9 |
| Website | www.montem-resources.com |

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Consolidated Entity') consisting of Montem Resources Limited (referred to hereafter as the 'Company' or 'Parent Entity') and the entities it controlled at the end of, or during, year ended 31 December 2019.

**Directors**
The following persons were Directors of Montem Resources Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mark Lochtenberg, Chairman (appointed as Chairman on 13 February 2020) and Non-executive Director (appointed 1 March 2019)
Peter Doyle, Managing Director and CEO
Rob Tindall, Non-executive Director
Susie Henderson, Non-executive Director
William Souter, Non-executive Director
Rob Yeates, Non-executive Chairman (resigned 13 February 2020)

**Company overview and principal activities**
Montem Resources (Company) is a coal mine development company with metallurgical coal properties in Canada, known as the Chinook Properties.

Montem Resources' immediate objective is to re-establish mining at the Tent Mountain Mine, whilst exploring and evaluating the development potential of the Chinook Project.

During the year ended 31 December 2019 the principal continuing activities of the Company was the exploration and development of coal tenements.

The Chinook Properties are located in the Crowsnest Pass, south-western Alberta, Canada, in a historic mining area. The Chinook Properties contain 209 million tonnes of in-place coal resources (JORC 2012), with four areas which have hosted previous open-cut and underground mining. The previously mined properties have had extensive exploration, and as brownfield developments, are significantly more advanced than greenfield properties.

The Company is focussed on re-establishing mining at the Tent Mountain Mine to produce steelmaking coal. Over the past two years the Company has completed extensive exploration and engineering studies, including a Feasibility Study on the Tent Mountain Mine Re-start Project. The Company requires additional licences to re-start open-cut mining at Tent Mountain, and applications for these licences are being prepared by the Company. The current schedule is for the Tent Mountain Mine to re-start in H2 2021.

The Company has also identified the potential for a large mining complex to be established at the Chinook Project. The Chinook Project combines Chinook South and Chinook Vicary. A Preliminary Economic Assessment (PEA) for the Chinook Project was undertaken in 2019. This study indicated Chinook contains large volumes of low-ratio steelmaking coal which is amenable to open-cut extraction. The Company plans to undertake further exploration and engineering studies at the Chinook Project in 2020.

**Dividends**
There were no dividends paid, recommended or declared during the current or previous financial year.

**Review of operations**
For the year ended 31 December 2019, loss for the Consolidated Entity after providing for income tax amounted to $3,305,949 (year ended 31 December 2018: $5,018,796).

The loss for the current period is consistent with the principal activities of the Company and its lack of revenue-generating activities.

**Environment, Health and Safety**

The Company's Board believes that all workplace injuries are avoidable. To that end, Montem Resources has adopted an overall environmental, health and safety policy. The detailed policies and procedures were written with the assistance of third-party expertise in the development of such policies for coal mining in Alberta and British Columbia. These tailored policies and procedures were in place for the 2019 field season.

During the 2019 field program, the Company conducted its operations in compliance with the relevant Albertan regulations for occupational health and safety for coal mining. The Company recorded no Loss Time Injuries and continues to operate without a Loss Time Injury since inception.

Directors specifically address Health, Safety and Environment issues at each Board meeting and are satisfied that there were no reported Lost Time Injuries or environmental incidents during the period.

Exploration and development activities require a variety of regulatory approvals as detailed in the applicable regulatory regime, including environment plans, safety procedures and the preparation of plans to manage the undertaking of the activities and the contractors engaged in undertaking such activities.

*Alberta Legislation*

In Alberta, coal projects are regulated by the Alberta Energy Regulator (AER) under the Environmental Protection and Enhancement Act (EPEA) and the Coal Conservation Act (CCA). The following Albertan environmental legislation apply to Montem Resources properties excluding the Tent Mountain Mine which retains an EPEA permit:

- Environmental Protection and Enhancement Act (EPEA)
- Coal Conservation Act
- Water Act
- Public Lands Act

*Canadian Federal Legislation*

Coal mining is typically an activity that requires the preparation and submission of an EIA (Environmental Impact Assessment) report as per Schedule 1 of the Environmental Assessment (Mandatory and Exempted Activities) Regulation. The following Canadian federal environmental legislation applies to the greenfield operations on the Montem Resources properties:

- Federal Impact Assessment Act, 2019

*Exploration and Mine Development*

Tent Mountain Mine

In 2019 the Company concentrated efforts planning the re-start of the Tent Mountain Mine.

Exploration continued, drilling 57 holes for ~7,000m, primarily for coking coal product definition, geotechnical evaluation and environmental monitoring (geochemical, hydrology and hydrogeology). The exploration provides the requisite information to complete the new JORC resource assessment for the Tent Mountain Mine, and to support mine planning for a Feasibility Study

Independent consultants delivered the Preliminary Feasibility Study for the Tent Mountain Mine which was presented to the Board in August. The study shows strong positive economic results, with the open-cut mine supporting ~1.2Mtpa production of hard coking coal for 15 years. The Company has also secured the land required for a rail siding adjacent to the Tent Mountain Mine on the CP rail line, negating the need to use provincial roads to transport coal, as well as the power and water supply to support the rapid re-start of the mine.

The Company has been undertaking environmental testing and monitoring since early-2018 to facilitate the various permit amendment applications the Company will submit to the AER. This environmental analysis includes surface water quality and groundwater monitoring, flora and fauna surveys, fisheries and aquatics surveys as well as cultural and archaeology studies. These surveys and studies, along with the significant environmental data collected by the mine operator form a key component in the Company's environmental assessment process which underpins the permit amendment process. The studies were completed in mid-2019, to facilitate the permit amendment application process in the first half of 2020 and to support definitive feasibility work.

*Exploration and Mine Development (continued)*

The mine plan and the application to amend the Company's permits and gain additional operating permits and licenses, are to be presented to the AER in early 2020.

A new JORC report for Tent Mountain Mine was received in late Q4 2019, with a 33% increase in in-situ resources, from 45Mt to 60Mt.

Initial results for the Feasibility Study for the Tent Mountain Mine were reported to the Company in late 2019. The results are closely in-line with the Preliminary Feasibility Study results, showing strong economics from an open-cut mine capable of producing ~1.2Mtpa. The Company is working with consultants to complete the final elements of the Feasibility Study, which will accompany applications to re-start the mine to the AER.

<u>Chinook Project</u>
In the middle of 2019, the Company commissioned an independent third-party consultant (Mining Plus) to complete a PEA of a large open-cut hard coking coal project in the Crowsnest Pass. That study defined the Chinook Project, with Mining Plus completing the PEA in Q4 2019. The results from the study are encouraging, with a large open-cut complex outlined, capable of producing 4.5Mtpa of hard coking coal. Exploration is planned on the Chinook Project in 2020.

*Corporate Activity*
Mark Lochtenberg joined the Board as Non-Executive Director in Q1 2019. Mark brings a wealth of experience operating at the highest levels of the global coal industry, having been the co-head of Glencore International AG’s worldwide coal division, where he spent 13 years overseeing a range of trading activities including the identification, due diligence, negotiation, acquisition and aggregation of their significant coal mine portfolio.

The Company opened a new operational headquarters in the Crowsnest Pass, Alberta in Q4 2019. The office provides a base for all of the Company's technical staff, as well as providing a Community Engagement Centre for meetings and events to introduce the Company and our projects to the local community.

**Financing activities**
<u>Convertible loan</u>
On 26 February 2019, the Company entered into a convertible loan arrangement with Regal Funds Management (“Regal”) for $1 million to provide immediate funds and allow time for shareholder approval for Regal to increase their shareholding above 20%. The loan was to be converted to equity, once shareholder approval was obtained for the lender (Regal Funds Management) to subscribe for $2.45 million.

On 5 April 2019 shareholder voted in favour of Regal Funds Management increasing their shareholding above 20%, and the loan agreement was discharged with the issuance of 9.8 million shares to Regal.

During the year ended 31 December 2019, the Company issued 4,335,000 convertible notes at an annual simple interest rate of 10%, raising $4,164,500, net of financing fees. The face value of each note is $1.00 with a maturity date (Maturity Date) of 31 December 2020. The convertible notes are convertible at the following prices:

- If there is an initial public offering event (IPO Conversion Event):
  - on or before 31 March 2020, the price is at a 20% discount to the issue price of shares to investors under the initial public offering (IPO).
  - between 1 April 2020 and 30 September 2020, the price is at a 30% discount to the issue price of shares to investors under the IPO.
  - after 30 September 2020 but before the Maturity Date, the price is at a 40% discount to the issue price of shares to investors under the IPO.
- If there is a change of control event other than through an IPO or the completion of a fundraising event (other than an IPO) which raises $10 million or more (Qualifying Financing Event), at a price pre-share as determined by the Company’s auditors.
- If on Maturity Date, at a price per share to be determined based on the value of the Company as determined by one of several professional accountants as selected by the Company, divided by the number of shares on issue immediately before the relevant event.

**Significant changes in the state of affairs**

In July 2019, the Company issued 175,097 options to a Director for no consideration with fair values of $0.10 to $0.11, and each with expiry dates from 12 January 2023 to 31 December 2024. In addition, the Company also issued 175,097 performance rights with fair value of $0.25.

In September 2019, the Company issued 3,000,000 performance rights under the terms of the Company's Employee Incentive Plan to the Managing Director and senior executives for no consideration with fair values from $0.11 to $0.13 each, all with an expiry date of 23 September 2022.

In September 2019, the Company issued 5,000,000 options to Directors and employees under the terms of the Company's Employee Incentive Plan. These options were issued with key milestones to align shareholder's interests with varying vesting dates. Exercise prices for these options range from $0.25 to $0.50, all with an expiry date of 23 September 2022. At 31 December 2019, 250,000 options with an exercise price of $0.25 lapsed due to not meeting the relevant milestone.

**Matters subsequent to the end of the financial year**

*Issuance of Convertible Notes*

Subsequent to 31 December 2019, the Company issued 860,000 convertible notes under the same terms as detailed Note 9 to the financial statement, at an annual simple interest rate of 10%, raising $860,000, net of financing fees. The face value of each note is $1.00 with a maturity date (Maturity Date) of 31 December 2020. A further 750,000 convertible notes were issued on 8 April 2020 in lieu of professional services on the same terms and conditions.

- If there is an initial public offering event (IPO Conversion Event):
  - on or before 31 March 2020, the price is at a 20% discount to the issue price of shares to investors under the initial public offering (IPO).
  - between 1 April 2020 and 30 September 2020, the price is at a 30% discount to the issue price of shares to investors under the IPO.
  - after 30 September 2020 but before the Maturity Date, the price is at a 40% discount to the issue price of shares to investors under the IPO.
- If there is a change of control event other than through an IPO or the completion of a fundraising event (other than an IPO) which raises $10 million or more (Qualifying Financing Event), at a price pre-share as determined by the Company's auditors.
- If on Maturity Date, at a price per share to be determined based on the value of the Company as determined by one of several professional accountants as selected by the Company, divided by the number of shares on issue immediately before the relevant event.

On 13 February 2020, Dr. Robert Yeates resigned from the Board as Non-executive Chairman and Mr. Mark Lochtenberg was elected Chairman in addition to his role as a Non-Executive Director. The Board of Directors and Management greatly appreciate the contribution made by Dr. Yeates to the Company at a critical time in its development.

Subsequent to 31 December 2019, 2,571,631 Options with varying exercise prices lapsed due to not meeting relevant milestones under the Option plan terms and conditions and 455,387 Performance Rights lapsed upon resignation of a Director.

In early 2020 the Company hired Morgans Corporate Limited as advisors to assist our preparation of an Initial Public Offering (IPO) on the Australian Stock Exchange (ASX). The Company has completed the majority of the preparation of the offer document (Prospectus) and had expected to undertake the IPO in the April/May period. Due to market volatility, primarily caused by COVID-19, the plans for the IPO have been postponed. It is likely the Company will undertake alternative fund raising in the April/May period, with the intention to undertake an IPO at a later date.

In addition, subsequent to the reporting date, in March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout North America. The spread of COVID-19 has caused significant volatility in North America and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19 and therefore the Company has taken precautionary measures by temporarily closing the Company's office and having arranged the employees work remotely, as well as curtailing travel. Management believes that this will allow efforts to continue the Feasibility Study and permitting activities. At the date of this report, the impact of these measures is not expected to significantly impact the completion of the Feasibility Study. However, as the circumstances continue to evolve, there may be disruptions to the Feasibility Study timeline if employees, consultants or their respective families are personally impacted by the COVID-19.

**Matters subsequent to the end of the financial year (continued)**

*Definitive Feasibility Study – Tent Mountain*

We are pleased to announce the results of the Definitive Feasibility Study (DFS) for the Tent Mountain Mine Re-start Project which was completed in April 2020. The release of the DFS includes the maiden reserve (JORC compliant) for the Tent Mountain Mine.

The Tent Mountain DFS results reinforce the Montem Resources business plan, as it shows a relatively rapid re-start to mining is feasible, and the project offers robust economics, providing strong cashflow for the Company.

The independent study was completed by a number of consultants, including: SRK Consulting Canada Inc. (mine planning and associated disciplines; reserve statement; DFS project management); Dahrouge Geological Consulting Ltd. (geology and resources); Sedgman Canada Limited (coal processing and infrastructure); A&B Mylec Pty Ltd (coal quality and CHPP performance); Matrix Solutions Inc. (environment, including water management); Morch Engineering & Hooper Engineering (rail); Diadem Group LTD. (transport and logistics); McLennan Ross LLP (tenement review); Lifeways of Canada Limited (Indigenous Peoples advisory); Kobie Koornhof & Associates Inc. (coal utilisation and pricing); Wood Mackenzie Ltd (coal markets); KPMG LLP (tax modelling).

| **Tent Mountain Mine – Definitive Feasibility Results** | |
|---|---|
| Coal Type | Hard coking coal (Tier 2) |
| Resource (JORC, 2020) | 60 Mt |
| Reserve (ROM) | 22 Mt |
| Reserve (Product) | 13 Mt |
| CHPP Yield (ROM to Saleable) | 60 % |
| Mining method | Open cut |
| Start mining | 2021 |
| Production (capacity) | 1.1 Mtpa |
| Mine Life (before reclamation) | 14 years |
| Strip Ratio (ROM bcm/t) | 8.8:1 |
| Capital required (first coal) | US$168M |
| Operating cost (FOB Westshore) | US$ 88/t |
| Project $NPV_8$ (pre-tax) | C$195M |
| IRR (pre-tax) | 20.6% |
| Project $NPV_8$ (post-tax) | C$129M |
| IRR (post-tax) | 17.3% |

These results are subject to assumptions and qualifications in the Tent Mountain Mine Feasibility Study.

*Rights Issue*

As of the date of this report, the Board have approved to undertake a Rights Issue to shareholders to raise additional working capital of up to $3,100,000 through the issuance of up to 20,000,000 new ordinary shares at $0.15 each. Details of the Rights Issue will be sent to all shareholders in due course.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

**Information on Directors**

| | |
|---|---|
| Name: | Mark Lochtenberg |
| Title: | Non-executive Director (Appointed 1 March 2019) and Chairman (Appointed on 13 February 2020) |
| Qualifications: | LLB (Hons) |
| Experience and expertise: | Mr Lochtenberg graduated with a Bachelor of Law (Hons) degree from Liverpool University, U.K. and has been actively involved in the coal industry for more than 30 years.<br><br>Mr Lochtenberg is the former Executive Chairman and founding Managing Director of ASX-listed Baralaba Coal Company Limited (formerly Cockatoo Coal Limited). He was a principal architect of Cockatoo’s inception and growth from an early-stage grassroots explorer through to an emerging mainstream coal producer.<br><br>Mr Lochtenberg was also formerly the co-head of Glencore International AG’s worldwide coal division, where he spent 13 years overseeing a range of trading activities including the identification, due diligence, negotiation, acquisition and aggregation of the coal project portfolio that would become Xstrata Coal.<br><br>Prior to this Mr Lochtenberg established a coal “swaps” market for Bain Refco, (Deutsche Bank) after having served as a senior coal trader for Hansen Neuerburg AG and as coal marketing manager for Peko Wallsend Limited.<br><br>Mr Lochtenberg has previously been a Director of ASX-listed Pacific American Coal Limited and Cumnock Coal Limited and of privately held United Collieries Pty Limited and is currently a Director of Australian Transport and Energy Corridor Pty Limited, (ATEC) and ASX-listed Nickel Mines Limited. |
| Special responsibilities: | Nil |

| | |
|---|---|
| Name: | Dr Robert Yeates |
| Title: | Non-executive Chairman (resigned 13 February 2020) |
| Qualifications: | B.E.(Mining) (Hons 1), MBA, Ph.D., FAusIMM (CP(Man)), FAICD, AIMVA (CMV) |
| Experience and expertise: | Mr Yeates is a mining engineer, with over 40 years of coal mining experience. He began his career with Peko Wallsend Ltd. working in a variety of roles including mining engineering, project management, mine management and marketing. He became General Manager Marketing for Oakbridge Ltd in 1989 following a merger with the Peko Wallsend coal businesses and went on to become Managing Director of Oakbridge, which was the largest coal mining company in NSW at that time, operating one open cut and five underground coal mines.<br><br>Mr Yeates has gained operating, business development and infrastructure experience as a director of Port Waratah Coal Services (Newcastle Port), Port Kembla Coal Terminal, Great Northern Mining Corporation NL and Cyprus Australia Coal and for the past 20 years has been principal of his own mine management consultancy, providing a wide range of technical, management and strategic planning services to the mining industry. Until 2014 he was also Project Director then CEO of Newcastle Coal Infrastructure Group (NCIG), which has developed and is operating Newcastle’s second largest coal export terminal.<br><br>Mr Yeates is a graduate of the University of NSW, completing a Bachelor of Engineering (Honours 1) in 1971 and a PhD in 1977 and then an MBA in 1986 from Newcastle University. |
| Special responsibilities: | Nil |

| | |
|---|---|
| Name: | Peter Doyle |
| Title: | Managing Director and Chief Executive Officer |
| Qualifications: | BSc (Geol), MBA |
| Experience and expertise: | Mr Doyle is a geologist with 25 years coal industry experience. Mr Doyle has worked in roles in exploration, planning, development, production, and management. Previous positions include VP Marketing and Business Development at Atrum Coal Ltd, Chief Operating Officer at Cockatoo Coal Ltd, VP Coal at Wood Mackenzie and Project Manager at Glencore (Xstrata Coal).<br><br>As well as having spent the first decade of his career working at coal mines in the Hunter Valley, Mr Doyle has worked in project development, marketing and management in the coal industries of China, USA, Mongolia, Russia and Europe. Mr Doyle has been involved in successful greenfield and brownfield coal mine developments, and managed coal mines selling to export metallurgical markets.<br><br>Mr Doyle was previously a Director at Wiggins Island Coal Terminal, and at ATEC Rail Group.<br><br>Mr Doyle has been based in Canada since 2014. Mr Doyle joined Montem Canada in 2017 and became Managing Director of the Company in January 2018.<br><br>Mr Doyle holds a Bachelor of Science (Geology), and MBA from Newcastle University. |
| Special responsibilities: | Nil |

| | |
|---|---|
| Name: | Mr Robert Tindall |
| Title: | Non-executive Director |
| Qualifications: | BA, M. Tax |
| Experience and expertise: | Mr Tindall has over 25 years of resources and finance experience and is the founder of Montem Resources.<br><br>Mr Tindall has been the founder of several resource companies including being the Co-Founder and Chairman of Origins, a bulk soft commodities business. Mr Tindall was previously the CEO of Transatlantic Mining Corporation. He is the principal of GTG Corporate and has extensive experience in funding a number of resource projects globally including coal projects in Australia.<br><br>Mr Tindall holds a Bachelor of Arts and a Master of Taxation Degree and is a Fellow of the Australian Institute of Company Directors.<br><br>Mr Tindall holds a Bachelor of Arts and Master of Taxation. |
| Special responsibilities: | Nil |

| | |
|---|---|
| Name: | Ms Susie Henderson |
| Title: | Non-executive Director |
| Qualifications: | BBus (Acct), CPA, GAICD. |
| Experience and expertise: | Ms Henderson is a management consultant with focus on infrastructure and mining. Ms Henderson is currently President North America for GHD Advisory, a global consulting firm.<br><br>Ms Henderson has over 20 years global experience in the field and is highly respected for her strong strategic positioning skills and has a background in operational and financial audit. She is also currently a committee member on the Global GHD Board finance committee Previous roles include GM – Strategic Infrastructure and Government Relations at Macarthur Coal Ltd, Executive Management with Aurizon (Coal) and Project Development Manager with London Underground.<br><br>She has worked across a wide range of industries and across a variety of jurisdictions in Canada, the United States, Latin America, South East Asia, England and Australia. Her areas of focus include government, mining/ resources, infrastructure/ logistics and energy. In addition to her degree in Accounting, Ms Henderson has completed the globally recognized and rigorous CPA® and AICD® Programs as well as being nominated for the EY Entrepreneur of the Year.<br><br>Ms Henderson is a Graduate of Australian Institute of Company Directors, a Certified Practicing Accountant and holds a Bachelor of Business. |
| Special responsibilities: | Nil |

| | |
|---|---|
| Name: | Mr Will Souter |
| Title: | Non-executive Director |
| Qualifications: | BCom, LLB (Adel), IPAA, Admitted to the Supreme Court of NSW, GAICD |
| Experience and expertise: | Mr Souter is a lawyer and investment banker with extensive global transaction and fundraising experience, particularly in the resource sector.<br><br>Mr Souter was previously Executive Director at RFC Ambrian.<br><br>Prior roles of Mr Souter include as a Director at PricewaterhouseCoopers, and at Minter Ellison Lawyers. |
| Special responsibilities: | Nil |

**Company secretary**
Ms Melanie Leydin, CA

Ms Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial profession and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.

**Meetings of Directors**
The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 31 December 2019, and the number of meetings attended by each Director were:

| | Full Board | |
|---|---|---|
| | **Attended** | **Held** |
| Rob Yeates | 12 | 12 |
| Peter Doyle | 12 | 12 |
| Rob Tindall | 12 | 12 |
| Susie Henderson | 9 | 12 |
| William Souter | 12 | 12 |
| Mark Lochtenberg | 10 | 10 |

Held: represents the number of meetings held during the time the Director held office.

### Shares under option

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

| Grant date | Expiry date | Exercise price | Number under option |
|---|---|---|---|
| 12/01/2018 | 12/01/2023 | $0.6300 | 1,736,472 |
| 12/01/2018 | 31/12/2023 | $0.7500 | 649,806 |
| 12/01/2018 | 31/12/2024 | $1.0000 | 649,806 |
| 31/01/2018 | 12/01/2023 | $0.6300 | 233,463 |
| 31/01/2018 | 12/01/2023 | $0.7500 | 233,463 |
| 31/01/2018 | 12/01/2023 | $1.0000 | 233,463 |
| 06/04/2018 | 12/01/2023 | $0.6300 | 116,732 |
| 06/04/2018 | 31/12/2023 | $0.7500 | 116,732 |
| 06/04/2018 | 31/12/2024 | $1.0000 | 116,730 |
| 08/07/2019 | 12/01/2023 | $0.6300 | 58,366 |
| 08/07/2019 | 31/12/2023 | $0.7500 | 58,366 |
| 08/07/2019 | 31/12/2024 | $1.0000 | 58,365 |
| 24/09/2019 | 23/09/2022 | $0.2500 | 2,000,000 |
| 24/09/2019 | 23/09/2022 | $0.5000 | 2,750,000 |
| | | | 9,011,764 |

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

### Shares under performance rights

Unissued ordinary shares of Montem Resources Limited under performance rights at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under rights |
|---|---|---|---|
| 01/06/2018 | 01/06/2023 | $0.0000 | 3,000,000 |
| 08/07/2019 | 01/06/2023 | $0.0000 | 175,097 |
| 24/09/2019 | 30/06/2023 | $0.0000 | 3,000,000 |
| | | | 6,175,097 |

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

### Shares issued on the exercise of options

There were no ordinary shares of Montem Resources Limited issued on the exercise of options during the year ended 31 December 2019 and up to the date of this report.

### Shares issued on the exercise of performance rights

There were no ordinary shares of Montem Resources Limited issued on the exercise of performance rights during the year ended 31 December 2019 and up to the date of this report.

### Indemnity and insurance of officers

The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**Indemnity and insurance of auditor**

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

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

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Directors' report.

This report is made in accordance with a resolution of the Board of Directors.

On behalf of the Directors

Mark Lochtenberg
Chairman

29 April 2020

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE MEMBERS OF MONTEM RESOURCES LIMITED**

I declare that, to the best of my knowledge and belief during the year ended 31 December 2019 there have been:

— no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

— no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck

**William Buck Audit (Vic) Pty Ltd**
ABN 59 116 151 136

**J. C. Luckins**
Director

Dated this 29th day of April, 2020

**ACCOUNTANTS & ADVISORS**
Level 20, 181 William Street
Melbourne VIC 3000
Telephone: +61 3 9824 8555
**williambuck.com**

**Montem Resources Limited**
**Statement of profit or loss and other comprehensive income**
**For the year ended 31 December 2019**

Montem Resources

| | Note | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|---|
| **Revenue** | | | |
| Other income | | 118,167 | - |
| Interest revenue calculated using the effective interest method | | 2,059 | 2,164 |
| | | | |
| **Expenses** | | | |
| Employee benefits expense | | (1,052,403) | (1,368,413) |
| Professional fees | | (317,422) | (327,998) |
| Share based payments | | (787,604) | (1,593,953) |
| Marketing and business development | | (71,742) | (247,933) |
| Corporate expenses | | (934,369) | (1,336,327) |
| Depreciation charges | | (38,662) | (37,189) |
| Financing costs | | (223,973) | (109,147) |
| | | | |
| **Loss before income tax expense** | | (3,305,949) | (5,018,796) |
| | | | |
| Income tax expense | 5 | - | - |
| | | | |
| **Loss after income tax expense for the year attributable to the owners of Montem Resources Limited** | | (3,305,949) | (5,018,796) |
| | | | |
| **Other comprehensive income** | | | |
| | | | |
| *Items that may be reclassified subsequently to profit or loss net of tax* | | | |
| Foreign currency translation | | 359,283 | 161,495 |
| | | | |
| Other comprehensive income for the year, net of tax | | 359,283 | 161,495 |
| | | | |
| **Total comprehensive loss for the year attributable to the owners of Montem Resources Limited** | | (2,946,666) | (4,857,301) |
| | | | |
| | | **Cents** | **Cents** |
| | | | |
| Basic earnings per share | 22 | (2.9196) | (7.2900) |
| Diluted earnings per share | 22 | (2.9196) | (7.2900) |

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Montem Resources Limited**
**Statement of financial position**
**As at 31 December 2019**

| | Note | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 1,430,751 | 1,601,349 |
| Accounts receivable | 6 | 333,115 | 83,650 |
| Deposits and advances | | 17,119 | 182,628 |
| Prepayments | | 25,857 | 47,493 |
| Total current assets | | 1,806,842 | 1,915,120 |
| **Non-current assets** | | | |
| Plant and equipment | | 752,806 | 52,830 |
| Right-of-use assets | 10 | 239,645 | - |
| Exploration and evaluation | 7 | 14,556,002 | 5,717,861 |
| Non-current deposits | | 675,610 | 185,411 |
| Total non-current assets | | 16,224,063 | 5,956,102 |
| **Total assets** | | 18,030,905 | 7,871,222 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 8 | 1,086,365 | 739,051 |
| Borrowings | 9 | 4,401,842 | 987,814 |
| Lease liability | 10 | 85,909 | - |
| Employee benefits | | 129,962 | 66,377 |
| Total current liabilities | | 5,704,078 | 1,793,242 |
| **Non-current liabilities** | | | |
| Lease liabilities | 10 | 162,581 | - |
| Total non-current liabilities | | 162,581 | - |
| **Total liabilities** | | 5,866,659 | 1,793,242 |
| **Net assets** | | 12,164,246 | 6,077,980 |
| **Equity** | | | |
| Issued capital | 11 | 22,430,473 | 14,560,004 |
| Reserves | 12 | 3,685,834 | 2,155,583 |
| Accumulated losses | | (13,952,061) | (10,637,607) |
| **Total equity** | | 12,164,246 | 6,077,980 |

*The above statement of financial position should be read in conjunction with the accompanying notes*

| | Issued capital $ | Foreign currency translation reserve $ | Common control reserve $ | Share based payments reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|---|---|
| Balance at 1 January 2018 | 8,438,006 | (48,393) | (3,761,190) | - | (1,857,621) | 2,770,802 |
| Loss after income tax expense for the year | - | - | - | - | (5,018,796) | (5,018,796) |
| Other comprehensive income for the year, net of tax | - | 161,495 | - | - | - | 161,495 |
| Total comprehensive loss for the year | - | 161,495 | - | - | (5,018,796) | (4,857,301) |
| *Transactions with owners in their capacity as owners:* | | | | | | |
| Contributions of equity, net of transaction costs (note 11) | 5,792,446 | - | - | - | - | 5,792,446 |
| Share-based payments (note 23) | 329,552 | - | - | 1,666,771 | - | 1,996,323 |
| Share-based payments - capitalised to exploration and evaluation assets | - | - | - | 375,710 | - | 375,710 |
| Transfer common control reserve to accumulated losses | - | - | 3,761,190 | - | (3,761,190) | - |
| Balance at 31 December 2018 | 14,560,004 | 113,102 | - | 2,042,481 | (10,637,607) | 6,077,980 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Montem Resources Limited**
**Statement of changes in equity**
**For the year ended 31 December 2019**

| | Issued capital $ | Foreign currency translation reserve $ | Common control reserve $ | Share based payments reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|---|---|
| Balance at 1 January 2019 | 14,560,004 | 113,102 | - | 2,042,481 | (10,637,607) | 6,077,980 |
| Adjustment for change in accounting policy (note 10) | - | - | - | - | (8,505) | (8,505) |
| Balance at 1 January 2019 - restated | 14,560,004 | 113,102 | - | 2,042,481 | (10,646,112) | 6,069,475 |
| Loss after income tax expense for the year | - | - | - | - | (3,305,949) | (3,305,949) |
| Other comprehensive income for the year, net of tax | - | 359,283 | - | - | - | 359,283 |
| Total comprehensive loss for the year | - | 359,283 | - | - | (3,305,949) | (2,946,666) |
| *Transactions with owners in their capacity as owners:* | | | | | | |
| Contributions of equity, net of transaction costs (note 11) | 7,870,469 | - | - | - | - | 7,870,469 |
| Share-based payments (note 23) | - | - | - | 1,170,968 | - | 1,170,968 |
| Balance at 31 December 2019 | 22,430,473 | 472,385 | - | 3,213,449 | (13,952,061) | 12,164,246 |

*The above statement of changes in equity should be read in conjunction with the accompanying notes*

**Montem Resources Limited**
**Statement of cash flows**
**For the year ended 31 December 2019**

| | Note | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | (2,088,958) | (4,055,479) |
| Interest and other finance costs paid | | (42,149) | (12,584) |
| Net cash used in operating activities | 21 | (2,131,107) | (4,068,063) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (706,947) | (52,183) |
| Payments for exploration and evaluation | | (8,188,443) | (2,062,015) |
| Payments for security deposits | | (490,199) | (41,857) |
| Net cash used in investing activities | | (9,385,589) | (2,156,055) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 11 | 8,149,332 | 6,430,197 |
| Share issue transaction costs | | (278,863) | - |
| Proceeds from borrowings | | 4,401,842 | 1,350,000 |
| Repayment of borrowings | | (987,814) | (458,750) |
| Repayment of lease liabilities | | (46,962) | - |
| Net cash from financing activities | | 11,237,535 | 7,321,447 |
| Net increase/(decrease) in cash and cash equivalents | | (279,161) | 1,097,329 |
| Cash and cash equivalents at the beginning of the financial year | | 1,601,349 | 418,991 |
| Effects of exchange rate changes on cash and cash equivalents | | 108,563 | 85,029 |
| Cash and cash equivalents at the end of the financial year | | 1,430,751 | 1,601,349 |

*The above statement of cash flows should be read in conjunction with the accompanying notes*

## Note 1. General information

The financial statements cover Montem Resources Limited as a Consolidated Entity consisting of Montem Resources Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Montem Resources Limited's functional and presentation currency.

A description of the nature of the Consolidated Entity's operations and its principal activities are included in the Directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 24 April 2020. The Directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

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

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

*AASB 16 Leases*
The Consolidated Entity has adopted AASB 16 from 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities. Please refer to note 9 to the financial statements for further information AASB 16.

## Note 2. Significant accounting policies (continued)

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

The Consolidated Entity made a loss after tax of $3,305,949 during the year ended 31 December 2019 (year ended 31 December 2018: $5,018,796) and had net operating cash outflows of $2,131,107 (31 December 2018: $4,068,063). Evaluation and exploration costs of $8,188,443, deposits of $490,199, and property, plant and equipment of $706,947 were paid during the period (31 December 2018: $2,062,015, $41,857 and $52,183, respectively). Capital of $7,870,469 (31 December 2018: $5,792,446), net of cash costs, was raised during the period. As at 31 December 2019, the cash balance was $1,430,751 (31 December 2018: $1,601,349) and net working capital deficit was $3,746,139 (31 December 2018: Surplus of $121,878).

In considering the ability of the Consolidated Entity to continue as a going concern the Directors considered the following matters:

- The Consolidated Entity has the ability to raise additional working capital through the issue of equity, as needed;
- The Consolidated Entity has a successful history in raising funds and is well supported by its major shareholders;
- Subsequent to 31 December 2019, the Company raised $860,000 in Convertible Notes.
- If required, the Consolidated Entity has the ability to undertake either the full or partial sale of its existing tenement portfolio, enter into farm-out arrangements of its existing tenement portfolio or obtain approval for the deferral of the current work programs.

The Directors will continue to monitor the ongoing funding requirements of the Consolidated Entity. As a consequence of the above, the directors believe that, notwithstanding the Consolidated Entity's operating results for the year, the Consolidated Entity will be able to continue as a going concern and therefore, these financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the Consolidated Entity not continue as a going concern.

### Basis of preparation
In the Directors' opinion, the Company is a reporting entity because there are users dependent on general purpose financial statements. The financial statements are therefore general purpose financial statements that have been prepared in order to meet the needs of members and the requirements of an Initial Public Offering as part of its process to be admitted to the official list of the Australian Stock Exchange (ASX).

The financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act, as appropriate for for-profit oriented entities (as modified for inclusion in the Prospectus). Australian Accounting Standards adopted by the AASB are consistent with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. Unless otherwise stated, the accounting policies of the Company and Consolidated Entity have been consistently applied throughout the periods presented.

The directors have determined that the accounting policies are appropriate to meet the needs of members and the requirements of Initial Public Offering. The financial statements have been prepared on an accrual basis and are based on historical costs unless otherwise stated in the notes. Significant accounting policies are disclosed below.

*Historical cost convention*
The financial statements have been prepared under the historical cost convention.

*Critical accounting estimates*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

### Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the Consolidated Entity only. Supplementary information about the parent entity is disclosed in note 18.

## Note 2. Significant accounting policies (continued)

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Montem Resources Limited ('Company' or 'parent entity') as at 31 December 2019 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in these financial statements as the 'Consolidated Entity'.

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

Intercompany transactions, balances and unrealised gains on transactions between entities in the Consolidated Entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the Consolidated Entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The Consolidated Entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

### Foreign currency translation

The financial statements are presented in Australian dollars, which is Montem Resources Limited's presentation currency.

*Foreign currency transactions*

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

*Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### Other revenue

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

### Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

## Note 2. Significant accounting policies (continued)

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

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Consolidated Entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Consolidated Entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

### Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Trade and other receivables
Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

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

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

| | |
|---|---|
| Plant and equipment | 3-7 years (Straight line basis) |
| Office furniture and fixtures | 20% (Declining balance basis) |
| Buildings | 40 years (Straight line basis) |
| Leased mobile equipment | Over the term of the lease (Straight line basis) |
| Leased office space | Over the term of the lease (Straight line basis) |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Consolidated Entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### Right-of-use assets
A right-of-use asset is a leased asset that is recognised at the commencement date of a lease and is initially measured at the present value of the unavoidable future lease payments to be made over the lease term, any lease payments made at or before the commencement date, less any lease incentives received.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the right-of-use asset and lease liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Consolidated Entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

## Note 2. Significant accounting policies (continued)

The Consolidated Entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

**Exploration and evaluation assets**
Exploration and evaluation expenditures in relation to separate areas of interest for which rights of tenure are current is carried forward as an asset in the statement of financial position where it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest, or by its sale; or exploration activities are continuing in an area and activities have not reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable reserves. Where a project or an area of interest has been abandoned, the expenditure incurred thereon is written off in the year in which the decision is made.

**Trade and other payables**
These amounts represent liabilities for goods and services provided to the Consolidated Entity 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.

**Borrowings**
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Convertible notes are a compound financial instrument, which has both a liability and an equity component from the issuer's perspective. Both equity and liability component parts are accounted for and presented separately according to their substance based on the definitions of liability and equity. The split is made at issuance and not revised for subsequent changes in market interest rates, share prices, or other event that changes the likelihood that the conversion option will be exercised.

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

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to profit or loss.

**Lease liabilities**
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Consolidated Entity's incremental borrowing rate. Lease payments are comprised of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

**Finance costs**
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

## Note 2. Significant accounting policies (continued)

### Employee benefits

*Short-term employee benefits*
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

*Share-based payments*
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The costs of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying shares, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Consolidated Entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The costs of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the fair value of the award on the grant date, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

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

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

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

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

### Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

### Issued capital
Ordinary shares are classified as equity.

## Note 2. Significant accounting policies (continued)

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

**Goods and Services Tax ('GST') and other similar taxes**
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

**Operating segments**
The sole segment of the Consolidated Entity is coal mining in Canada.

**Earnings per share**
*Basic earnings per share*
Basic earnings per share is calculated by dividing the profit attributable to the owners of the consolidated entity, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

*Diluted earnings per share*
Issued options and performance rights have not been included in the weighted average number of ordinary shares for the purposes of calculating diluted earnings per share as they do not meet the requirements for inclusion in AASB 133 “Earnings per Share”. The options and performance rights are non-dilutive as the Consolidated Entity has generated a loss for the year.

## Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

*Share-based payment transactions*
The Consolidated Entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Estimation of useful lives of assets*
The Consolidated Entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

## Note 3. Critical accounting judgements, estimates and assumptions (continued)

*Impairment of non-financial assets*
The Consolidated Entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Consolidated Entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Exploration and evaluation costs*
Exploration and evaluation costs have been capitalised on the basis that the Consolidated Entity will commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised. In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made. Significant judgement is required by management when assessing each of area of interest and therefore management's judgement carries the risk of been misstated.

## Note 4. Expenses

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Loss before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Plant and equipment | 1,916 | 3,421 |
| Office lease right-of-use assets | 36,745 | - |
| Total depreciation | 38,661 | 3,421 |
| *Leases* | | |
| Minimum lease payments | - | 93,449 |
| Short-term lease payments | 31,877 | - |
| | 31,877 | 93,449 |
| *Write-off of assets* | | |
| Plant and equipment | - | 33,767 |

## Note 5. Income tax benefit

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| *Tax losses not recognised* | | |
| Unused tax losses for which no deferred tax asset has been recognised | 1,996,495 | 4,880,094 |
| Potential tax benefit @ 27.5% | 549,036 | 1,342,026 |

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

## Note 6. Current assets - accounts receivable

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| Interest receivable | 3,786 | 2,133 |
| BAS receivable | 329,329 | 81,517 |
| | 333,115 | 83,650 |

## Note 7. Non-current assets - exploration and evaluation

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| Exploration and evaluation Chinook - at cost | 1,153,716 | 1,039,930 |
| Exploration and evaluation Tent Mountain - at cost | 13,402,286 | 4,677,931 |
| | 14,556,002 | 5,717,861 |

### Note 7. Non-current assets - exploration and evaluation (continued)

*Reconciliations*
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| | Chinook $ | Obed Conveyor $ | Tent Mountain $ | Total $ |
|---|---|---|---|---|
| Balance at 1 January 2018 | 3,060,213 | 1 | - | 3,060,214 |
| Expenditure during the year | - | - | 2,568,172 | 2,568,172 |
| Transfer to plant and equipment | - | (1) | - | (1) |
| Exchange differences | 19,315 | - | 70,161 | 89,476 |
| Reallocation from Chinook to Tent Mountain | (2,039,598) | - | 2,039,598 | - |
| Balance at 31 December 2018 | 1,039,930 | - | 4,677,931 | 5,717,861 |
| Expenditure during the year | - | - | 8,624,921 | 8,624,921 |
| Exchange differences | 56,320 | - | 156,900 | 213,220 |
| Balance at 31 December 2019 | 1,096,250 | - | 13,459,752 | 14,556,002 |

### Note 8. Current liabilities - trade and other payables

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| Trade payables | 1,057,866 | 657,412 |
| Accrued expenses | 21,000 | 81,639 |
| Other payables | 7,499 | - |
| | 1,086,365 | 739,051 |

Refer to note 13 for further information on financial instruments.

### Note 9. Current liabilities - borrowings

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| Borrowings - current | - | 987,814 |
| Convertible notes payable | 4,401,842 | - |
| | 4,401,842 | 987,814 |

Refer to note 13 for further information on financial instruments.

## Note 9. Current liabilities - borrowings (continued)

Convertible notes payable

During the year ended 31 December 2019, the Company issued 4,335,000 convertible notes at an annual simple interest rate of 10%, raising $4,164,500, net of financing fees. The face value of each note is $1.00 with a maturity date (Maturity Date) of 31 December 2020. The convertible notes are convertible at the following prices:

- If there is an initial public offering event (IPO Conversion Event):
- on or before 31 March 2020, the price is at a 20% discount to the issue price of shares to investors under the initial public offering (IPO).
- between 1 April 2020 and 30 September 2020, the price is at a 30% discount to the issue price of shares to investors under the IPO.
- after 30 September 2020 but before the Maturity Date, the price is at a 40% discount to the issue price of shares to investors under the IPO.
- If there is a change of control event other than through an IPO or the completion of a fundraising event (other than an IPO) which raises $10 million or more (Qualifying Financing Event), at a price pre-share as determined by the Company's auditors.

If on Maturity Date, at a price per share to be determined based on the value of the Company as determined by one of several professional accountants as selected by the Company, divided by the number of shares on issue immediately before the relevant event.

*Total secured liabilities*
The total secured current liabilities are as follows:

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| Borrowings - current | - | 987,814 |

*Assets pledged as security*
The loan outstanding at 31 December 2018, which was made to the Company by a non-related party, was secured by a general security agreement over all of the Company's present and future assets. The interest rate applicable to the loan was 20%. The loan, including accrued interest, was repaid in full on 25 January 2019.

## Note 10. Right-of-Use Assets and Lease liability

The Consolidated Entity entered into leases arrangements for office space and motor vehicles. Rental contracts are typically made for fixed periods of 12 to 36 months, but may have an extension option. This note provides information for leases where the Consolidated Entity is a lessee.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

**Right-of-use assets and lease liabilities**
The Consolidated Entity has adopted AASB 16 Leases (AASB 16) on 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

On adoption of AASB 16, the Consolidated Entity recognised lease assets (known as "right-of-use") and liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117 Leases. These assets and liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. In applying AASB 16 for the first time, the Consolidated Entity has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Consolidated Entity has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Consolidated Entity relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease.

The statement of financial position shows the following amounts relating to leases:

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| **Right-of-use assets** | | |
| Buildings (net of accumulated depreciation) | 105,976 | - |
| Vehicles (net of accumulated depreciation) | 133,669 | - |
| | 239,645 | - |

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| **Lease liabilities** | | |
| Current | 85,909 | - |
| Non-current | 162,581 | - |
| | 248,490 | - |

## Note 10. Current liabilities - Lease liability (continued)

The statement of profit or loss shows the following amounts relating to leases;

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| **Depreciation charge of right-of-use assets** | | |
| Buildings | 36,746 | - |
| Vehicles (Capitalised to E&E assets) | 37,748 | - |
| | 74,494 | - |

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Interest expense (included in finance cost) | 10,462 | - |
| Expense relating to short-term leases included in administrative expenses | 31,877 | - |

**Incremental borrowing rates**
Right-of-use assets and lease liabilities are determined based on an incremental borrowing rate. To determine the incremental borrowing rate, the Consolidated Entity:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for the Consolidated Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

**Impact of the adoption of AASB 16 Leases on the Consolidated Entity's financial statements**

On adoption of AASB 16, the Consolidated Entity recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 7.5%.

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018. The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

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## Note 10. Current liabilities - Lease liability (continued)

| | As at 1 January 2019 $ |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 173,534 |
| Impact of discount using the lessee's incremental borrowing rate of at the date of initial application | 1,320 |
| Gross value of office space | 174,854 |
| Office space accumulated depreciation | (37,885) |
| Office space net carrying value at 1 January 2019 | 136,969 |
| Lease liability at 1 January 2019 | (141,154) |
| Transitional adjustments on right of use assets at 1 January 2019 | (8,185) |
| Adjustments to prepaid / accrued lease payments at 1 January 2019 | (320) |
| Adjustment for change in accounting policy | (8,505) |

## Note 11. Equity - issued capital

| | As at 31 December 2019 Shares | As at 31 December 2018 Shares | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|---|---|
| Ordinary shares - fully paid | 124,903,784 | 92,306,458 | 22,430,473 | 14,560,004 |

## Note 11. Equity - issued capital (continued)

*Movements in ordinary share capital*

| Details | Date | Shares | Issue price | $ |
|---|---|---|---|---|
| Balance | 1 January 2018 | 60,541,458 | | 8,438,006 |
| Share issue | 24 April 2018 | 2,845,573 | $0.1500 | 426,836 |
| Share issue | 3 May 2018 | 3,433,333 | $0.1500 | 515,000 |
| Conversion to equity | 3 May 2018 | 34,333 | $0.1500 | 5,150 |
| Conversion to equity | 4 May 2018 | 142,280 | $0.1500 | 21,342 |
| Conversion to equity | 7 May 2018 | 66,667 | $0.1500 | 10,000 |
| Share issue | 9 May 2018 | 866,666 | $0.1500 | 130,000 |
| Share issue | 15 May 2018 | 300,001 | $0.1500 | 45,000 |
| Conversion to equity | 29 May 2018 | 311,147 | $0.1500 | 46,672 |
| Performance shares issue | 4 June 2018 | 3,000,000 | $0.1500 | 450,000 |
| Share issue | 04 October 2018 | 1,000,000 | $0.3000 | 300,000 |
| Share issue | 22 November 2018 | 1,000,000 | $0.2500 | 250,000 |
| Private placement | December 2018 | 10,465,000 | $0.2500 | 2,616,250 |
| Conversion to equity | 20 December 2018 | 300,000 | $0.2500 | 75,000 |
| Share issue | 20 December 2018 | 8,000,000 | $0.2500 | 2,000,000 |
| Share issue transaction costs | | - | $0.0000 | (769,252) |
| Balance | 31 December 2018 | 92,306,458 | | 14,560,004 |
| Share issue | 4 February 2019 | 2,000,000 | $0.2500 | 500,000 |
| Share issue | 19 March 2019 | 5,410,000 | $0.2500 | 1,352,500 |
| Share issue | 10 April 2019 | 9,800,000 | $0.2500 | 2,450,000 |
| Share issue | 11 April 2019 | 100,000 | $0.2500 | 25,000 |
| Share issue | 30 April 2019 | 1,000,000 | $0.2500 | 250,000 |
| Share issue | 9 May 2019 | 1,000,000 | $0.2500 | 250,000 |
| Share issue | 27 May 2019 | 30,000 | $0.2500 | 7,500 |
| Share issue | 30 May 2019 | 1,000,000 | $0.2500 | 250,000 |
| Share issue | 28 June 2019 | 4,100,000 | $0.2500 | 1,025,000 |
| Share issue | 4 July 2019 | 4,000,000 | $0.2500 | 1,000,000 |
| Share issue | 12 July 2019 | 4,000,000 | $0.2500 | 1,000,000 |
| Share issue | 12 July 2019 | 100,000 | $0.2500 | 25,000 |
| Share issue | 22 August 2019 | 30,000 | $0.2500 | 7,500 |
| Share issue | 20 December 2019 | 27,326 | $0.2500 | 6,832 |
| Share issue costs | | - | $0.0000 | (278,863) |
| Balance | 31 December 2019 | 124,903,784 | | 22,430,473 |

*Ordinary shares*

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

### Note 11. Equity - issued capital (continued)

**Capital risk management**
The Consolidated Entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the Consolidated Entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity is subject to certain financing arrangements covenants and meeting these covenants is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

### Note 12. Equity - reserves

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| Foreign currency translation reserve | 472,385 | 113,102 |
| Share-based payments reserve | 3,213,449 | 2,042,481 |
| | 3,685,834 | 2,155,583 |

*Foreign currency reserve*
The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

*Share-based payments reserve*
The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

**Note 12. Equity - reserves (continued)**

*Movements in reserves*
Movements in each class of reserve during the current and previous financial year are set out below:

| | Foreign currency translation reserve $ | Common control reserve $ | Share based payments reserve $ | Total $ |
|---|---|---|---|---|
| Balance at 1 January 2018 | (48,393) | (3,761,190) | - | (3,809,583) |
| Foreign currency translation | 161,495 | - | - | 161,495 |
| Share based payments - option issues | - | - | 1,665,720 | 1,665,720 |
| Share based payments - performance rights issues | - | - | 376,761 | 376,761 |
| Transfer common control reserve to accumulated losses | - | 3,761,190 | - | 3,761,190 |
| Balance at 31 December 2018 | 113,102 | - | 2,042,481 | 2,155,583 |
| Foreign currency translation | 359,283 | - | - | 359,283 |
| Share based payments - option issues | - | - | 469,498 | 469,498 |
| Share based payments - performance rights issues | - | - | 701,470 | 701,470 |
| Balance at 31 December 2019 | 472,385 | - | 3,213,449 | 3,685,834 |

**Note 13. Financial instruments**

***Financial risk management objectives***
The Consolidated Entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Consolidated Entity's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Consolidated Entity. The Consolidated Entity uses different methods to measure different types of financial risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk.

Financial risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the financial risk exposure of the Consolidated Entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Consolidated Entity's operating units. Finance reports to the Board on a monthly basis.

***Market risk***

*Foreign currency risk*
The Consolidated Entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The average exchange rates and reporting date exchange rates applied were as follows:

| | Average exchange rate | | Reporting date exchange rate | |
|---|---|---|---|---|
| | Year ended 31 December 2019 | Year ended 31 December 2018 | As at 31 December 2019 | As at 31 December 2018 |
| **Australian dollars** | | | | |
| Canadian dollars | 0.9020 | 0.9477 | 0.9122 | 0.9616 |

**Note 13. Financial instruments (continued)**

The carrying amount of the Consolidated Entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | As at 31 December 2019 $ | As at 31 December 2018 $ | As at 31 December 2019 $ | As at 31 December 2018 $ |
| Canadian dollars - Cash at bank | 1,144,738 | 59,645 | - | - |
| Canadian dollars - trade & other payables | - | - | 914,601 | 520,051 |
| | 1,144,738 | 59,645 | 914,601 | 520,051 |

| | AUD strengthened | | | AUD weakened | | |
|---|---|---|---|---|---|---|
| **As at 31 December 2019** | **% change** | **Effect on profit before tax** | **Effect on equity** | **% change** | **Effect on profit before tax** | **Effect on equity** |
| Trade payable net of cash at bank | 10% | 45,951 | 45,951 | 10% | (45,951) | (45,951) |

| | AUD strengthened | | | AUD weakened | | |
|---|---|---|---|---|---|---|
| **As at 31 December 2018** | **% change** | **Effect on profit before tax** | **Effect on equity** | **% change** | **Effect on profit before tax** | **Effect on equity** |
| Trade payable net of cash at bank | 10% | 46,041 | 46,041 | 10% | (46,041) | (46,041) |

*Price risk*
The Consolidated Entity is not exposed to any significant price risk.

*Interest rate risk*
The Consolidated Entity has limited interest rate risk and there are no significant interest-bearing assets or liabilities at the reporting date. As of the reporting date there are no significant interest-bearing assets. There are $4.3 million in convertible notes payable at a fixed interest rate of 10% per annum.

***Credit risk***
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Consolidated Entity. The Consolidated Entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Consolidated Entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The Consolidated Entity does not hold any collateral.

***Liquidity risk***
Vigilant liquidity risk management requires the Consolidated Entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The Consolidated Entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

## Note 13. Financial instruments (continued)

*Remaining contractual maturities*
The following tables detail the Consolidated Entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| **As at 31 December 2019** | **Weighted average interest rate %** | **1 year or less $** | **Between 1 and 2 years $** | **Between 2 and 5 years $** | **Over 5 years $** | **Remaining contractual maturities $** |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade and other payables | - | 1,086,365 | - | - | - | 1,086,365 |
| *Interest-bearing - variable* | | | | | | |
| Lease liabilities | 5.38% | 117,809 | 128,947 | 96,977 | - | 343,733 |
| *Interest-bearing - fixed rate* | | | | | | |
| Convertible notes payable | 10.00% | 4,401,842 | - | - | - | 4,401,842 |
| Total non-derivatives | | 5,606,016 | 128,947 | 96,977 | - | 5,831,940 |

| **As at 31 December 2018** | **Weighted average interest rate %** | **1 year or less $** | **Between 1 and 2 years $** | **Between 2 and 5 years $** | **Over 5 years $** | **Remaining contractual maturities $** |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade and other payables | - | 739,051 | - | - | - | 739,051 |
| *Interest-bearing - fixed rate* | | | | | | |
| Other loans | 20.00% | 987,814 | - | - | - | 987,814 |
| Total non-derivatives | | 1,726,865 | - | - | - | 1,726,865 |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

***Fair value of financial instruments***
The fair values of financial assets and liabilities, together with their carrying amounts in the statement of financial position, for the Consolidated Entity are as follows:

| | **As at 31 December 2019** | | **As at 31 December 2018** | |
|---|---|---|---|---|
| | **Carrying amount $** | **Fair value $** | **Carrying amount $** | **Fair value $** |
| *Assets* | | | | |
| Cash at bank | 1,430,752 | 1,430,752 | 1,601,309 | 1,601,309 |
| Other receivables | 325,560 | 325,560 | 83,650 | 83,650 |
| Deposits - current | 175,770 | 175,770 | 182,628 | 182,628 |
| Deposits - non-current | 675,610 | 675,610 | 185,411 | 185,411 |
| | 2,607,692 | 2,607,692 | 2,052,998 | 2,052,998 |
| *Liabilities* | | | | |
| Trade payables | 1,085,717 | 1,085,717 | 739,051 | 739,051 |
| Borrowings - short term loan | - | - | 987,814 | 987,814 |
| | 1,085,717 | 1,085,717 | 1,726,865 | 1,726,865 |

## Note 14. Key management personnel disclosures

*Directors*
The following persons were Directors of Montem Resources Limited during the financial year:

| | |
|---|---|
| Rob Yeates | Non-executive Director and Chairman |
| Peter Doyle | Managing Director and CEO |
| Rob Tindall | Non-executive Director |
| Susie Henderson | Non-executive Director |
| William Souter | Non-executive Director |
| Mark Lochtenberg | Non-executive Director (Appointed 1 March 2019) |

*Other key management personnel*
The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the Consolidated Entity, directly or indirectly, during the financial year:

| | |
|---|---|
| Robert Bell | Chief Commercial Officer |
| Alan Ahlgren | Chief Financial Officer |

*Compensation*
The aggregate compensation made to Directors and other members of key management personnel of the Consolidated Entity is set out below:

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Short-term employee benefits | 1,274,637 | 1,004,824 |
| Share-based payments | 1,525,152 | 1,513,617 |
| | 2,799,789 | 2,518,441 |

## Note 15. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by William Buck Audit, the auditor of the Company:

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| *Audit services - William Buck Audit* | | |
| Audit or review of the financial statements | 40,000 | 33,000 |
| *Other services - William Buck Audit* | | |
| Preparation of the tax return | 7,500 | 3,500 |
| Investigating accountants report | - | 10,000 |
| Other | - | 500 |
| | 7,500 | 14,000 |
| | 47,500 | 47,000 |

## Note 16. Commitments

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| *Lease commitments - operating* | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | - | 45,950 |
| One to five years | - | 127,584 |
| | - | 173,534 |

Operating lease commitments includes contracted amounts for offices and plant and equipment under non-cancellable operating leases expiring within 5 months to 3 years.

## Note 17. Related party transactions

*Parent entity*
Montem Resources Limited is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 19.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 14.

*Transactions with related parties*
Other than the key management personnel transactions are set out in note 14, the Consolidated Entity had no transactions with other related parties during the year ended 31 December 2019.

During the previous reporting period, being the year ended 31 December 2018, the Company engaged the services of the following related parties on normal commercial terms and conditions no more favourable than those available to other parties:

- Robert Tindall provided consulting services to the Company for which he received fees of $240,000.
- Robert Tindall made a loan of $150,000 to the Company which was repaid in full during the reporting period. Interest paid on the loan was $5,535.
- R W Bell Resource Advisory Service, an entity controlled by Robert Bell, provided consulting services to Montem Resources Alberta Operations Ltd for which he received fees of $131,898.

*Receivable from and payable to related parties*
The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | As at 31 December 2019 $ | As at 31 December 2018 $ |
|---|---|---|
| Current payables: | | |
| Trade payables to key management personnel in relation to short-term employee benefits | 55,167 | 32,699 |

*Loans to/from related parties*
There were no loans to or from related parties at the current and previous reporting date.

*Terms and conditions*
All transactions were made on normal commercial terms and conditions and at market rates.

## Note 18. Parent entity information

Set out below is the supplementary information about the parent entity.

*Statement of profit or loss and other comprehensive income*

| | Parent<br>Year ended<br>31 December<br>2019<br>$ | <br>Year ended<br>31 December<br>2018<br>$ |
|---|---|---|
| Loss after income tax | (1,917,790) | (3,404,977) |
| Total comprehensive loss | (1,917,790) | (3,404,977) |

*Statement of financial position*

| | Parent<br>As at 31<br>December<br>2019<br>$ | <br>As at 31<br>December<br>2018<br>$ |
|---|---|---|
| Total current assets | 24,813,058 | 14,291,994 |
| Total assets | 24,813,058 | 14,291,994 |
| Total current liabilities | 4,514,591 | 1,117,175 |
| Total liabilities | 4,514,591 | 1,117,175 |
| Equity | | |
| Issued capital | 22,430,473 | 14,560,004 |
| Share-based payments reserve | 3,213,449 | 2,042,481 |
| Accumulated losses | (5,345,455) | (3,427,666) |
| Total equity | 20,298,467 | 13,174,819 |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2018 and 2019.

*Contingent liabilities*
The parent entity had no contingent liabilities as at 31 December 2018 and 2019.

*Capital commitments - Property, plant and equipment*
The parent entity had no capital commitments for property, plant and equipment as at 31 December 2018 and 2019.

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the Consolidated Entity, as disclosed in note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

## Note 19. Interests in subsidiaries

The Montem Resources Group includes the following entities:

| Name | Principal place of business / Country of incorporation | Ownership interest As at 31 December 2019 % | Ownership interest As at 31 December 2018 % |
|---|---|---|---|
| Montem Resources Limited | Melbourne, Victoria, Australia | - | - |
| Montem Resources Corp. | Vancouver, British Columbia, Canada | 100.00% | 100.00% |
| Montem Resources Alberta Operations Ltd | Edmonton, Alberta, Canada | 100.00% | 100.00% |

## Note 20. Events after the reporting period

*Issuance of Convertible Notes*
Subsequent to 31 December 2019, the Company issued 860,000 convertible notes under the same terms as detailed earlier in this report, at an annual simple interest rate of 10%, raising $860,000, net of financing fees. The face value of each note is $1.00 with a maturity date (Maturity Date) of 31 December 2020. A further 750,000 convertible notes were issued on 8 April 2020 in lieu of professional services on the same terms and conditions.

- If there is an initial public offering event (IPO Conversion Event):
  - on or before 31 March 2020, the price is at a 20% discount to the issue price of shares to investors under the initial public offering (IPO).
  - between 1 April 2020 and 30 September 2020, the price is at a 30% discount to the issue price of shares to investors under the IPO.
  - after 30 September 2020 but before the Maturity Date, the price is at a 40% discount to the issue price of shares to investors under the IPO.
- If there is a change of control event other than through an IPO or the completion of a fundraising event (other than an IPO) which raises $10 million or more (Qualifying Financing Event), at a price pre-share as determined by the Company's auditors.
- If on Maturity Date, at a price per share to be determined based on the value of the Company as determined by one of several professional accountants as selected by the Company, divided by the number of shares on issue immediately before the relevant event.

On 13 February 2020, Dr. Robert Yeates resigned from the Board as Non-executive Chairman and Mr. Mark Lochtenberg was elected Chairman in addition to his role as a Non-Executive Director. The Board of Directors and Management greatly appreciate the contribution made by Dr. Yeates to the Company at a critical time in its development.

Subsequent to 31 December 2019, 2,571,631 Options with varying exercise prices lapsed due to not meeting relevant milestones under the Option plan terms and conditions and 455,387 Performance Rights lapsed upon resignation of a Director.

In addition, subsequent to the reporting date, in March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout North America. The spread of COVID-19 has caused significant volatility in North America and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19 and therefore the Company has taken precautionary measures by temporarily closing the Company's office and having arranged the employees work remotely, as well as curtailing travel. Management believes that this will allow efforts to continue the Feasibility Study and permitting activities. At the date of this report, the impact of these measures is not expected to significantly impact the completion of the Feasibility Study. However, as the circumstances continue to evolve, there may be disruptions to the Feasibility Study timeline if employees, consultants or their respective families are personally impacted by the COVID-19.

## Note 20. Events after the reporting period (continued)

*Definitive Feasibility Study – Tent Mountain*

We are pleased to announce the results of the Definitive Feasibility Study (DFS) for the Tent Mountain Mine Re-start Project which was completed in April 2020. The release of the DFS includes the maiden reserve (JORC compliant) for the Tent Mountain Mine.

The independent study was completed by a number of consultants, including: SRK Consulting Canada Inc. (mine planning and associated disciplines; reserve statement; DFS project management); Dahrouge Geological Consulting Ltd. (geology and resources); Sedgman Canada Limited (coal processing and infrastructure); A&B Mylec Pty Ltd (coal quality and CHPP performance); Matrix Solutions Inc. (environment, including water management); Morch Engineering & Hooper Engineering (rail); Diadem Group LTD. (transport and logistics); McLennan Ross LLP (tenement review); Lifeways of Canada Limited (Indigenous Peoples advisory); Kobie Koornhof & Associates Inc. (coal utilisation and pricing); Wood Mackenzie Ltd (coal markets); KPMG LLP (tax modelling).

| **Tent Mountain Mine – Definitive Feasibility Results** | |
|---|---|
| Coal Type | Hard coking coal (Tier 2) |
| Resource (JORC, 2020) | 60 Mt |
| Reserve (ROM) | 22 Mt |
| Reserve (Product) | 13 Mt |
| CHPP Yield (ROM to Saleable) | 60 % |
| Mining method | Open cut |
| Start mining | 2021 |
| Production (capacity) | 1.1 Mtpa |
| Mine Life (before reclamation) | 14 years |
| Strip Ratio (ROM bcm/t) | 8.8:1 |
| Capital required (first coal) | US$160M |
| Operating cost (FOB Westshore) | US$ 88/t |
| Project $NPV_8$ (pre-tax) [1] | C$195M |
| IRR (pre-tax) | 20.6% |
| Project $NPV_8$ (post-tax) [1] | C$129M |
| IRR (post-tax) | 17.3% |

These results are subject to assumptions and qualifications in the Tent Mountain Mine Feasibility Study.

*Rights Issue*

As of the date of this report, the Board have approved to undertake a Rights Issue to shareholders to raise additional working capital of up to $3,100,000 through the issuance of up to 20,000,000 new ordinary shares at $0.15 each. Details of the impending Rights Issue will be sent to all shareholders in due course.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Consolidated Entity's operations, the results of those operations, or the Consolidated Entity's state of affairs in future financial years.

## Note 21. Reconciliation of loss after income tax to net cash used in operating activities

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Loss after income tax expense for the year | (3,305,949) | (5,018,796) |
| | | |
| Adjustments for: | | |
| Depreciation and amortisation | 38,662 | 3,421 |
| Write off of property, plant and equipment | - | 33,767 |
| Share-based payments | 787,604 | 1,996,323 |
| Increase in accrued loan interest | - | 96,564 |
| | | |
| Change in operating assets and liabilities: | | |
| Decrease/(increase) in prepayments | 21,636 | (47,493) |
| Increase in accounts receivable | (249,468) | (43,753) |
| Increase in deposits | 165,509 | (184,791) |
| Increase/(decrease) in trade and other payables | 347,314 | (964,040) |
| Increase in employee benefits | 63,585 | 60,735 |
| | | |
| Net cash used in operating activities | (2,131,107) | (4,068,063) |

## Note 22. Earnings per share

| | Year ended 31 December 2019 $ | Year ended 31 December 2018 $ |
|---|---|---|
| Loss after income tax attributable to the owners of Montem Resources Limited | (3,305,949) | (5,018,796) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 113,232,577 | 68,845,407 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 113,232,577 | 68,845,407 |
| | **Cents** | **Cents** |
| Basic earnings per share | (2.9196) | (7.2900) |
| Diluted earnings per share | (2.9196) | (7.2900) |

## Note 23. Share-based payments

*(a) Equity issues to settle supplier liabilities*

From time to time the Company may settle liabilities payable to external suppliers by way of an issue of ordinary shares in the Company, or by the issue of options over ordinary shares in the Company.

<u>(i) Issues of shares to settle supplier liabilities</u>

On 7 May 2018, the Company issued 66,667 ordinary shares at an issue price of $0.15 (15 cents) per share to suppliers as settlement of liabilities for legal expenses.

**Note 23. Share-based payments (continued)**

<u>(ii) Issues of options to settle supplier liabilities</u>

On 12 January 2018, the Company issued 1,086,667 options over ordinary shares to suppliers as settlement of liabilities for legal expenses. The options, which vested immediately, have an exercise price of 62.5 cents and an expiry date of 12 January 2023.

*(b) Share issues to employees*

From time to time the Company may issue of ordinary shares in the Company to directors or employees of the Company as remuneration in recognition of past performance or other services provided to the Consolidated Entity.

On 4 June 2018, the Company issued 3,000,000 ordinary shares at an issue price of $0.15 (15 cents) per share to directors and employees as remuneration in recognition of past performance or other services provided to the Consolidated Entity.

*(c) Employee incentive plan - options and performance rights*

The Company has established an Employee Incentive Plan, whereby the Company may, at the discretion of the Plan Committee, grant options over ordinary shares in the Company or performance rights over ordinary shares in the Company to eligible employees and any director of the Company.

In July 2019, the Company issued 175,097 options to a Director for no consideration with fair values of $0.10 to $0.11, and each with expiry dates from 12 January 2023 to 31 December 2024. In addition, the Company also issued 175,097 performance rights with fair value of $0.25.

In September 2019, the Company issued 3,000,000 performance rights under the terms of the Company's Employee Incentive Plan to the Managing Director and senior executives for no consideration with fair values from $0.11 to $0.13 each, all with an expiry date of 23 September 2022.

In September 2019, the Company issued 5,000,000 options to Directors and employees as remuneration under the terms of the Company's Employee Incentive Plan. These options were issued with key milestones to align shareholder's interests with varying vesting dates. Exercise prices for these options range from $0.25 to $0.50, all with an expiry date of 23 September 2022. At 31 December 2019, 250,000 options with an exercise price of $0.25 lapsed due to not meeting the relevant milestone.

During the year ended 31 December 2018, the Company issued 3,000,000 options to Directors and employees under the terms of the Montem Employee Incentive Plan. These options, which were issued in three tranches on 12 January 2018 (1,949,417 options), 31 January 2018 (700,389 options) and 6 April 2018 (350,194 options). These options were issued with various service-based vesting dates and various expiry dates. Exercise prices for these options range from 63 cents to $1.00.

On 1 June 2018, the Company issued 3,000,000 performance rights under the terms of the Company's Employee Incentive Plan to the Managing Director and senior executives. Each performance right will vest and convert to a fully paid ordinary share in the Company, at no cost to the recipient, when the vesting condition is met. The vesting condition is when the Company successfully mines and sells 100,000 tonnes of coal from the Tent Mountain mine or any other Company project. The performance rights will expire on 1 June 2023.

## Note 23. Share-based payments (continued)

*(d) Details of options and performance rights*

Set out below are details of options granted as share-based payments:

| **As at 31 December 2019**<br>**Grant date** | **Expiry date** | **Exercise price** | **Balance at the start of the year** | **Granted** | **Exercised** | **Expired/ forfeited/ other** | **Balance at the end of the year** |
|---|---|---|---|---|---|---|---|
| 12/01/2018 | 12/01/2023 | $0.6300 | 1,086,667 | - | - | - | 1,086,667 |
| 12/01/2018 | 12/01/2023 | $0.6300 | 649,805 | - | - | - | 649,805 |
| 12/01/2018 | 31/12/2023 | $0.7500 | 649,806 | - | - | - | 649,806 |
| 12/01/2018 | 31/12/2024 | $1.0000 | 649,806 | - | - | - | 649,806 |
| 31/01/2018 | 12/01/2023 | $0.6300 | 233,463 | - | - | - | 233,463 |
| 31/01/2018 | 12/01/2023 | $0.7500 | 233,463 | - | - | - | 233,463 |
| 31/01/2018 | 12/01/2023 | $1.0000 | 233,463 | - | - | - | 233,463 |
| 06/04/2018 | 12/01/2023 | $0.6300 | 116,732 | - | - | - | 116,732 |
| 06/04/2018 | 31/12/2023 | $0.7500 | 116,732 | - | - | - | 116,732 |
| 06/04/2018 | 31/12/2024 | $1.0000 | 116,730 | - | - | - | 116,730 |
| 26/11/2018 | 31/03/2019 | $0.2500 | 2,000,000 | - | - | (2,000,000) | - |
| 28/11/2018 | 01/05/2019 | $0.2500 | 4,000,000 | - | - | (4,000,000) | - |
| 08/07/2019 | 12/01/2023 | $0.6300 | - | 58,366 | - | - | 58,366 |
| 08/07/2019 | 31/12/2023 | $0.7500 | - | 58,366 | - | - | 58,366 |
| 08/07/2019 | 31/12/2024 | $1.0000 | - | 58,365 | - | - | 58,365 |
| 24/09/2019 | 23/09/2022 | $0.2500 | - | 1,250,000 | - | - | 1,250,000 |
| 24/09/2019 | 23/09/2022 | $0.2500 | - | 1,000,000 | - | (250,000) | 750,000 |
| 24/09/2019 | 23/09/2022 | $0.5000 | - | 750,000 | - | - | 750,000 |
| 24/09/2019 | 23/09/2022 | $0.5000 | - | 2,000,000 | - | - | 2,000,000 |
| | | | 10,086,667 | 5,175,097 | - | (6,250,000) | 9,011,764 |
| Weighted average exercise price | | | $0.4525 | $0.4081 | $0.0000 | $0.0000 | $0.4377 |

| **As at 31 December 2018**<br>**Grant date** | **Expiry date** | **Exercise price** | **Balance at the start of the year** | **Granted** | **Exercised** | **Expired/ forfeited/ other** | **Balance at the end of the year** |
|---|---|---|---|---|---|---|---|
| 12/01/2018 | 12/01/2023 | $0.2000 | - | 3,336,667 | - | (3,336,667) | - |
| 12/01/2018 | 31/12/2023 | $0.2000 | - | 3,100,000 | - | (3,100,000) | - |
| 12/01/2018 | 31/12/2024 | $0.2000 | - | 3,000,000 | - | (3,000,000) | - |
| 31/01/2018 | 12/01/2023 | $0.2000 | - | 3,000,000 | - | (3,000,000) | - |
| 06/04/2018 | 12/01/2023 | $0.2000 | - | 500,000 | - | (500,000) | - |
| 06/04/2018 | 31/12/2023 | $0.2000 | - | 500,000 | - | (500,000) | - |
| 06/04/2018 | 31/12/2024 | $0.2000 | - | 500,000 | - | (500,000) | - |
| 12/01/2018 | 12/01/2023 | $0.6300 | - | 1,086,667 | - | - | 1,086,667 |
| 12/01/2018 | 12/01/2023 | $0.6300 | - | 649,805 | - | - | 649,805 |
| 12/01/2018 | 31/12/2023 | $0.7500 | - | 649,806 | - | - | 649,806 |
| 12/01/2018 | 31/12/2024 | $1.0000 | - | 649,806 | - | - | 649,806 |
| 31/01/2018 | 12/01/2023 | $0.6300 | - | 233,463 | - | - | 233,463 |
| 31/01/2018 | 12/01/2023 | $0.7500 | - | 233,463 | - | - | 233,463 |
| 31/01/2018 | 12/01/2023 | $1.0000 | - | 233,463 | - | - | 233,463 |
| 06/04/2018 | 12/01/2023 | $0.6300 | - | 116,732 | - | - | 116,732 |
| 06/04/2018 | 31/12/2023 | $0.7500 | - | 116,732 | - | - | 116,732 |
| 06/04/2018 | 31/12/2024 | $1.0000 | - | 116,730 | - | - | 116,730 |
| 26/11/2018 | 31/03/2019 | $0.2500 | - | 2,000,000 | - | - | 2,000,000 |
| 28/11/2018 | 01/05/2019 | $0.2500 | - | 4,000,000 | - | - | 4,000,000 |
| | | | - | 24,023,334 | - | (13,936,667) | 10,086,667 |
| Weighted average exercise price | | | $0.0000 | $0.3060 | $0.0000 | $0.2000 | $0.4525 |

**Note 23. Share-based payments (continued)**

Set out below are the options exercisable at the end of the financial year:

| Grant date | Expiry date | As at 31 December 2019 Number | As at 31 December 2018 Number |
|---|---|---|---|
| 12/01/2018 | 12/01/2023 | 1,736,472 | 1,736,472 |
| 06/04/2018 | 12/01/2023 | 116,732 | 116,732 |
| 26/11/2018 | 31/03/2019 | - | 2,000,000 |
| 28/11/2018 | 01/05/2019 | - | 4,000,000 |
| 12/01/2018 | 31/12/2023 | 649,806 | - |
| 31/01/2018 | 01/02/2023 | 233,463 | - |
| 06/04/2018 | 31/12/2023 | 116,732 | - |
| 08/07/2019 | 08/07/2023 | 58,366 | - |
| 24/09/2019 | 24/09/2022 | 250,000 | - |
| | | 3,161,571 | 7,853,204 |

The weighted average remaining contractual life of options outstanding at 31 December 2019 was 2.07 (31 December 2018: 2.04 years)

Set out below are summaries of performance rights granted as share-based payments:

**As at 31 December 2019**

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 01/06/2018 | 01/06/2023 | $0.0000 | 3,000,000 | - | - | - | 3,000,000 |
| 08/07/2019 | 01/06/2023 | $0.0000 | - | 175,097 | - | - | 175,097 |
| 24/09/2019 | 30/06/2023 | $0.0000 | - | 3,000,000 | - | - | 3,000,000 |
| | | | 3,000,000 | 3,175,097 | - | - | 6,175,097 |

**As at 31 December 2018**

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|---|---|---|---|---|---|---|---|
| 01/06/2018 | 01/06/2023 | $0.0000 | - | 3,000,000 | - | - | 3,000,000 |
| | | | - | 3,000,000 | - | - | 3,000,000 |

The weighted average remaining contractual life of performance rights outstanding at 31 December 2019 was 2.41 years (31 December 2018: 4.42 years).

## Note 23. Share-based payments (continued)

For the options granted during the current and previous financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|---|---|---|---|---|---|---|---|
| 12/01/2018 | 12/01/2023 | $0.1500 | $0.6300 | 100.00% | - | 2.30% | $0.361 |
| 12/01/2018 | 31/12/2023 | $0.1500 | $0.7500 | 100.00% | - | 2.30% | $0.374 |
| 12/01/2018 | 31/12/2024 | $0.1500 | $1.0000 | 100.00% | - | 2.61% | $0.381 |
| 31/01/2018 | 12/01/2023 | $0.1500 | $0.6300 | 100.00% | - | 2.24% | $0.360 |
| 31/01/2018 | 12/01/2023 | $0.1500 | $0.7500 | 100.00% | - | 2.24% | $0.347 |
| 31/01/2018 | 12/01/2023 | $0.1500 | $1.0000 | 100.00% | - | 2.24% | $0.326 |
| 06/04/2018 | 12/01/2023 | $0.1500 | $0.6300 | 100.00% | - | 2.27% | $0.355 |
| 06/04/2018 | 31/12/2023 | $0.1500 | $0.7500 | 100.00% | - | 2.27% | $0.368 |
| 06/04/2018 | 31/12/2024 | $0.1500 | $1.0000 | 100.00% | - | 2.27% | $0.375 |
| 26/11/2018 | 31/03/2019 | $0.2500 | $0.2500 | 100.00% | - | 2.00% | $0.060 |
| 28/11/2018 | 01/05/2019 | $0.2500 | $0.2500 | 100.00% | - | 2.00% | $0.060 |
| 24/09/2019 | 22/09/2022 | $0.2500 | $0.2500 | 95.00% | - | 0.75% | $0.129 |
| 24/09/2019 | 22/09/2022 | $0.2500 | $0.5000 | 95.00% | - | 0.75% | $0.099 |
| 24/09/2019 | 22/09/2022 | $0.2500 | $0.2500 | 95.00% | - | 0.75% | $0.132 |
| 24/09/2019 | 22/09/2022 | $0.2500 | $0.2500 | 95.00% | - | 0.75% | $0.105 |
| 08/07/2019 | 12/01/2023 | $0.2500 | $0.2500 | 95.00% | - | 0.95% | $0.098 |
| 08/07/2019 | 31/12/2023 | $0.2500 | $0.2500 | 95.00% | - | 1.02% | $0.105 |
| 08/07/2019 | 31/12/2024 | $0.2500 | $0.2500 | 95.00% | - | 1.02% | $0.110 |

For the performance rights granted during the current and previous financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Estimated share price upon vesting | Probability of achieving vesting condition | Fair value at grant date |
|---|---|---|---|---|
| 01/06/2018 | 01/06/2023 | $0.5000 | 100.00% | $0.500 |
| 08/07/2019 | 01/06/2023 | $0.2500 | 95.00% | $0.250 |
| 24/09/2019 | 30/06/2023 | $0.2500 | 95.00% | $0.250 |

*(e) Share-based payments expense - equity-settled*

| | Year ended 31 December 2019 | Year ended 31 December 2018 |
|---|---|---|
| **Total expense recognised for the period arising from share-based payment transactions** | | |
| Share issues to suppliers - settlement of legal fees liability | - | 10,000 |
| Options issues to suppliers - settlement of fundraising fee and other liabilities | - | 766,579 |
| Share issues to employees - performance shares | - | 319,552 |
| Employee incentive plan - options and performance rights expense recognised during vesting period | 787,604 | 900,192 |
| Total share-based payments expense | 787,604 | 1,996,323 |

## Note 24. Material Contracts

### Rail Loadout Property Purchase

The Company has entered into an agreement ("Original Agreement") to purchase property near the rail line to be utilized as the rail loadout facility (the "Rail Land"). Subject to acceptance of an offer to purchase land adjacent to the Rail Land ("Adjacent Land"), the Company has agreed to purchase the Rail Land and the Adjacent Land for a total of C$2,719,000. A non-refundable deposit amounting to C$ 175,000 has been paid to the vendor of the Rail Land. As the transaction did not close on 31 October 2019 pursuant to the Original Agreement, the Original Agreement was replaced with a new agreement to extend the offer to purchase the property until 1 July 2020 (the "Replacement Agreement"). In consideration of entering into the Amended Agreement, the Company has provided the vendor with a new refundable deposit amounting to C$ 225,000 that will be forfeited to the vendor in the event that that purchase is not completed.

### Chinook Properties Purchase

Montem Alberta completed the purchase of the Chinook Properties from PMRU, a subsidiary of Westmoreland Coal Company. Total consideration for the Chinook Properties is C$12,000,000, of which C$1,000,000 was paid in September 2016. Payment of the balance owing is as described below:

**<u>Tranche 1: Licensing Payments</u>**

Total of C$ 5,000,000 is payable as follows:

• C$ 5,000,000 – within thirty days of receipt by Montem of a mining licence for any of the Chinook Properties not including Tent Mountain

or

• C$1,500,000 – within ninety days of receipt of the Tent Mountain renewed or amended coal mining licence;
• C$1,500,000 – within ninety days of receipt of an amended Alberta Environmental Protection and Enhancement Act (EPEA) for Tent Mountain;
• C$ 2,000,000 on or before the earlier of thirty days of receipt of any coal mining licence related to the Chinook Properties other than Tent Mountain and 31 January 2027.

Provided that:

• if none of these payments have been triggered by 31 December 2021 and the purchaser has not submitted relevant mining licence applications then the amounts will be payable on the earlier of the above triggers or in five equal payments of C$ 1,000,000 payable annually before 31 January between 2022 and 2026;

or

• if none of these payments have been triggered by 31 December 2021 and the purchaser has submitted relevant mining licence applications then the amounts will be payable on the earlier of the above milestones or in five equal payments of C$ 1,000,000 payable annually before 31 January between 2024 and 2028. If the Company has submitted the relevant mining licence applications but they are rejected by the authorities, the licence-related payments will be payable in accordance with this provision.

As described above, the C$ 5,000,000 licensing payment is payable even if no licences are received for the Chinook Properties.

**<u>Tranche 2: Production Payments</u>**

Total of C$ 6,000,000 is payable as follows:

• C$ 6,000,000 within thirty days of the first 1,000,000 tonnes of coal from any of Chinook Properties not including Tent Mountain

UNLESS production of the first 1,000,000 tonnes of coal comes from Tent Mountain, then

• C$ 500,000 within thirty days of production of the first 500,000 tonnes of Tent Mountain coal;
• C$ 500,000 within thirty days of the production of the second 500,000 tonnes of Tent Mountain coal;
• C$ 500,000 within thirty days of the first anniversary of such 1,000,000 tonnes production;
• C$ 500,000 within thirty days of the second anniversary of such 1,000,000 tonnes production; and
• C$ 4,000,000 within thirty days of production of 1,000,000 tonnes of production from the Chinook Properties other than Tent Mountain.

The directors have determined that the Company is a reporting entity, and determined that this financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements. The directors of the Company declare that:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial year ended on that date; and

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

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Mark Lochtenberg
Chairman

29 April 2020

William Buck

# Montem Resources Limited

## Independent auditor's report to members

# Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Montem Resources Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:
(i) giving a true and fair view of the Group's financial position as at 31 December 2019 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### Material Uncertainty Relating to Going Concern

We draw attention to Note 2 to the financial report, which describes that the Consolidated Entity made a loss after tax of $3,305,949 during the year ended 31 December 2019 (year ended 31 December 2018: $5,018,796) and had net operating cash outflows of $2,131,107 (31 December 2018: $4,068,063). These conditions, along with any other matters set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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## 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 these financial statements is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf

This description forms part of our independent auditor's report.

William Buck

**William Buck Audit (Vic) Pty Ltd**
ABN 59 116 151 136

**J. C. Luckins**
Director

Melbourne, 29 April 2020

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