

Moreton Resources Limited

ABN 75 060 111 784

Annual Report - 30 June 2019

Moreton Resources Limited
Corporate directory
30 June 2019

| | |
|---|---|
| Directors | Alexander Jason Elks - Non-executive Chairman Phillip Bryant - Managing Director and Chief Executive Officer Brett Garland - Non-executive Director |
| Company secretary | Alexander Jason Elks |
| Notice of annual general meeting | The details of the annual general meeting of Moreton Resources Limited are: Link Market Services Pty Ltd 10 Eagle Street Brisbane QLD 4000 10am on Wednesday, 20 November 2019 |
| Registered office and principal place of business | 1/169 Kelvin Grove Road Kelvin Grove QLD 4059 Phone: (07) 4653 1769 |
| Share register | Link Market Services Limited 10 Eagle Street Brisbane QLD 4000 Phone: 1300 554 474 |
| Auditor | Nexia Brisbane Audit Pty Ltd 10 Eagle Street Brisbane QLD 4000 |
| Stock exchange listing | Moreton Resources Limited shares are listed on the Australian Securities Exchange (ASX code: MRV) |
| Website | www.moretonresources.com.au |
| Corporate Governance Statement | www.moretonresources.com.au/corporate-governance/ |

Moreton Resources Limited
Directors' report
30 June 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'group') consisting of Moreton Resources Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

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

Current:

Alexander Jason Elks (resigned 29 July 2019 and reappointed 27 August 2019)
 Phillip Bryant (appointed 10 April 2019)
 Brett Garland (appointed 22 July 2019)

Former:

Gary Harradine (appointed 11 February 2019 and resigned 20 August 2019)
 Robin Lonergan (appointed 22 July 2019 and resigned 20 August 2019)
 Kalman Salgo (appointed 10 December 2018 and resigned 10 April 2019)
 Brent Van Staden (appointed 11 February 2019 and resigned 7 March 2019)
 John Haley (appointed 5 November 2018 and resigned 6 February 2019)
 Valeri Melik-Babakhanov (resigned on 14 December 2018)
 Philip Anthony Feitelson (resigned 5 November 2018)

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of acquiring and advancing its assets from exploration through to operations, in particular in the Metals and Coal space of the resources sector. The primary focus of the group during the year has been to continue activities regarding the extraction and sale of silver from existing leach heaps at its Texas mine.

Dividends

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

Review of operations

The loss for the group after providing for income tax amounted to \$26,471,457 (30 June 2018: profit of \$11,338,312).

The loss included the following significant items:

| | 30 June 2019 | 30 June 2018 |
|---|--------------|--------------|
| | \$ | \$ |
| Income: | | |
| Gain on business acquisition | - | 13,320,497 |
| Expenses: | | |
| Employee benefits expense (a) | 2,957,455 | 656,772 |
| Exploration and evaluation expenditure (b) | 357,328 | - |
| Provision for general interest charge (GIC) on refund of Research and Development Tax | | |
| Offset incentives received (c) | 2,571,373 | - |
| Mining operating expenditure (d) | 3,938,094 | - |
| Tax expense in the Statement of Profit or Loss and Other Comprehensive Income is comprised of: | | |
| Derecognition of Research and Development Tax Offset incentives receivable (c) | 5,160,515 | - |
| Provision for refund of Research and Development Tax Offset incentive received in prior financial periods (c) | 8,185,725 | - |

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- (a) Employee benefits expense increased due to a decision by the Board to expense all costs relating to the Granite Belt Silver project. In the previous period all costs had been capitalised to Mine Development as part of the recommissioning of the mine.
- (b) The consolidated entity recommenced active operations at its Granite Belt Project resulting in a significant increase in exploration and evaluation expenditure.
- (c) The company's Directors have derecognised the Research and Development Tax Incentive receivable of \$5,160,515, provided for the refund of incentives received in prior financial periods in the sum of \$8,185,725 (refer note 10), and provided for a potential general interest charge of \$2,571,373 on the refund, pending the outcome of the group's action to dispute and have put aside the original AAT decision.
- (d) Mining operating expenditure was primarily related to the recommencement of heap leaching operations at the Granite Belt Project (excluding allocations of employee benefits, consultants and depreciation, refer note 4 for total costs attributable to the Granite Belt project).

During the year ended 30 June 2019 the company:

- Commenced a Strategic Review of its asset portfolio. The company appointed Aitken Murray Capital Partners and Longreach Capital as its joint corporate advisors and Corrs Chambers Westgarth as legal advisor to assist the company in considering and implementing the strategic alternatives. The review considered the various alternatives for the consolidated entity's four major projects and the various development and funding models, including joint venture and outright sale. The advisors issued on behalf of the company invitations to multiple parties to engage in expressions of interest processes for the company's Bowen Basin (Mackenzie) coal project and its Surat Basin coal project. The advisors have received formal indicative, non-binding interest in the coal assets. The company will seek to progress this interest, however there is no assurance that a binding transaction will be concluded on either coal asset or on the timing of any such transaction, as the company will continue to assess its overall strategy and how each potential transaction may benefit the long-term objectives of the company.
- Lodged an appeal with the Federal Court of Australia from a decision of the Administrative Appeals Tribunal (AAT) made on 10 September 2018. The AAT affirmed the internal review decision of Innovation and Science Australia which found that the company's activities registered under the Industry Research and Development Act 1986 (Cth) in the financial years ended 2012, 2013 and 2014 were not "R&D activities", as defined under the relevant Act. The company appealed from the whole of the decision of the AAT. In July 2019 the Federal Court found in favour of the appeal by Moreton Resources Limited, and as such have determined the prior decision of the Tribunal, is to be set aside and the matter remitted to the Tribunal for determination according to law.
- Through its wholly owned subsidiary, MRV Metals Pty Ltd, recommenced active operations at the Granite Belt Project, located near Texas, Queensland.
- Obtained additional short-term funding from First Samuel Limited of \$4,449,918 (facility limit increased to \$10,449,918) and negotiated an extension of the repayment of interest and principle from 30 September 2018 to 1 April 2019. The facility was fully drawn down. In addition to the funding, First Samuel transferred \$4,800,000 from Debentures to Unsecured Notes.
- Issued 278,323,729 ordinary shares in terms of a non-renounceable rights issue at an issue price of 0.8 cent per share. The rights issue was fully subscribed and the company raised \$2,226,590, refer Note 21.

Capital expenditure

During the 2019 financial year, \$247,255 was incurred on capitalised exploration and evaluation expenditure (2018: \$1,256,789). All the expenditure incurred in the 2019 financial year was on the Tarong Basin thermal project exploration and development assets.

Cash flow and liquidity

During the 2019 financial year, the net cash outflows from operating activities increased to \$7,547,434 (2018 net cash outflows: \$1,402,181) and the increase is largely attributable to significant increases in employee benefits expense, mining operating expenditure, and legal and professional fees.

For the financial year ended 30 June 2019 net cash outflows from investing activities amounted to \$194,496 (2018 net cash outflows: \$12,754,171). Payments for plant and equipment, exploration and evaluation assets, and mine developments assets amounted to \$1,200,498 (2018: \$8,458,433).

Business strategies and prospects

The strategy for 2019 and beyond will be to maximise the value of the group's assets and look to opportunistically increase the group's prospects, through either strategic alliances or joint ventures.

The company does not foresee any major business risks for 2019-2020, other than the risks inherent in the coal exploration industry, the metals exploration and minerals processing industries and in connection with the current AAT proceedings and ATO matters. Management of any potential financial risks is discussed further in note 24: Financial instruments. The future projected cash flow is based on the Granite Belt Project moving into production.

Going concern

As at 30 June 2019 the group incurred a loss of \$26,471,457 (2018: profit \$11,338,312) after income tax expense, had net cash outflows from operating activities of \$7,547,434 (2018: \$1,402,181) and working capital deficiency of \$16,179,704 (2018: surplus \$6,600,215). The group's loss includes the derecognition of the Research and Development Tax Incentive receivable of \$5,160,515, the provision for the refund of incentives received in prior financial periods in the sum of \$8,185,725, and a provision for a potential general interest charge of \$2,571,373 on the refund, pending the outcome of the groups appeal to the Administrative Appeals Tribunal. The group's loss excluding the aforementioned expenses was \$10,553,844 and was largely attributable to the group recommencing active operations at its Granite Belt Project resulting in a significant increase in mining operating expenditure and employee benefits expense.

The ability of the group to continue as a going concern is principally dependent upon the following conditions:

- Raising additional capital or securing other forms of financing, as and when necessary to meet the levels of expenditure required for the group to continue to progress the mineral properties in which it has an interest and to meet the group's working capital requirements;
- Positive cash flows from the group's Granite Belt Project; and
- A favourable outcome in the company's appeal regarding the Tax Incentive benefit decision of the Administrative Appeals Tribunal.

These conditions give rise to a material uncertainty, which may cast significant doubt over the consolidated entity's ability to continue as a going concern.

The Directors consider there are reasonable grounds to believe that the group will be able to continue as a going concern after consideration of the following factors:

- Active operations have recommenced at the Granite Belt Project, located near Texas, Queensland which is expected to yield sales of silver inventory in the short-term and as the operations advance;
- The Directors have refinanced the company's existing loan facilities;
- The Directors are confident of a favourable outcome in the company's appeal regarding the Tax Incentive benefit decision of the Administrative Appeals Tribunal;
- The company has a successful history of obtaining additional equity funding when required and the Directors are of the view this can be repeated in future if required.

Based on the above, the Directors are of the opinion that at the date of signature of the financial report there are reasonable and supportable grounds to believe that the consolidated entity will be able to meet its liabilities from its assets in the ordinary course of business, for a period of not less than 12 months from the date of this financial report and has accordingly prepared the financial report on a going concern basis.

Should the group be unable to raise additional funds when required there is a material uncertainty which may cast significant doubt as to whether the group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the group be unable to continue as a going concern and meet its debts as and when they fall due.

The company's auditor has, without qualifying their audit opinion, included a 'material uncertainty in relation to going concern' paragraph in their audit report which draws attention to the aforementioned uncertainty regarding going concern.

Group assets

The company's Directors are focused on realising the group's coal assets and developing its metals assets. The following asset brief refers to this strategy.

MDL 385 Tarong Basin Thermal Coal Project

The company's MDL 385, strategically located in the Tarong Basin in south-eastern Queensland is seen as a commercially viable asset that could significantly complement power generation activities either locally or internationally. Having a Coal Resource estimate of 517.5 Mt (134 Mt measured and 383.5 Mt Indicated) reported in accordance with the JORC Code (2012 edition), this asset is seen as a genuine mid-term prospect for the company, and activities to advance this project are underway.

EPC 882 Tarong Basin Thermal Coal Project

The company purchased EPC 882 in October 2015. EPC 882 is strategically located in the Tarong Basin in south-eastern Queensland, abutting MDL 385. The Coal Resource estimate is included in the MDL 385 figures as noted above.

EPC 1445 Mackenzie Coal Project

The company holds asset EPC 1445, which is located within the world-renowned Bowen Basin in central Queensland. Following the granting of MDL 503, the sub-blocks constituting MDL 503 were relinquished from the EPC 1445 holding. EPC 1445 now consists of one sub-block that adjoins MDL 503 (refer below). The Australian Tax Office has a registered mortgage via a security arrangement.

ML 503 Mackenzie Coal Project

The company was granted MDL 503 in 2015. A further exploration program was carried out on this MDL during 2015 with an updated Coal Resource estimate released in August 2015. The updated estimate (reported in accordance with the JORC Code 2012 edition) totals 138.1 Mt (65.1 Mt Indicated and 73.0 Mt Inferred) on an in-situ basis. Surrounded by several significant and profitable PCI operations, this potential underground asset is seen as a highly desirable, significant future operation. The Australian Tax Office has a registered mortgage via a security arrangement.

MDL 420 Wandoan Coal Project

MDL 420, situated in the Surat Basin in southern Queensland is seen as a long-term strategic asset that allows the company to show a complete pipeline of potential development from near through to long term. This asset has a Coal Resource estimate of 341.3 Mt (33.7 Mt Indicated and 307.6 Mt Inferred) reported in accordance with the JORC Code (2004 edition).

ML 100106 Granite Belt Project

The Company was granted the Mining Lease in October 2017. ML 100106 is located within the Silver Spur Basin near Texas, Queensland. This asset is the Granite Belt Project Silver Mine. The total assets of the previous operator – the liquidated Alycone - including physical and technical assets have become the property of MRV Metals Pty Ltd through the acquisition of the underlying tenures. The company continues to move into operations.

EPM 8854 Granite Belt Metals Project

The Company purchased EPM 8854 during 2016. EPM 8854 is located within the Silver Spur Basin near Texas, Queensland. This asset has been extensively explored in the past and contains a number of promising exploration targets for silver and copper, which the Company is currently investigating. This tenement is the location of majority of the already declared targets under the Granite Belt Project and also the Granite Belt Exploration Project.

EPM 11455 Granite Belt Metals Project

The Company purchased EPM 11455 during 2016. EPM 11455 is located within the Silver Spur Basin near Texas, Queensland and is adjacent to EPM 8854. As a result, this asset is seen as being complimentary to EPM 8854 and the Company is currently investigating its potential.

EPM 12858 Granite Belt Metals Project

The Company purchased EPM 12858 during 2016. EPM 12858 is located within the Silver Spur Basin near Texas, Queensland and is adjacent to EPM 8854 and EPM 11455. As a result, this asset is seen as being complimentary to EPM 8854 and EPM 11455, and the Company is currently investigating its potential.

EPM 18950 Granite Belt Metals Project

The Company purchased EPM 18950 during 2016. EPM 18950 is located within the Silver Spur Basin near Texas, Queensland and is adjacent to EPM 8854, EPM 11455 and EPM 12858. As a result, this asset is seen as being complimentary to EPM 8854, EPM 11455 and EPM 12858, and the Company is currently investigating its potential.

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EPM 26275 Granite Belt Metals Project

The Company purchased EPM 26275 during 2016. EPM 26275 is located within the Silver Spur Basin near Texas, Queensland and is located within the current cluster of EPMs and completes the total footprint of the Granite Belt Project. The Company is currently investigating its potential.

Significant changes in the state of affairs

During the year the group has moved from principally engaging in exploration and evaluation activities to largely focusing on its silver mining operations while continuing to evaluate its existing areas of interest.

There were no other significant changes in the state of affairs of the group during the financial year.

Matters subsequent to the end of the financial year

In the matter of Moreton Resources Ltd v Innovation and Science Australia, the Federal Court of Australia has considered the appeal of Moreton Resources Limited, and found in favour of the appeal by Moreton Resources Limited, and as such have determined that the prior decision of the Tribunal, is to be set aside and the matter remitted to the Tribunal for determination according to law. As at the date of this report the matter remained unresolved.

On 29 July 2019 the company issued a total of 12,299,308 ordinary shares in the company as follows:

- 2,804,794 issued in lieu of debenture interest; and
- 9,494,514 issued to Mr Alexander Jason Elks in conjunction with the Moreton Resources Corporate Employees Long-Term Incentive plan.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Likely developments and expected results of operations

Other than the matters discussed regarding the group recommencing active operations at its Granite Belt project other information on likely developments in the operations of the group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the group.

Environmental regulation

The group lodges financial assurance bonds with the Queensland Department of Environment and Science for its maximum predicted level of disturbance at any one time. That maximum level is based on disturbance of one hectare of pastoral land per tenement on which drilling is occurring with the intensity limited to the rehabilitation of shallow sumps and topsoil disturbance. To date the group has not exceeded its maximum predicted level of disturbance and as a result the assurance bonds have not been called on by the Department.

In addition to this with the granting of ML 100106 the company continues to negotiate with the Department of Environment and Science upon a suitable and final financial assurance for the Granite Belt Project. Currently a cash bond of \$3.9M is held by the department and this figure may rise or fall depending on future negotiation and plan of operation disturbance areas.

Information on directors

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|---------------------------|--|
| Name: | Alexander Jason Elks (resigned 29 July 2019 and reappointed 27 August 2019) |
| Title: | Non-executive Chairman |
| Qualifications: | Mast. Management and Human Resources |
| Experience and expertise: | Jason Elks' most recent role was with Rio Tinto, based in Montreal, managing the People and Organisation support areas throughout North and South America, Australia and New Zealand. Prior to this Jason held senior roles with LGL, Zinifex, OneSteel and Kodak Australasia. |

Jason has extensive operational and corporate experience within large global companies as well as smaller national enterprises. His commodity experience includes coal, iron ore, zinc, lead and gold, along with a history in oil and gas exploration and heavy industry manufacturing.

| | |
|--------------------------------------|-------------|
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Chairman |
| Interests in shares: | 291,126,706 |
| Interests in options: | None |

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|--------------------------------------|--|
| Name: | Phillip Bryant (appointed 10 April 2019 and Managing Director and Chief Executive Officer with effect from 29 April 2019) |
| Title: | Managing Director and Chief Executive Officer |
| Qualifications: | BSc, M.AusIMM |
| Experience and expertise: | Phillip Bryant is a mining professional with over 23 years of senior management, operational, technical and project development experience in the Australian mining industry. Phillip has held senior positions with BHP, Newmont, Anglo Coal, Peabody Energy and New Hope Coal. His commodity experience includes coal, iron ore, gold, copper and base metals. Phillip has considerable experience through feasibility studies, construction and commissioning of both new and brown fields' operations. Phillip is a member with the Australian Institute of Mining and Metallurgy (AusIMM) and is a Competent Person under the Joint Ore Resources Code (JORC) for coal resources. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Managing Director and Chief Executive Officer |
| Interests in shares: | None |
| Interests in options: | None |
| Name: | Brett Garland (appointed 22 July 2019) |
| Title: | Non-executive Director |
| Qualifications: | MBA, B Eng |
| Experience and expertise: | Brett Garland has a long career in the resources sector with a focus on metallurgical and thermal coal, including most recently holding CEO and Director position's that include a corporate focus on safety across the mining industry. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | None |
| Interests in shares: | None |
| Interests in options: | None |
| Name: | Robin Lonergan (appointed 22 July 2019 and resigned 20 August 2019) |
| Title: | Non-executive Director |
| Qualifications: | BA, LLB, LLM |
| Experience and expertise: | Robin Lonergan holds senior and executive positions within a well renowned legal practice in Queensland, where he is special counsel in the Brisbane corporate advisory team. Robin has a long history in the resources sector through mergers and acquisition, shareholders arrangements, contractual advisory services, and through numerous legal publications. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Company Secretary |
| Interests in shares: | None |
| Interests in options: | None |
| Name: | Philip Anthony Feitelson (resigned 5 November 2018) |
| Title: | Non-executive Director |
| Qualifications: | Degree in Architecture |
| Experience and expertise: | Philip Anthony Feitelson has had an association with Moreton Resources Ltd since 2013, being a significant shareholder of the company. Philip holds a degree in Architecture and retired as a practising Architect several years ago. Philip is a director of a number of private companies owning retail, commercial, industrial and farming properties. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Member of the Remuneration Committee and Audit Committee |
| Interests in shares: | 971,605,372* |
| Interests in options: | None* |

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Name: Valeri Melik-Babakhanov (resigned 14 December 2018)
 Title: Non-executive Director
 Qualifications: Engineering (Hons), Master of Engineering MEng, CPEng, NPER, BPEQ
 Experience and expertise: Valeri Melik-Babakhanov prior to August 2016, held a position of General Manager Technical Services and has a significant history with the company, joining the company in 2008, and intricate knowledge of the assets currently owned by the company.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Member of the Remuneration Committee and Audit Committee
 Interests in shares: 1,727,000*
 Interests in options: None*

Name: John Haley (appointed 5 November 2018 and resigned 6 February 2019)
 Title: Executive Director
 Qualifications: BCom, MBA
 Experience and expertise: John Haley is a Chartered Accountant with over 35 years' experience in accounting and finance. John has held Executive and Non-executive Director and management roles with a number of ASX listed mining companies for approximately 15 years. He is a former Director of the Queensland Resources Council.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Chief Executive Officer and Company Secretary
 Interests in shares: None*
 Interests in options: None*

Name: Kalman Salgo (appointed 10 December 2018 and resigned 10 April 2019)
 Title: Executive Director
 Qualifications: BEng, MBA, Dip HR
 Experience and expertise: Kalman Salgo is highly experienced and a well-qualified mining professional with qualifications in Mining Engineering, Business and Human Resources. Kalman recently returned to Australia from Madagascar where he was a head of operations at Ambatovy Ni/Co Laterite Mine. Prior to this, through 2015 to mid 2016, Kalman undertook significant due diligence reviews for Moreton Resources Limited on prospective mining operations, whilst the company was exploring market opportunities. Having a strong operational background as General Manager for Mt Muro in Kalimantan, Operations Manager Bonikro Operations Cote d'Ivoire for Newcrest Mining and General Manager of the Mt Rawdon Operations for LGL, Kalman also has a strong history in gold and silver operations.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: Chief Executive Officer of MRV Metals Pty Ltd (a wholly owned subsidiary of Moreton Resources Limited)
 Interests in shares: None*
 Interests in options: None*

Name: Brent Van Staden (appointed 11 February 2019 and resigned 7 March 2019)
 Title: Non-executive Director
 Qualifications: B Juris, LLB (Hons), LLM (Tax), LLM (Comm Law)
 Experience and expertise: Brent Van Staden is currently a partner with Colin Biggers & Paisley Lawyers located in Brisbane. Brent has considerable experience in all aspects of corporate, mining and commercial law. These skills and experiences have been attained whilst practising in Australia, the United Kingdom and in South Africa.
 Other current directorships: None
 Former directorships (last 3 years): None
 Special responsibilities: None
 Interests in shares: None*
 Interests in options: None*

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|--------------------------------------|--|
| Name: | Gary Harradine (appointed a Director on 11 February 2019 and Chairman with effect from 30 July 2019; resigned 20 August 2019) |
| Title: | Non-executive Chairman |
| Qualifications: | BE (Chem Eng) |
| Experience and expertise: | Gary Harradine has 30 years of international experience in executive management, design, engineering, and project approvals and development across the resources, mining, oil and gas, logistics, and infrastructure sectors. Gary has established and managed a number of successful businesses, as well as grown existing businesses, across a number of industries and services since 1994. |
| | Gary holds professional affiliations with the Association of Professional Engineers, Scientists and Managers of Australia (Fellow) and formally with International Project Management Institute and the Australian Institute of Project Management. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Special responsibilities: | Chairman |
| Interests in shares: | None* |
| Interests in options: | None* |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

* Interests in the shares, options and rights of the company as at the date of resignation as a director.

Company secretary

Jason Culpeper (C.A) was appointed to the position of Company Secretary of Moreton Resources Limited on 13 April 2018 and resigned on 23 August 2018. Jason is an international experienced Chartered Accountant and senior commercial executive. He has 15 years' experience in financial and commercial roles in the resources industry including working closely with executive teams of ASX listed companies.

Terry Bourke (BComm, LLB) was appointed to the position of Company Secretary of Moreton Resources Limited on 27 August 2018 and resigned on 29 October 2018. Terry is a Solicitor of the Supreme Court of NSW and has held roles as General Counsel of Atlantic Ltd, and General Counsel and Company Secretary of Independence Group NL and Norilsk Nickel Australia.

John Haley (BComm, MBA, C.A) was appointed to the position of Company Secretary of Moreton Resources Limited on 19 October 2018 and resigned on 6 February 2019. John has held a number of similar positions, as well as Executive Director management roles, with ASX listed mining companies for approximately 20 years.

Brent Van Staden was appointed to the position of Company Secretary of Moreton Resources Limited on 11 February 2019 and resigned 7 March 2019. Brent has considerable experience in all aspects of corporate, mining and commercial law and has attained these skills whilst practicing in Australia, the United Kingdom and in South Africa.

Following the resignation of Brent Van Staden, the role of Company Secretary was undertaken by Alexander Jason Elks until the appointment of Robin Lonergan on 22 July 2019. Robin holds senior and executive positions within a well renowned legal practice in Queensland, where he is special counsel in the Brisbane corporate advisory team. Robin resigned on 20 August 2019 and Alexander Jason Elks assumed the role Company Secretary thereafter.

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Directors' report
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Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2019, and the number of meetings attended by each director were:

| | Full Board | | Remuneration Committee | | Audit Committee | |
|--|------------|------|------------------------|------|-----------------|------|
| | Attended | Held | Attended | Held | Attended | Held |
| Gary Harradine (appointed 11 February 2019) | 2 | 2 | - | - | - | - |
| Phillip Bryant (appointed 10 April 2019) | 2 | 2 | - | - | - | - |
| Alexander Jason Elks Philip Anthony Feitelson (resigned 5 November 2018) | 10 | 12 | - | - | - | - |
| Valeri Melik (resigned 14 December 2018) | 8 | 8 | 1 | 1 | 1 | 1 |
| John Haley (appointed 5 November 2018, resigned 6 February 2019) | 8 | 8 | 1 | 1 | 1 | 1 |
| Kalman Salgo (appointed 10 December 2018, resigned 10 April 2019) | 5 | 5 | - | - | - | - |
| Brent Van Staden (appointed 11 February 2019, resigned 7 March 2019) | 3 | 3 | - | - | - | - |
| | 1 | 1 | - | - | - | - |

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

During the 2019 financial year, the Board decided that it was no longer appropriate to have separate committees for Audit and Remuneration. The Board as part of its role has undertaken the responsibilities of these Board committees and carries out the functions set out in their respective charters to ensure that their objectives are met.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

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The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the Remuneration Committee. The Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 19 September 2014, where the shareholders approved a maximum annual aggregate remuneration of \$300,000.

Executive remuneration

The group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term and long-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

(i) Fixed remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration Committee based on individual and business unit performance, the overall performance of the group and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the group and provides additional value to the executive.

(ii) Short-term incentives

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. A Short-Term Incentive Plan (STIP) was approved and introduced by the Board in the 2015 financial year. The STIP is an integral part of the group's overall approach to competitive performance-based remuneration. The Plan aims to reward eligible employees for meeting their goals and aligning their activities to the company's values. Employees are assessed through the normal performance enhancement system to measure their achievement of goals and alignment with the values. Poor alignment with the values and/or poor achievement of goals will result in a reduction to or non-payment of an incentive award. The incentive is for over and above day-to-day performance and role outcomes, which have already been remunerated for. The STIP is discretionary and will only be maintained and awards given, provided the group has achieved an overall positive result, as determined by the CEO and/or the Board. The Plan applies to invited permanent full-time or part-time MRV Corporate Employees employed in Australia. Eligibility depends on their contract of employment. The Plan does not extend to anyone where to do so would result in an overlap or doubling up of reward potential for specified performance over the same period.

(iii) Long-term incentives

The long-term incentives ('LTI') include long service leave and share-based payments. Options may be awarded to executives in terms of the 'Employees', Officers', Consultants' and Partners' Option Plan 2015'. The exercise price and vesting conditions of options issued under this plan are determined by the company's Directors, in accordance with the plan. Participation in the plan is at the Directors' discretion. The options are usually granted for no consideration and carry no dividend or voting entitlements. When exercised, each option converts into one fully paid ordinary share in the capital of the company. The maximum number of unexercised options that can be issued at any one time is 5% of the current number of issued shares.

At the company's annual general meeting held on 11 October 2018, the company's shareholders approved a Long Term Incentive Plan ('LTIP'). The aim of the LTIP is to align long term incentives for executives to participate in the future growth and profitability of the company with the delivery of key performance measures and to align them with company and shareholder objectives. The LTIP allows the grant of share rights to participants each of which is a right to acquire a share, subject to the satisfaction of performance conditions. For the year ended 30 June 2019 there were no long-term incentives (options or shares) issued.

Directors and executives (and their closely related parties) are prohibited from entering into hedge arrangements that would have the effect of limiting their risk exposure relating to their remuneration.

Group performance and link to remuneration

Given the group's exploration and resource development activities there is no direct relationship between the group's financial performance and the level of remuneration paid to key management personnel.

At 30 June 2019 the market price of the company's ordinary shares was \$0.005 per share (30 June 2018: \$0.0088 per share). No dividends were paid during the year ended 30 June 2019.

Share prices are subject to the influence of international metal prices and market sentiment towards the sector and increases or decreases may occur independently of executive performance or remuneration. The company may issue incentives for key management personnel which, it is believed, is in line with industry standards and practice and is also believed to align the interests of key management personnel with those of the company's shareholders.

Unless otherwise stated, service agreements do not provide for pre-determined compensation values or the manner of payment. Compensation is determined in accordance with the general remuneration policy. The manner of payment is determined on a case by case basis and is generally a mix of cash and non-cash benefits as determined by the Board of Directors. Except in so far as Directors and other key management personnel hold options over shares in the company, there is no relationship between remuneration policy and the company's performance.

Use of remuneration consultants

The company did not engage remuneration consultants during the financial year ended 30 June 2019.

Voting and comments made at the company's 11 October 2018 Annual General Meeting ('AGM')

At the 11 October 2018 AGM, 99.5% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Moreton Resources Limited
Directors' report
30 June 2019

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the group are set out in the following tables.

The key management personnel of the group consisted of the following directors of Moreton Resources Limited:

- Gary Harradine (appointed 11 February 2019)
- Phillip Bryant (appointed 10 April 2019)
- Alexander Jason Elks
- Philip Anthony Feitelson (resigned 5 November 2018)
- Valeri Melik-Babakhanov (resigned on 14 December 2018)
- John Haley (appointed 5 November 2018 and resigned 6 February 2019)
- Kalman Salgo (appointed 10 December 2018 and resigned 10 April 2019)
- Brent Van Staden (appointed 11 February 2019 and resigned 7 March 2019)

And the following person:

- Terry Bourke - Chief Executive Officer and Company Secretary (appointed 27 August 2018 and resigned 2 November 2018)

Changes since the end of the reporting period:

Alexander Jason Elks resigned from the position of Director on 29 July 2019 and was reappointed a Director on 27 August 2019. Gary Harradine resigned from the position of Director on 20 August 2019.

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | | Share-based payments | |
|--|----------------------|------------|--------------|--------------------------|--------------------|----------------------|----------------------|------------------|
| | Cash salary and fees | Cash bonus | Non-monetary | Super-annuation | Long service leave | Termination benefits | Equity-settled* | Total |
| 2019 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | | |
| Gary Harradine (a) | 18,934 | - | - | 2,831 | - | - | - | 21,765 |
| Valeri Melik-Babakhanov (b) | 36,009 | - | - | 3,210 | - | - | - | 39,219 |
| Philip Anthony Feitelson (b) | 52,681 | - | - | - | - | - | - | 52,681 |
| Brent Van Staden (b) | 2,783 | - | - | - | - | - | - | 2,783 |
| <i>Executive Directors:</i> | | | | | | | | |
| Phillip Bryant (a) | 81,996 | - | - | 10,208 | - | - | - | 92,204 |
| Alexander Jason Elks (f) | 330,525 | - | - | 26,686 | - | 305,409 | 56,158 | 718,778 |
| John Haley (c) | 35,593 | - | - | 3,381 | - | - | - | 38,974 |
| Kalman Salgo (d) | 106,552 | - | - | 9,405 | - | - | - | 115,957 |
| <i>Other Key Management Personnel:</i> | | | | | | | | |
| Terry Bourke (e) | 57,816 | - | - | 5,211 | - | - | - | 63,027 |
| | <u>722,889</u> | <u>-</u> | <u>-</u> | <u>60,932</u> | <u>-</u> | <u>305,409</u> | <u>56,158</u> | <u>1,145,388</u> |

Moreton Resources Limited
Directors' report
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- (a) Gary Harradine and Phillip Bryant were appointed Directors on 11 February 2019 and 10 April 2019 respectively.
- (b) Valeri Melik-Babakhanov and Philip Anthony Feitelson resigned on 14 December 2018 and 5 November 2018 respectively. Brent Van Staden was appointed a Director on 11 February 2019 and resigned on 7 March 2019.
- (c) John Haley was appointed a Director and Chief Executive Officer on 5 November 2018 and resigned on 6 February 2019.
- (d) Kalman Salgo is the Chief Executive Officer of MRV Metals Pty Ltd - a wholly-owned subsidiary of Moreton Resources Limited. Kalmon was appointed a Director on 10 December 2018 and resigned on 10 April 2019. Amounts shown above only include the remuneration he earned during his tenure as a Director.
- (e) Terry Bourke was appointed Chief Executive Officer on 27 August 2018 and resigned on 2 November 2018.
- (f) Alexander Jason Elks received 34,405,773 shares in the company as part of termination payments following his resignation as Chief Executive Officer in September 2018.

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments* | |
|---------------------------------|----------------------|------------|--------------|--------------------------|--------------------|-----------------------|---------|
| | Cash salary and fees | Cash bonus | Non-monetary | Super-annuation | Long service leave | Equity-settled | Total |
| 2018 | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | |
| Philip Anthony Feitelson | 43,836 | - | - | 4,164 | - | - | 48,000 |
| Valeri Melik-Babakhanov | 43,836 | - | - | 4,164 | - | - | 48,000 |
| <i>Executive Directors:</i> | | | | | | | |
| Alexander Jason Elks | 349,434 | - | - | 38,081 | - | 45,551 | 433,066 |
| | 437,106 | - | - | 46,409 | - | 45,551 | 529,066 |

* The value of the options granted to key management personnel as part of their remuneration is calculated as at the grant date using a binomial pricing model. The amounts disclosed as part of remuneration for the financial year have been determined by allocating the grant date value on a straight-line basis over the period from grant date to vesting date.

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Gary Harradine | 100% | - | - | - | - | - |
| Valeri Melik-Babakhanov | 100% | 100% | - | - | - | - |
| Tony Feitelson | 100% | 100% | - | - | - | - |
| Brent Van Staden | 100% | - | - | - | - | - |
| <i>Executive Directors:</i> | | | | | | |
| Phillip Bryant | 100% | - | - | - | - | - |
| Alexander Jason Elks | 90% | 90% | - | - | 10% | 10% |
| John Haley | 100% | - | - | - | - | - |
| Kalman Salgo | 100% | - | - | - | - | - |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Terry Bourke | 100% | - | - | - | - | - |

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Phillip Bryant
Title: Managing Director and Chief Executive Officer
Agreement commenced: 29 April 2019
Term of agreement: Fixed term ending on 30 December 2022
Details: Base salary of \$300,000 per annum including superannuation guarantee payments, subject to an annual review.

Phillip is entitled to the following incentives:

(a) Short term incentive

Maximum potential incentive of 20% of the base rate. Payment of any performance bonus is at the discretion of the Board of Directors and Phillip meeting performance targets and priorities set by the Board in consultation with Phillip.

(b) Long term incentive

Phillip is entitled to participate in the Moreton Resources executive option based scheme of up to 20% of the base rate, in accordance with the rules of the scheme and any applicable Moreton Resources Limited Policy.

There was no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments. The contract can be terminated by either the company or employee with 3 months' notice.

Name: Alexander Jason Elks
Title: Executive Chairman and Chief Executive Officer
Agreement commenced: 1 July 2014
Term of agreement: Ongoing
Details: Base salary of \$364,324 including superannuation guarantee payments. Jason was entitled to participate in short and long term incentive schemes as determined by the company from time to time. Jason was granted 2 tranches of share-based compensation as a long term incentive per his contract. Each tranche consisted of 20,189,062 options with exercise prices of \$0.04 per share for each tranche with expiry dates of 31 December 2018 and 31 December 2019 respectively. There was no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments, and a severance payment of all accrued short and long term incentive payments. The contract could be terminated by either the company or employee with 3 months' notice.

Name: John Haley
Title: Chief Executive Officer
Agreement commenced: 5 November 2018
Term of agreement: Fixed term contract for 3 days a week until 31 March 2019 - resigned on 6 February 2019
Details: Base salary of \$160,000 per annum including superannuation guarantee payments. John was entitled to a short term incentive payment of up to \$25,000 and a long term incentive payment of up to \$25,000 in share-based remuneration determined by the Board of Directors. There was no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments. The contract could be terminated by either the company or employee with 2 weeks notice.

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Directors' report
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Name: Terry Bourke
 Title: Chief Executive Officer
 Agreement commenced: 27 August 2018
 Term of agreement: Fixed 3 year term - resigned on 2 November 2018
 Details: Base salary of \$265,000 per annum including superannuation guarantee payments (Total Fixed Remuneration (TFR)), subject to an annual review.

Terry was entitled to the following incentives:

(a) Short term incentive

Potential incentive up to, but not exceeding 20% of his TFR. Payment of any performance bonus was at the discretion of the Board of Directors and Terry meeting performance targets and priorities set by the Board in consultation with Terry over a 3 year period.

(b) Long term incentive

Terry was entitled to a potential long term incentive up to but not exceeding 20% of his TFR. Payment of this incentive was at the discretion of the Board and Terry meeting performance targets and priorities set by the Board in consultation with Terry over a 3 year period.

There was no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments. The contract can be terminated by either the company or employee with 3 months' notice.

Name: Kalman Salgo
 Title: Chief Executive Officer of MRV Metals Pty Ltd
 Agreement commenced: 15 October 2018
 Term of agreement: Ongoing - resigned as a Director on 10 April 2019
 Details: Base salary of \$220,000 including superannuation guarantee payments. Kalman is entitled to participate in short and long term incentive schemes as determined by the company from time to time. There is no provision in the contract for a payout on termination other than accrued pay, leave entitlements or other statutory payments. The contract can be terminated by either the company or employee with 3 months' notice.

There are no other KMP with formal service agreements.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019.

Options

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

| Name | Number of options granted | Grant date | Vesting date and exercisable date | Expiry date | Exercise price | Fair value per option at grant date |
|----------------|---------------------------|-------------|-----------------------------------|-------------|----------------|-------------------------------------|
| Alexander Elks | 20,189,062 | 27 Oct 2017 | 1 Nov 2018 | 31 Dec 2018 | \$0.004 | \$0.003 |
| Alexander Elks | 20,189,062 | 27 Oct 2017 | 1 Nov 2019 | 31 Dec 2019 | \$0.004 | \$0.002 |

Options granted carry no dividend or voting rights.

Following the resignation of Alexander Jason Elks as CEO on 23 November 2018, the options granted to him were cancelled.

Moreton Resources Limited
Directors' report
30 June 2019

Additional information

The earnings of the group for the five years to 30 June 2019 are summarised below:

| | 2019 \$ | 2018 \$ | 2017 \$ | 2016 \$ | 2015 \$ |
|--------------------------------|--------------|------------|-------------|-------------|------------|
| Profit/(loss) after income tax | (26,471,457) | 11,338,312 | (1,692,516) | (1,626,332) | 4,897,002 |

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|--------|------|--------|--------|------|
| Basic earnings per share (cents per share) | (0.87) | 0.38 | (0.08) | (0.10) | 0.30 |
| Diluted earnings per share (cents per share) | (0.87) | 0.38 | (0.08) | (0.10) | 0.30 |

Additional disclosures relating to key management personnel

Shareholding

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

| | Balance at the start of the year | Received as part of remuneration | Additions | Disposals/ other* | Balance at the end of the year |
|--------------------------|--|--|-------------------|----------------------|--------------------------------------|
| Ordinary shares | | | | | |
| Alexander Jason Elks | 284,650,563 | 34,405,773 | 3,409,092 | (21,638,467) | 300,826,961 |
| Valeri Melik-Babakhanov | 1,570,000 | - | 157,000 | (1,727,000) | - |
| Philip Anthony Feitelson | 901,513,692 | - | 70,091,680 | (971,605,372) | - |
| | <u>1,187,734,255</u> | <u>34,405,773</u> | <u>73,657,772</u> | <u>(994,970,839)</u> | <u>300,826,961</u> |

* Includes the removal from the table of the shareholdings for key management personnel who have either resigned during the period or are no longer considered to be a key management person.

No other KMP holds shares in the company.

Option holding

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

| | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|-------------------------------------|--|----------|-----------|---------------------------------|--------------------------------------|
| Options over ordinary shares | | | | | |
| Alexander Jason Elks | 40,378,124 | - | - | (40,378,124) | - |
| | <u>40,378,124</u> | <u>-</u> | <u>-</u> | <u>(40,378,124)</u> | <u>-</u> |

No other KMP holds options in the company.

Other transactions with key management personnel and their related parties

The company rents commercial space in Spring Hill, Brisbane QLD from a company associated with a former Director Philip Anthony Feitelson. The total occupancy expenses incurred by the company to the date of his termination was \$19,479 (2018: \$41,660).

During the financial year ended 30 June 2018, Louise Elks the wife of a Director, Alexander Jason Elks, was employed as Human Resources Manager on a base salary of \$130,000 per annum inclusive of superannuation. During the financial year ended 30 June 2019, the group paid Louise Elks \$13,356 for the provision of Human Resource services.

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Philip Anthony Feitelson (a former Director) and Alexander Jason Elks (non-executive Chairman), have provided unsecured loans to the company of \$574,901 and \$200,000 respectively. The loan provided by Jason Elks has a 2-year term and interest rate of 10% per annum (payable quarterly). Interest payments may be made 50% cash and 50% equity (at \$0.011 per share). The loan due to Philip Anthony Feitelson has an interest rate of 13% per annum and was due to be repaid on 29 March 2019. The loan repayment terms are currently under discussion with Philip Anthony Feitelson.

Additionally, Philip Anthony Feitelson and Alexander Jason Elks hold debentures in the company. The debentures have been issued under a secured debenture deed executed by the company on 26 May 2017. Debentures are secured by all of the assets of the company and a guarantee by its wholly-owned subsidiary MRV Metals Pty Ltd. The debenture deed has a 2-year term and interest rate of 10% per annum (payable quarterly). Interest payments may be made 50% cash and 50% equity (at \$0.011 per share).

Aggregate amounts of each of the above types of other transactions with key management personnel and their related entities:

Amounts recognised as expenses

Administration: \$19,479 (2018: \$41,660)

Employee benefits expense: \$13,356 (2018: \$105,539)

Finance costs: \$149,096 (2018: \$154,675)

Amounts recognised as liabilities in respect of the above transactions

Current borrowings: \$950,000 (2018: \$2,750,000)

The borrowings at 30 June 2019 exclude the amounts due to Philip Anthony Feitelson as he was no longer a director of the company at that date.

This concludes the remuneration report, which has been audited.

Shares under option

There were no unissued ordinary shares of Moreton Resources Limited under option outstanding at the date of this report.

Shares issued on the exercise of options

There were no ordinary shares of Moreton Resources Limited issued on the exercise of options during the year ended 30 June 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 of \$45,600 to insure the directors, secretaries and officers of the company, and employees whilst acting in a managerial function.

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.

Proceedings on behalf of the company

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

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the company who are former partners of Nexia Brisbane Audit Pty Ltd

There are no officers of the company who are former partners of Nexia Brisbane Audit Pty Ltd.

Moreton Resources Limited
Directors' report
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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.

Auditor

Nexia Brisbane Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

New accounting standards implemented

The group has implemented two new Accounting Standards that have come into effect, which is included in the results: AASB 15 'Revenue from Contracts with Customers' and AASB 9 'Financial Instruments'. The introduction of either of these new standards did not impact the group, therefore comparatives were not required to be restated.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Phillip Bryant
Managing Director

9 October 2019

Auditor's Independence Declaration

Under Section 307C of the *Corporations Act 2001*

To the Directors of Moreton Resources Limited

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2019 there have been no contraventions of:

- (i) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Moreton Resources Limited and the entities it controlled during the year.

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd



Gavin Ruddell
Director

Date: 9 October 2019

Moreton Resources Limited

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Moreton Resources Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

| | Note | Consolidated 2019 \$ | 2018 \$ |
|--|------|----------------------------|--------------------|
| Revenue | 5 | 336,397 | - |
| Other income | 6 | - | 13,375,482 |
| Interest | | 127,007 | 58,598 |
| Expenses | | | |
| Employee benefits expense | 7 | (2,957,455) | (656,772) |
| Depreciation and amortisation expense | 7 | (205,385) | (169,424) |
| Exploration and evaluation expenditure | | (357,328) | - |
| Mine operating expenditure | | (3,938,094) | - |
| Loss on disposal of assets | | (457,281) | - |
| Insurance | | (143,703) | (146,742) |
| Impairment of property, plant and equipment | | (149,157) | - |
| General interest charge | 10 | (2,571,373) | - |
| Legal and professional fees | 7 | (842,620) | (190,005) |
| Securities quotation fees | | (116,372) | (124,547) |
| Travel | | (58,480) | (38,552) |
| Other expenses | | (649,236) | (222,121) |
| Finance costs | 7 | (1,142,137) | (547,605) |
| Total expenses | | <u>(13,588,621)</u> | <u>(2,095,768)</u> |
| Profit/(loss) before income tax expense | | (13,125,217) | 11,338,312 |
| Income tax expense | 8 | <u>(13,346,240)</u> | - |
| Profit/(loss) after income tax expense for the year attributable to the owners of Moreton Resources Limited | | (26,471,457) | 11,338,312 |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year attributable to the owners of Moreton Resources Limited | | <u>(26,471,457)</u> | <u>11,338,312</u> |
| | | Cents | Cents |
| Basic earnings per share | 35 | (0.87) | 0.38 |
| Diluted earnings per share | 35 | (0.87) | 0.38 |

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

Moreton Resources Limited
Statement of financial position
As at 30 June 2019

| | Note | Consolidated 2019 \$ | 2018 \$ |
|--------------------------------|-------------|-------------------------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 81,402 | 1,250,695 |
| Trade and other receivables | 10 | 388,204 | 5,397,176 |
| Inventories | 11 | 9,387,022 | 9,554,500 |
| Other | 12 | 101,969 | 597,969 |
| Total current assets | | <u>9,958,597</u> | <u>16,800,340</u> |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 4,610,066 | 5,775,948 |
| Exploration and evaluation | 14 | 5,978,631 | 5,731,376 |
| Mine development assets | 15 | 10,722,990 | 10,722,990 |
| Restricted cash | 16 | 3,965,720 | 3,965,720 |
| Total non-current assets | | <u>25,277,407</u> | <u>26,196,034</u> |
| Total assets | | <u>35,236,004</u> | <u>42,996,374</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 17 | 1,602,137 | 1,291,057 |
| Borrowings | 18 | 13,676,476 | 8,750,000 |
| Provisions | 19 | 10,859,688 | 159,068 |
| Total current liabilities | | <u>26,138,301</u> | <u>10,200,125</u> |
| Non-current liabilities | | | |
| Provisions | 20 | <u>3,800,000</u> | <u>3,800,000</u> |
| Total non-current liabilities | | <u>3,800,000</u> | <u>3,800,000</u> |
| Total liabilities | | <u>29,938,301</u> | <u>14,000,125</u> |
| Net assets | | <u>5,297,703</u> | <u>28,996,249</u> |
| Equity | | | |
| Issued capital | 21 | 85,225,294 | 82,508,541 |
| Reserves | 22 | - | 45,551 |
| Accumulated losses | | <u>(79,927,591)</u> | <u>(53,557,843)</u> |
| Total equity | | <u>5,297,703</u> | <u>28,996,249</u> |

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

Moreton Resources Limited
Statement of changes in equity
For the year ended 30 June 2019

| Consolidated | Issued capital \$ | Share-based payments reserve \$ | Accumulated losses \$ | Total equity \$ |
|--|------------------------------|--|----------------------------------|----------------------------|
| Balance at 1 July 2017 | 75,247,446 | 2,495 | (64,898,650) | 10,351,291 |
| Profit after income tax expense for the year | - | - | 11,338,312 | 11,338,312 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | 11,338,312 | 11,338,312 |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 21) | 7,261,095 | - | - | 7,261,095 |
| Share-based payments (note 36) | - | 45,551 | - | 45,551 |
| Transfer of share-based payment reserve to retained earnings | - | (2,495) | 2,495 | - |
| Balance at 30 June 2018 | <u>82,508,541</u> | <u>45,551</u> | <u>(53,557,843)</u> | <u>28,996,249</u> |
| Consolidated | Issued capital \$ | Share-based payments reserve \$ | Accumulated losses \$ | Total equity \$ |
| Balance at 1 July 2018 | 82,508,541 | 45,551 | (53,557,843) | 28,996,249 |
| Loss after income tax expense for the year | - | - | (26,471,457) | (26,471,457) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | - | (26,471,457) | (26,471,457) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | |
| Contributions of equity, net of transaction costs (note 21) | 2,716,753 | - | - | 2,716,753 |
| Share-based payments (note 36) | - | 56,158 | - | 56,158 |
| Transfer to accumulated losses | - | (101,709) | 101,709 | - |
| Balance at 30 June 2019 | <u>85,225,294</u> | <u>-</u> | <u>(79,927,591)</u> | <u>5,297,703</u> |

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

Moreton Resources Limited
Statement of cash flows
For the year ended 30 June 2019

| | Note | Consolidated 2019 \$ | 2018 \$ |
|--|-------------|-------------------------------------|--------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 336,397 | - |
| Payments to suppliers and employees | | (8,110,425) | (1,937,080) |
| | | (7,774,028) | (1,937,080) |
| Interest received | | 100,279 | 58,598 |
| Interest and other finance costs paid | | (251,706) | (265,721) |
| GST receipts | | 378,021 | 742,022 |
| Net cash used in operating activities | 34 | (7,547,434) | (1,402,181) |
| Cash flows from investing activities | | | |
| Payment for purchase of business | 31 | - | (10,003) |
| Payments for property, plant and equipment | | (666,269) | (1,616,042) |
| Payments for exploration, evaluation and development expenditure | | (247,255) | (1,256,789) |
| Payments for security deposits | | - | (4,415,720) |
| Payments for mine development assets | | (286,974) | (5,585,602) |
| Proceeds from disposal of property, plant and equipment | | 510,002 | 129,985 |
| Proceeds from release of security deposits | | 496,000 | - |
| Net cash used in investing activities | | (194,496) | (12,754,171) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | 2,226,590 | 7,021,242 |
| Proceeds from issue of debentures | | - | 4,025,000 |
| Proceeds from short term loans - non-related parties | | 4,246,047 | 1,200,000 |
| Proceeds from short term loans - related parties | | 337,067 | 500,000 |
| Repayment of related party loans | | (137,067) | - |
| Repayment of short term loans - non-related parties | | (100,000) | - |
| Net cash from financing activities | | 6,572,637 | 12,746,242 |
| Net decrease in cash and cash equivalents | | (1,169,293) | (1,410,110) |
| Cash and cash equivalents at the beginning of the financial year | | 1,250,695 | 2,660,805 |
| Cash and cash equivalents at the end of the financial year | 9 | <u>81,402</u> | <u>1,250,695</u> |

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

Note 1. General information

The financial statements cover Moreton Resources Limited as a group consisting of Moreton 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 Moreton Resources Limited's functional and presentation currency.

Moreton Resources Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

169 Kelvin Grove Road
Kelvin Grove
Brisbane
QLD 4059

A description of the nature of the group'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 9 October 2019.

Basis of preparation

These general purpose 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 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

Except for the cash flow information, the financial statements have been prepared on an accrual basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current financial assets and financial liabilities.

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 group'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.

Going concern

As at 30 June 2019 the group incurred a loss of \$26,471,457 (2018: profit \$11,338,312) after income tax expense, had net cash outflows from operating activities of \$7,547,434 (2018: \$1,402,181) and working capital deficiency of \$16,179,704 (2018: surplus \$6,600,215). The group's loss includes the derecognition of the Research and Development Tax Incentive receivable of \$5,160,515, the provision for the refund of incentives received in prior financial periods in the sum of \$8,185,725, and a provision for a potential general interest charge of \$2,571,373 on the refund, pending the outcome of the groups appeal to the Administrative Appeals Tribunal. The group's loss excluding the aforementioned expenses was \$10,553,844 and was largely attributable to the group recommencing active operations at its Granite Belt Project resulting in a significant increase in mining operating expenditure and employee benefits expense.

The ability of the group to continue as a going concern is principally dependent upon the following conditions:

- Raising additional capital or securing other forms of financing, as and when necessary to meet the levels of expenditure required for the group to continue to progress the mineral properties in which it has an interest and to meet the group's working capital requirements;
- Positive cash flows from the group's Granite Belt Project; and
- A favourable outcome in the company's appeal to the Administrative Appeals Tribunal regarding the Tax Incentive benefit decision of the Administrative Appeals Tribunal.

These conditions give rise to a material uncertainty, which may cast significant doubt over the consolidated entity's ability to continue as a going concern.

Note 1. General information (continued)

The Directors consider there are reasonable grounds to believe that the group will be able to continue as a going concern after consideration of the following factors:

- Active operations have recommenced at the Granite Belt Project, located near Texas, Queensland which is expected to yield sales of silver inventory in the short-term and as the operations advance;
- The Directors have refinanced the company's existing loan facilities;
- The Directors are confident of a favourable outcome in the company's appeal regarding the Tax Incentive benefit decision of the Administrative Appeals Tribunal;
- The company has a successful history of obtaining additional equity funding when required and the Directors are of the view this can be repeated in future if required.

Based on the above, the Directors are of the opinion that at the date of signature of the financial report there are reasonable and supportable grounds to believe that the consolidated entity will be able to meet its liabilities from its assets in the ordinary course of business, for a period of not less than 12 months from the date of this financial report and has accordingly prepared the financial report on a going concern basis.

Should the group be unable to raise additional funds when required there is a material uncertainty which may cast significant doubt as to whether the group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business at amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the group be unable to continue as a going concern and meet its debts as and when they fall due.

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 group 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 group.

The following Accounting Standards and Interpretations are most relevant to the group:

Initial application of AASB 9 Financial Instruments

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Most of the changes are not relevant to the Group, however there was a new impairment model introduced in AASB 9 which requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as was the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

The adoption of AASB 9 Financial Instruments from 1 July 2018 resulted in changes to the Group's accounting policies. No opening adjustment was necessary as a result of the adoption of AASB 9.

Impairment of financial assets

The Group has one type of financial asset that is subject to AASB 9's new expected credit loss model:
- trade and other receivables.

The Group was required to review its impairment methodology under AASB 9 for these assets and no adjustment was required.

Note 2. Significant accounting policies (continued)

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. To measure the expected credit losses, trade and other receivables have been grouped based on credit risk characteristics and the days past due. There was no material difference between the expected credit loss calculated under AASB 9 and AASB 139.

Initial application of AASB 15 Revenue from Contracts with Customers

Under AASB 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The group adopted AASB 15 from 1 July 2018. The group's revenue from contracts with customers is derived from the sale of concentrate. There was no change to the groups revenue recognition policy for the year ended 30 June 2019 due to this being the groups first year of revenue producing activities.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the group only. Supplementary information about the parent entity is disclosed in note 30.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Moreton Resources Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Moreton Resources Limited and its subsidiaries together are referred to in these financial statements as the 'group'.

Subsidiaries are all those entities over which the group has control. The group controls an entity when the group 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 group. They are de-consolidated from the date that control ceases.

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

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 group 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 group 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.

Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); whose operating results are regularly reviewed by the entity's chief operating decision-makers to make decisions about resources to be allocated to the segment and assess its performance; and for which discrete financial information is available.

The operating segments have been identified based on the information provided to the chief operating decision-makers, the Board of Directors.

The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- nature of the products and services;
- nature of the production processes;
- type or class of customer for the products and services;
- methods used to distribute the products or provide the services and if applicable; and
- nature of the regulatory environment.

Note 2. Significant accounting policies (continued)

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Revenue and Other Income

Revenue recognition

Revenue from the sale of goods is recognised when the group satisfies its performance obligations under its contract with the customer, by transferring such goods to the customers control. Control is generally determined to be when risk and title to the goods passes to the customer.

Sale of silver concentrate

Revenue is generally recognised upon delivery of the silver concentrate to the refiner as this is when the risks and rewards are passed by the group to the customer in accordance with the provisions of the contract. Revenue is recognised based on the estimated fair value of the total consideration receivable and is net of deductions related to treatment and refining charges as this accurately reflects the amount the group expects to be entitled to receive from the customer for the sale of unrefined silver concentrate.

Interest

Interest income is recognised using the effective interest method.

No impact is shown for AASB 15 as the directors, after applying the five-step model per AASB 15, assessed that there is no material difference in the result of the Group between applying AASB 118 and AASB 15.

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.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

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

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

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 group'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.

Note 2. Significant accounting policies (continued)

A liability is classified as current when: it is either expected to be settled in the group'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.

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.

Inventories

Inventories measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Financial Instruments

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Group commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments (except for trade receivables) are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Trade receivables are initially measured at the transaction price if the trade receivables do not contain a significant financing component or if the practical expedient was applied as specified in AASB 15.63.

Classification and subsequent measurement

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest expense in profit or loss over the relevant period. The effective interest rate is the internal rate of return of the financial asset or liability. That is, it is the rate that exactly discounts the estimated future cash flows through the expected life of the instrument to the net carrying amount at initial recognition.

A financial liability cannot be reclassified.

Financial assets

All financial assets are subsequently measured at amortised cost.

Measurement is on the basis of two primary criteria:

- the contractual cash flow characteristics of the financial asset; and
- the business model for managing the financial assets.

A financial asset that meets the following conditions is subsequently measured at amortised cost:

- the financial asset is managed solely to collect contractual cash flows; and
- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the statement of financial position.

Note 2. Significant accounting policies (continued)

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

All of the following criteria need to be satisfied for derecognition of financial asset:

- the right to receive cash flows from the asset has expired or been transferred;
- all risk and rewards of ownership of the asset have been substantially transferred; and
- the Group no longer controls the asset (ie the Group has no practical ability to make a unilateral decision to sell the asset to a third party).

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Impairment

The Group recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Group uses the simplified approach to impairment, as applicable under AASB 9: Financial Instruments.

Simplified approach

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times. This approach is applicable to:

- trade receivables or contract assets that result from transactions within the scope of AASB 15: Revenue from Contracts with Customers and which do not contain a significant financing component.

In measuring the expected credit loss, a provision matrix for trade receivables was used taking into consideration various data to get to an expected credit loss (ie diversity of customer base, appropriate groupings of historical loss experience, etc).

Evidence of credit impairment includes:

- significant financial difficulty of the issuer or borrower;
- a breach of contract (eg default or past due event);
- a lender granting to the borrower a concession, due to the borrower's financial difficulty, that the lender would not otherwise consider;
- high probability that the borrower will enter bankruptcy or other financial reorganisation; and
- the disappearance of an active market for the financial asset because of financial difficulties.

Note 2. Significant accounting policies (continued)

Low credit risk operational simplification approach

If a financial asset is determined to have low credit risk at the initial reporting date, the Group assumes that the credit risk has not increased significantly since initial recognition and accordingly it can continue to recognise a loss allowance of 12-month expected credit loss.

In order to make such a determination that the financial asset has low credit risk, the Group applies its internal credit risk ratings or other methodologies using a globally comparable definition of low credit risk.

- there is a low risk of default by the borrower;
- the borrower has strong capacity to meet its contractual cash flow obligations in the near term;
- adverse changes in economic and business conditions in the longer term may, but not necessarily will, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Property, plant and equipment

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

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

| | Useful Life (years) |
|--------------------------------|---------------------|
| Plant and equipment | ROM Production |
| Motor vehicles | 2-10 years |
| Office equipment and furniture | 2-10 years |
| Mine development | ROM Production |

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.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. This requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term. Operating lease incentives are recognised as a liability when received, and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Exploration and evaluation assets

Exploration and evaluation expenditure 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.

Note 2. Significant accounting policies (continued)

Mining assets

Capitalised mining development costs include expenditures incurred to develop new ore bodies to define further mineralisation in existing ore bodies, to expand the capacity of a mine and to maintain production. Mining development also includes costs transferred from exploration and evaluation phase once production commences in the area of interest.

Amortisation of mining development is computed by the units of production basis over the estimated proved and probable reserves. Proved and probable mineral reserves reflect estimated quantities of economically recoverable reserves which can be recovered in the future from known mineral deposits. These reserves are amortised from the date on which production commences. The amortisation is calculated from recoverable proven and probable reserves and a predetermined percentage of the recoverable measured, indicated and inferred resource. This percentage is reviewed annually.

Restoration and rehabilitation

The group records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location.

When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development/construction of the mine. Over time, the discounted liability is increased for the change in the present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

Additional disturbances or changes in rehabilitation costs will be recognised as additions or changes to the corresponding assets and rehabilitation liability when they occur.

For closed sites, changes to estimated costs are recognised immediately in profit or loss.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the group 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.

Finance costs

Finance costs directly 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.

Provisions

Provisions are recognised when the group has a present (legal or constructive) obligation as a result of a past event, it is probable the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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 and cash-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 cost 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 share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost 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 grant date fair value of the award, 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.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

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

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

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.

Business combinations

Business combinations occur where an acquirer obtains control over one or more business.

Business combinations are accounted for using the acquisition method from the date when control is obtained, whereby the fair value of identifiable assets acquired and liabilities (including contingent liabilities) is recognised.

The acquisition of a business may result in the recognition of goodwill or a gain on acquisition. As set out in note 31, the company applied business combination accounting to its acquisition of the Twin Hills Silver Mine.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Moreton Resources Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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 acquisition 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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

The AASB has issued a number of new and amended Accounting Standards that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The directors have decided not to early-adopt any of the new and amended pronouncements. The following sets out their assessment of the pronouncements that are relevant to the Group but applicable in future reporting periods.

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

The Group has chosen not to early-adopt AASB 16. However, the Group has conducted a preliminary assessment of the impact of this new Standard, as follows.

A core change resulting from applying AASB 16 is that most leases will be recognised on the balance sheet by lessees as the standard no longer differentiates between operating and finance leases. An asset and a financial liability are recognised in accordance to this new Standard. There are, however, two exceptions allowed: short-term and low-value leases.

Basis of preparation

The accounting for the Group's operating leases will be primarily affected by this new Standard.

Note 2. Significant accounting policies (continued)

AASB 16 will be applied by the Group from its mandatory adoption date of 1 July 2019. The comparative amounts for the year prior to first adoption will not be restated, as the Group has chosen to apply AASB 16 retrospectively with cumulative effect. While the right-of-use assets for property leases will be measured on transition as if the new rules had always been applied, all other right-of-use assets will be measured at the amount of the lease liability on adoption (after adjustments for any prepaid or accrued lease expenses).

The Group has performed a preliminary impact assessment and has determined that it is impracticable to quantify the impact of the introduction of AASB 16 as the Group's premises at Texas QLD lease is due to expire in April 2020 and the administration premises located at Kelvin Grove QLD expires in March 2020. The Group has not, at the date of this financial report, determined whether either of these leases will be extended beyond their initial expiry date or alternative arrangements sought.

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 within the next financial year are discussed below.

Impairment - general

The group assesses impairment at each reporting date by evaluating conditions and events specific to the group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using fair value less costs to sell and value-in-use calculations which incorporate various key assumptions.

Exploration and evaluation expenditure

The group capitalises expenditure relating to exploration and evaluation expenditure where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the directors are of the continued belief that such expenditure should not be written off since feasibility and evaluation studies in such areas have not yet concluded. Such capitalised expenditure is carried at the end of the reporting period. Refer note 14 for additional information regarding the group's impairment assessment.

Environmental rehabilitation costs

The provisions for rehabilitation costs are based on estimated future costs using information available at the balance sheet date. To the extent the actual costs differ from these estimates, adjustments will be recorded, and the income statement may be impacted.

Recoverability of non-current assets

The Group has a single Cash Generating Unit (CGU) being the Texas silver mine. The estimates of discounted future cash flows for the Texas CGU are based on significant assumptions including:

- Estimates of the quantities of ore reserves and the timing of access to those reserves;
- Future production levels based on plant throughput and recoveries;
- Future silver prices based on broker consensus pricing;
- Future operating costs of production including capital expenditure and rehabilitation; and
- The discount rate most appropriate to the CGU.

The directors are satisfied that their assessment of the discounted future cash flows for the Texas CGU have resulted in no adjustments to the carrying values. Refer Note 15 for further information in relation to value-in-use assumptions.

Recovery of deferred tax assets

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

Note 4. Operating segments

Identification of reportable operating segments

The principal business of the group is the development of resource projects in Australia. The segments identified are the company's mineral assets comprising the Granite Belt Project and the coal assets comprising the Kingaroy, Wandoan and McKenzie Coal Projects. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments. The group only operates in one geographical location being Australia.

Unallocated expense include corporate overheads and other costs not considered part of segment operations. Unallocated assets and liabilities include cash, receivables and creditors where the amounts are not considered part of core segment operations.

The CODM reviews earnings before tax. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

Types of products and services

The principal products and services of each of these operating segments are as follows:

| | |
|----------|---|
| Coal | Coal exploration and extraction activities |
| Minerals | Minerals exploration and extraction activities including the transition to producer at the Granite Belt Project |

Intersegment transactions

Intersegment transactions are eliminated on consolidation.

Intersegment receivables, payables and loans

Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Operating segment information

| | Minerals \$ | Coal \$ | Unallocated \$ | Total \$ |
|---------------------------------------|--------------------|------------------|--------------------|---------------------|
| Consolidated - 2019 | | | | |
| Revenue | 336,397 | - | 127,007 | 463,404 |
| Expenses | (7,031,257) | (357,328) | (6,200,036) | (13,588,621) |
| Loss before income tax expense | (6,694,860) | (357,328) | (6,073,029) | (13,125,217) |
| Income tax expense | | | | (13,346,240) |
| Loss after income tax expense | | | | (26,471,457) |
| Assets | | | | |
| Segment assets | 29,024,082 | 5,684,252 | 527,670 | 35,236,004 |
| Total assets | | | | 35,236,004 |
| Liabilities | | | | |
| Segment liabilities | 4,983,392 | 30,000 | 24,924,909 | 29,938,301 |
| Total liabilities | | | | 29,938,301 |

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Note 4. Operating segments (continued)

| Consolidated - 2018 | Minerals \$ | Coal \$ | Unallocated \$ | Total \$ |
|--|------------------------|--------------------|---------------------------|---------------------|
| Other income | 13,375,482 | - | 58,598 | 13,434,080 |
| Expenses | (1,225,739) | (44,089) | (825,940) | (2,095,768) |
| Profit/(loss) before income tax expense | 12,149,743 | (44,089) | (767,342) | 11,338,312 |
| Income tax expense | | | | - |
| Profit after income tax expense | | | | 11,338,312 |
| Assets | | | | |
| Segment assets | 30,217,555 | 5,435,366 | 7,343,453 | 42,996,374 |
| Total assets | | | | 42,996,374 |
| Liabilities | | | | |
| Segment liabilities | 12,550,206 | 30,000 | 1,419,919 | 14,000,125 |
| Total liabilities | | | | 14,000,125 |

Note 5. Revenue

| | Consolidated | |
|---|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Revenue from contracts with customers</i> | | |
| Sales - Silver | 336,397 | - |
| | 2019 | 2018 |
| | \$ | \$ |
| (a) Disaggregated revenue | | |
| The group has disaggregated revenue by timing of revenue recognition: | | |
| - at a point in time | 336,397 | - |

Note 6. Other income

| | Consolidated | |
|---|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Net gain on disposal of property, plant and equipment | - | 54,985 |
| Gain on business acquisition | - | 13,320,497 |
| Other income | - | 13,375,482 |

Note 7. Expenses

| | Consolidated | |
|---|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Profit/(loss) before income tax includes the following specific expenses: | | |
| <i>Aggregate employee benefits expense</i> | | |
| Defined contribution superannuation expense | 212,229 | 232,150 |
| Other employee benefits expenses | 2,745,226 | 3,562,032 |
| | <u>2,957,455</u> | <u>3,794,182</u> |
| <i>Less</i> | | |
| Employee costs capitalised to exploration | - | (3,137,410) |
| Employee benefits expense | <u>2,957,455</u> | <u>656,772</u> |
| <i>Depreciation</i> | | |
| Plant, equipment and motor vehicles | 174,354 | 162,722 |
| Office furniture and equipment | 31,031 | 6,702 |
| Total depreciation | <u>205,385</u> | <u>169,424</u> |
| <i>Legal and professional fees</i> | | |
| Legal fees | 733,233 | 18,960 |
| Accounting fees | - | 35,342 |
| Other professional fees | 109,387 | 135,703 |
| Total legal and professional fees | <u>842,620</u> | <u>190,005</u> |
| <i>Finance costs</i> | | |
| Interest paid/payable on debentures | 558,032 | 535,578 |
| Interest paid/payable on short term loans | 579,774 | 9,901 |
| Other interest paid/payable | 4,331 | 2,126 |
| Finance costs expensed | <u>1,142,137</u> | <u>547,605</u> |
| <i>Rental expense relating to operating leases</i> | | |
| Office and car park rent | <u>29,464</u> | <u>58,841</u> |

Note 8. Income tax expense

| | Consolidated | |
|--|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Profit/(loss) before income tax expense | (13,125,217) | 11,338,312 |
| Tax at the statutory tax rate of 27.5% | (3,609,435) | 3,118,036 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Gain on business acquisition | - | (3,663,137) |
| Non-deductible costs | 24,350 | 12,526 |
| Exploration expenditure capitalised | - | (345,617) |
| Other expenses not currently deductible | - | 39,068 |
| | (3,585,085) | (839,124) |
| Current year tax losses not recognised | 3,663,403 | - |
| Current year temporary differences not recognised | (78,318) | 839,124 |
| Derecognition of Research and Development Tax Offset incentives receivable (refer note 10) | 5,160,515 | - |
| Provision for refund of Research and Development Tax Offset incentives received in prior financial periods (refer note 10) | 8,185,725 | - |
| Income tax expense | <u>13,346,240</u> | <u>-</u> |

| | Consolidated | |
|---|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Tax losses not recognised</i> | | |
| Unused tax losses for which no deferred tax asset has been recognised | 41,572,792 | 28,251,329 |
| Potential tax benefit @ 27.5% | 11,432,518 | 7,769,115 |

No deferred tax asset on accumulated tax losses has been recognised on the basis that utilisation of tax losses is not currently considered probable.

The taxation losses will be realisable only if:

- The group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the losses and deductions to be realised;
- The group continues to comply with the conditions for deductibility imposed by the law;
- No changes in tax legislation adversely affect the group in realising the benefit from the deductions for the losses; and
- The resolution of the R&D matter set out in note 10.

Note 9. Current assets - cash and cash equivalents

| | Consolidated | |
|--------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash at bank | <u>81,402</u> | <u>1,250,695</u> |

Note 10. Current assets - trade and other receivables

| | Consolidated | |
|---|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Research and Development Tax Incentive receivable | - | 5,160,515 |
| Other receivables | 361,476 | 236,661 |
| Interest receivable | 26,728 | - |
| | <u>388,204</u> | <u>5,397,176</u> |

The above amounts are not past due date and there no amounts have been impaired. The group has not recorded any provision for credit impairment. Refer to note 24 for further information on financial instruments.

Research and Development Tax Incentive receivable

The company has previously made claims in relation to the Research and Development Tax Incentive Offset in accordance with Division 355 of the Income Tax Assessment Act 1997 (Cth).

The company originally claimed the following amounts:

- \$473,476 of Research and Development Tax Incentive Offsets in its 2012 income tax return
- \$7,104,744 of Research and Development Tax Incentive Offsets in its 2013 income tax return
- \$465,515 of Research and Development Tax Incentive Offsets in its 2014 income tax return
- \$444,756 of Research and Development Tax Incentive Offsets in its 2015 income tax return

In 2014 and 2015, the company lodged an amendment request in relation to its 2012 income tax return and received a further \$498,248 in Research and Development Tax Incentive Offset claims from the Australian Tax Office (ATO). The company also lodged an objection to the 2013 and 2014 income tax returns which entitled the company to an additional \$5,160,515 in Research and Development Tax Incentive Offset claims.

Based on a finding made by Innovation and Science Australia in relation to the activities related to the Research and Development Tax Incentive Offsets, the ATO has amended the Research and Development Tax Incentive Offsets for the 2012, 2013 and 2014 income years to \$nil. The ATO has also amended the Research and Development Tax Incentive Offset claim for the 2015 income year to \$nil. In relation to the 2012 and 2013 income years, the ATO has advised it will seek repayment of \$8,185,725 previously paid to the company in respect of the Research and Development Tax Incentive Offsets claimed. The ATO has also indicated it may claim interest and penalties should the matter be found in their favour. Although the ultimate outcome of this matter against the company also cannot be predicted with certainty, the company rejects this position and is of the view that the Research and Development Tax Incentive Offsets have been correctly claimed.

In order to defend its position, the company initiated proceedings in the Administrative Appeals Tribunal ("AAT" or "the tribunal") to dispute the finding made by Innovation and Science Australia in the 2012 to 2014 income years. The matter was heard by the tribunal in February 2017. The company has subsequently lodged an appeal with the Federal Court of Australia from a decision of the AAT made on 10 September 2018. The AAT affirmed the internal review decision of Innovation and Science Australia which found that the company's activities registered under the Industry Research and Development Act 1986 (Cth) in the financial years ended 2012, 2013 and 2014 were not "R&D activities", as defined under the relevant Act. The company has appealed the whole of the decision of the AAT.

On the basis of professional advice obtained, the company considers its claims to the Research and Development Tax Incentive Offsets is justified and valid. However, the company's Directors have derecognised the receivable of \$5,160,515 pending the outcome of its appeal of the AAT decision. Additionally, the Directors have provided for the refund of incentives of \$8,185,725 received in prior financial periods and provided for a potential general interest charge of \$2,571,373 on the refund, should the appeal not be successful for the company, refer note 19.

The company has not recognised in the financial statements the Research and Development Tax Incentive Claim pertaining to the 2015 income tax return, totalling \$444,756, on the basis that the Registration Certificate (required to enable the claim to move forward) has been held in abeyance by Innovation and Science Australia, pending the outcome of the current action.

Note 10. Current assets - trade and other receivables (continued)

In July 2019 the Federal Court of Australia considered the appeal of Moreton Resources Limited, and found in favour of the appeal by Moreton Resources Limited, and as such have determined that the prior decision of the Tribunal, is to be set aside and the matter remitted to the Tribunal for determination according to law. As at the date of this report no final determination on this matter has been made, however the Directors have actively engaged with Innovation and Science Australia with the intent to obtain an outcome in favour of the company.

Note 11. Current assets - inventories

| | Consolidated | |
|---------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Silver in leach heaps - at cost | <u>9,387,022</u> | <u>9,554,500</u> |

Note 12. Current assets - other

| | Consolidated | |
|-------------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Security bonds lodged for tenements | 94,609 | 594,609 |
| Other security deposits | <u>7,360</u> | <u>3,360</u> |
| | <u>101,969</u> | <u>597,969</u> |

Note 13. Non-current assets - property, plant and equipment

| | Consolidated | |
|---|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Property - at cost | <u>14,100</u> | <u>14,100</u> |
| Plant, equipment and motor vehicles - at cost | 5,027,234 | 6,038,716 |
| Less: Accumulated depreciation | <u>(472,868)</u> | <u>(337,782)</u> |
| | 4,554,366 | 5,700,934 |
| Office furniture and equipment - at cost | 159,718 | 148,001 |
| Less: Accumulated depreciation | <u>(118,118)</u> | <u>(87,087)</u> |
| | 41,600 | 60,914 |
| | <u>4,610,066</u> | <u>5,775,948</u> |

Note 13. Non-current assets - property, plant and equipment (continued)

Reconciliations

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

| Consolidated | Property \$ | Plant, equipment and motor vehicles \$ | Office furniture and equipment \$ | Total \$ |
|---|----------------|---|--|-------------|
| Balance at 1 July 2017 | - | 306,915 | 37,807 | 344,722 |
| Additions | 14,100 | 2,075,741 | 33,661 | 2,123,502 |
| Additions through business combinations (note 31) | - | 3,556,000 | - | 3,556,000 |
| Disposals | - | (75,000) | (3,852) | (78,852) |
| Depreciation expense | - | (162,722) | (6,702) | (169,424) |
| Balance at 30 June 2018 | 14,100 | 5,700,934 | 60,914 | 5,775,948 |
| Additions | - | 144,224 | 11,717 | 155,941 |
| Disposals | - | (1,116,438) | - | (1,116,438) |
| Depreciation expense | - | (174,354) | (31,031) | (205,385) |
| Balance at 30 June 2019 | 14,100 | 4,554,366 | 41,600 | 4,610,066 |

Note 14. Non-current assets - exploration and evaluation

| | Consolidated 2019 \$ | 2018 \$ |
|---|--|-------------------|
| Exploration and evaluation - Tarong Basin thermal project (QLD) | 2,560,772 | 2,313,517 |
| Exploration and evaluation - Wandoan coal project (QLD) | 1,298,239 | 1,298,239 |
| Exploration and evaluation - Mackenzie coal project (QLD) | 1,771,501 | 1,771,501 |
| Exploration and evaluation - Granite Belt Metals project (QLD) | 348,119 | 348,119 |
| | <u>5,978,631</u> | <u>5,731,376</u> |

Reconciliations

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

| Consolidated | Tarong Basin thermal project \$ | Wandoan coal project \$ | Mackenzie coal project \$ | Granite Belt Metals project \$ | Total \$ |
|---|--|-------------------------------|---------------------------------|--------------------------------------|------------------|
| Balance at 1 July 2017 | 1,508,824 | 1,225,968 | 1,739,795 | 830,414 | 5,305,001 |
| Additions | 804,693 | 72,271 | 31,706 | 348,119 | 1,256,789 |
| Transfers to Mine Development (note 15) | - | - | - | (830,414) | (830,414) |
| Balance at 30 June 2018 | 2,313,517 | 1,298,239 | 1,771,501 | 348,119 | 5,731,376 |
| Additions | 247,255 | - | - | - | 247,255 |
| Balance at 30 June 2019 | <u>2,560,772</u> | <u>1,298,239</u> | <u>1,771,501</u> | <u>348,119</u> | <u>5,978,631</u> |

Note 14. Non-current assets - exploration and evaluation (continued)

The company's focus continues to be on advancing both its coal assets and minerals assets and expenditure incurred is targeted at progressing these projects. All projects are in exploration and evaluation phase. The ultimate recoupment of costs carried forward in respect of areas of interest in the exploration and evaluation phases is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas. The Group has an interest in certain exploration licences and the amounts shown above include amounts expended to date in the acquisition and/or exploration of those tenements.

Impairment assessment

At each reporting date the Group undertakes an assessment of the carrying amount of its exploration and evaluation assets in accordance with AASB 6 'Exploration for and Evaluation of Mineral Resources'. During this review the Directors were satisfied that there were no indicators of impairment on its exploration and evaluation assets.

As a result of this review the Directors are satisfied that for each area of interest:

- the Group's right to explore the area of interest remains current; and
- expenditure on further exploration in the Group's area of interests is both planned and budgeted, subject to the availability of funds as disclosed in note 2; and
- exploration activities have neither lead to the discovery of economical resources whereby the Group has decided to discontinue exploration activities or indicated that the development of economical resources would not lead to the asset being recovered in full.

Tenements held by the group

| Licence holder | Licence number and project location | Commencement date - Expiry date | 2019 Equity interests |
|-------------------------------|-------------------------------------|---------------------------------|-----------------------------|
| MRV Tarong Basin Coal Pty Ltd | MDL 385 - South Burnett | 01/03/2019 - 28/02/2022 | 100% |
| MRV Tarong Basin Coal Pty Ltd | EPC 882 - South Burnett | 27/09/2017 - 26/09/2020 | 100% |
| MRV Surat Basin Coal Pty Ltd | MDL 420 - Wandoan | 01/12/2017 - 30/11/2020 | 100% |
| MRV Bowen Basin Coal Pty Ltd | EPC 1445 - Mackenzie | 29/06/2017 - 28/06/2022 | 100% |
| MRV Bowen Basin Coal Pty Ltd | MDL 503 - Mackenzie | 01/11/2014 - 31/10/2019 | 100% |
| MRV Metals Pty Ltd | EPM 8854 - Granite Belt | 08/07/2018 - 07/07/2021 | 100% |
| MRV Metals Pty Ltd | EPM 11455 - Granite Belt | 01/04/2018 - 31/03/2021 | 100% |
| MRV Metals Pty Ltd | EPM 12858 - Granite Belt | 10/08/2018 - 09/08/2021 | 100% |
| MRV Metals Pty Ltd | EPM 18950 - Granite Belt | 31/05/2016 - 30/05/2021 | 100% |
| MRV Metals Pty Ltd | EPM 26275 - Granite Belt | 27/02/2017 - 26/02/2022 | 100% |

Note 15. Non-current assets - Mine development assets

| | Consolidated | |
|---------------------------------------|---------------------|-------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Granite Belt Metals project - at cost | <u>10,722,990</u> | <u>10,722,990</u> |

Note 15. Non-current assets - Mine development assets (continued)

Reconciliations

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

| Consolidated | Granite Belt Metals project \$ | Total \$ |
|---|---|-------------|
| Balance at 1 July 2017 | - | - |
| Additions through business combinations (note 31) | 4,020,000 | 4,020,000 |
| Expenditure during the year | 5,872,576 | 5,872,576 |
| Transfers from exploration and evaluation assets | 830,414 | 830,414 |
| Balance at 30 June 2018 | 10,722,990 | 10,722,990 |
| Balance at 30 June 2019 | 10,722,990 | 10,722,990 |

Amortisation of mine development assets

The Group has not provided for the amortisation of its Mine development asset as its activities in the Twin Hills Silver mine to date have solely concentrated on mineral extraction, restacking and treatment operations of the existing leach heaps that were present at the time of acquisition in accordance with its re-commencement plan. Mine development assets will be amortised over the expected total production using a Units of Production basis once production activities commence.

Impairment assessment

In accordance with its accounting policies and processes, the Group evaluates annually whether there are any indications of impairment. If any such indications exist a formal estimate of the recoverable amount is performed. During the year the Group undertook such an assessment of its Twin Hills mine determining that this was the Group's only CGU.

In assessing whether an impairment is required, the carrying value of the CGU is compared with its recoverable amount. The recoverable amount is the higher of the CGU's fair value less costs of disposal and value in use (VIU). Given the nature of the Group's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, the VIU for the CGU is estimated based on discounted future estimated cash flows expected to be generated from the continued use of the CGU using market-based commodity price and exchange assumptions, estimated quantities of recoverable minerals, production levels, operating costs and capital requirements and its eventual disposal, based on the CGU five-year plans and latest life of mine (LOM) plans. These cash flows were discounted using a real pre-tax discount rate that reflected current market assessments of the time value of money and the risks specific to the CGU.

Key Assumptions used for the Texas cash generating unit value-in-use assessment

The recoverable amount of the CGU was based on value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGU. The directors were satisfied the estimated recoverable amount of the CGU exceeded its carrying amount by approximately \$0.57 million. The key assumptions used in the estimation of the recoverable amount are set out below.

The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources. The determination of VIU is most sensitive to the following key assumptions:

- Production volumes
- Commodity prices
- Discount rates

Production volumes: In calculating the VIU, the peak production volumes incorporated into the cash flow model was 1.1 million ounces of silver. Estimated production volumes are based on mine plan agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as: the silver concentration per tonne of ore; rate of ore extraction; economically viable rate of heap leaching; the production costs; and the selling price of the commodities extracted. The production profiles used were consistent with the reserves and resource volumes approved as part of the Group's process for the estimation of proven and probable reserves.

Note 15. Non-current assets - Mine development assets (continued)

Commodity prices: Forecast commodity prices are based on management's estimates and are derived from forward price curves and long-term views of global supply and demand, building on past experience of the industry and consistent with external sources. Estimated long-term silver prices for the current year have been used to estimate future revenues at AUD\$22.

Discount rates: In calculating the VIU, a pre-tax discount rate of 15.94% was applied to the pre-tax cash flows expressed in real terms. This discount rate is derived from the Group's pre-tax weighted average cost of capital (WACC), with appropriate adjustments made to reflect the risks specific to the CGU and to determine the pre-tax rate. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on its interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated based on publicly available market data.

No impairment for the financial year has been recorded for the CGU.

Note 16. Non-current assets - Restricted cash

| | Consolidated | |
|-----------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Restricted cash | <u>3,965,720</u> | <u>3,965,720</u> |

The restricted cash was placed with a financial institution as financial assurance for the environmental authority relating to the Mining Licence (ML 100106) over the Granite Belt Project.

Note 17. Current liabilities - trade and other payables

| | Consolidated | |
|-----------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Trade payables and other payables | <u>1,602,137</u> | <u>1,291,057</u> |

Refer to note 24 for further information on financial instruments.

Note 18. Current liabilities - borrowings

| | Consolidated | |
|------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Debentures - secured | | |
| - Related parties (a) | 2,250,000 | 2,250,000 |
| - Non-related parties (d) | - | 4,800,000 |
| Short-term loans - unsecured | | |
| - Related parties (b) (c) | 774,901 | 500,000 |
| - Non-related parties (d) | 10,651,575 | 1,200,000 |
| | <u>13,676,476</u> | <u>8,750,000</u> |

Refer to note 24 for further information on financial instruments.

Note 18. Current liabilities - borrowings (continued)

Debentures

- (a) The debentures have been issued under a secured debenture deed executed by the company on 26 May 2017. Debentures are secured by all of the assets of the company and a guarantee by its wholly-owned subsidiary MRV Metals Pty Ltd. The debenture deed has a 2-year term and interest rate of 10% per annum (payable quarterly). Interest payments may be made 50% cash and 50% equity (at \$0.011 per share). As some of the debentures were taken up by the Directors on the initial issue of shares and part payment of interest by issue of shares was approved at the Annual General Meeting in October 2017. Whilst the debentures have a 2-year term, in accordance with Australian Accounting Standards they are disclosed as a current liability as the company does not have an unconditional right to defer payment.

Short-term loans

- (b) Alexander Jason Elks (non-executive Chairman), has provided an unsecured loan to the company of \$200,000. The loan has a 2-year term and interest rate of 10% per annum (payable quarterly). Interest payments may be made 50% cash and 50% equity (at \$0.011 per share). Whilst the loan has a 2-year term, in accordance with Australian Accounting Standards it is disclosed as a current liability as the company does not have an unconditional right to defer payment.
- (c) Philip Anthony Feitelson (a former Director) has provided an unsecured loan of \$574,901. The loan has an interest rate of 13% per annum and was due to be repaid on 29 March 2019. The loan repayment terms are currently under discussion with Philip Anthony Feitelson.
- (d) The loan from First Samuel Limited (FSL) was restructured in February 2019; which included transferring \$4,800,000 in Debentures to Short-term loans. In terms of the restructured debt facility, interest is payable under commercial terms at 12% and FSL has the option to convert up to 50% of the interest into equity, on a month by month basis at an agreed \$0.007. The total term of the debt agreement runs to April 2022 and additional payments are at the discretion of the company to reduce this debt. At FSL election, they may seek to convert up to \$2,000,000 of the debt to equity, at the fixed conversion price of \$0.007, subject to shareholder vote and acceptance, at any stage within the first 12 months of the new agreement. The company has also agreed that the debt will be repaid via a minimum of 50% of the free cash flow per month, after all total company operating expenses, across the total group being operating, advancement and corporate activities. The issuer must redeem the notes such that as at 17 February 2021 the aggregate Face Value of all outstanding Notes does not exceed \$6,000,000; as at 30 November 2021 the aggregate Face Value of all outstanding Notes does not exceed \$4,500,000; and as at 29 April 2022, no Notes remain outstanding.

Note 19. Current liabilities - provisions

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Annual leave | 58,957 | 129,068 |
| Mine restoration - Kingaroy UCG site | 30,000 | 30,000 |
| Provision for Research and Development Tax Incentive Offset (a) | 10,770,731 | - |
| | <u>10,859,688</u> | <u>159,068</u> |

- (a) As a result of the AAT initial decision to seek repayment of the Research and Development Tax Incentives previously paid to the group the Directors have provided for this as outlined in note 10. As at the date of this report no final determination has been made with Innovation and Science Australia as a result of the Full Federal Court ruling to defer the matter back to Innovation and Science Australia. The Directors continue to be actively engaged with Innovation and Science Australia with the intent to obtain an outcome in favour of the group.

Note 19. Current liabilities - provisions (continued)

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

| | Provision for refund R&D tax incentive* \$ | Mine restoration Kingaroy UCG site \$ |
|--|---|---|
| Consolidated - 2019 | | |
| Carrying amount at the start of the year | - | 30,000 |
| Additional provisions recognised (a) | 10,770,731 | - |
| Carrying amount at the end of the year | <u>10,770,731</u> | <u>30,000</u> |

* The company has provided its interest in the McKenzie Coal Project as security to the ATO, for the \$8,185,725 repayment sought by the ATO. A payment plan has also been agreed with the ATO, should the company after having extinguished all of its appeal options and escalation rights still be liable for the payment, whereby 30% of the debt is payable within 90 days, further amounts of 20% each at 180/270/360 days, and a final 10% payment at 450 days.

(a) This amount is reflected in the current year income tax expense as a result of the previous tax benefit received on account of the groups Research and Development Tax incentives discussed in detail in note 10.

Note 20. Non-current liabilities - provisions

| | Consolidated | |
|---------------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Rehabilitation - Granite Belt Project | <u>3,800,000</u> | <u>3,800,000</u> |

Note 21. Equity - issued capital

| | 2019 | 2018 | Consolidated | 2018 |
|------------------------------|----------------------|----------------------|---------------------|-------------------|
| | Shares | Shares | 2019 | 2018 |
| | | | \$ | \$ |
| Ordinary shares - fully paid | <u>3,117,518,845</u> | <u>2,775,534,676</u> | <u>85,225,294</u> | <u>82,508,541</u> |

Note 21. Equity - issued capital (continued)

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$ |
|---|-----------------------|----------------------|-------------|-------------------|
| Balance | 1 July 2017 | 2,120,290,717 | | 75,247,446 |
| Rights issue | 2 August 2017 | 421,965,184 | \$0.011 | 4,641,617 |
| Issued as partial payment of debenture interest | 29 August 2017 | 3,465,754 | \$0.011 | 38,123 |
| Issued as partial payment of debenture subscription | 11 October 2017 | 5,681,818 | \$0.011 | 62,500 |
| Issued as partial payment of debenture subscription | 2 November 2017 | 39,772,727 | \$0.011 | 437,500 |
| Issued as partial payment of debenture interest | 26 November 2017 | 3,465,754 | \$0.011 | 38,123 |
| Options exercised | 11 December 2017 | 8,057,250 | \$0.006 | 48,344 |
| Issued as partial payment of debenture interest | 5 January 2018 | 186,177 | \$0.011 | 2,048 |
| Rights issue | 12 February 2018 | 129,234,914 | \$0.012 | 1,550,819 |
| Issued as partial payment of debenture subscription | 24 January 2018 | 22,727,272 | \$0.011 | 250,000 |
| Issued as partial payment of debenture interest | 29 January 2018 | 1,958,280 | \$0.011 | 21,541 |
| Issued as partial payment of debenture interest | 21 February 2018 | 1,718,555 | \$0.011 | 18,904 |
| Issued as partial payment of debenture interest | 26 February 2018 | 3,437,111 | \$0.011 | 37,808 |
| Rights issue | 7 March 2018 | 6,000,000 | \$0.012 | 72,000 |
| Issued as partial payment of debenture interest | 27 April 2018 | 2,585,616 | \$0.011 | 28,442 |
| Issued as partial payment of debenture interest | 21 May 2018 | 1,662,516 | \$0.011 | 18,288 |
| Issued as partial payment of debenture interest | 28 May 2018 | 3,325,031 | \$0.011 | 36,575 |
| Share issue costs | | - | \$0.000 | (41,537) |
| Balance | 30 June 2018 | 2,775,534,676 | | 82,508,541 |
| Issued as partial payment of debenture interest | 27 July 2018 | 2,549,812 | \$0.011 | 28,048 |
| Issued as partial payment of debenture interest | 24 August 2018 | 5,155,666 | \$0.011 | 56,712 |
| Issued as partial payment of debenture interest | 11 September 2018 | 343,711 | \$0.011 | 3,781 |
| Rights issue | 21 September 2018 | 278,323,729 | \$0.008 | 2,226,590 |
| Issue to former CEO | 21 September 2018 | 34,405,773 | \$0.004 | 137,623 |
| Issued as partial payment of debenture interest | 29 October 2018 | 2,577,833 | \$0.011 | 28,356 |
| Issued as partial payment of debenture interest | 22 & 26 November 2018 | 5,155,666 | \$0.011 | 56,712 |
| Issued as partial payment of debenture interest | 12 December 2018 | 343,711 | \$0.011 | 3,781 |
| Issued as partial payment of debenture interest | 25 January 2019 | 2,577,833 | \$0.011 | 28,356 |
| Issued as partial payment of debenture interest | 21 February 2019 | 1,718,555 | \$0.011 | 18,904 |
| Issued as partial payment of debenture interest | 26 February 2019 | 3,437,111 | \$0.011 | 37,808 |
| Issued as partial payment of debenture interest | 12 March 2019 | 336,239 | \$0.011 | 3,699 |
| Issued as partial payment of debenture interest | 27 April 2019 | 2,521,793 | \$0.011 | 27,740 |
| Issued as partial payment of debenture interest | 26 May 2019 | 2,536,737 | \$0.011 | 58,643 |
| Balance | 30 June 2019 | <u>3,117,518,845</u> | | <u>85,225,294</u> |

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.

Rights issue

On 21 September 2018, the company issued 278,323,729 ordinary shares in terms of a non-renounceable rights issue at an issue price of \$0.008 per share. The rights issue was fully subscribed.

Issue to former CEO

The shares issued to the former CEO, Alexander Jason Elks, represents the payment to Jason in terms of his service contract following his resignation as CEO and has been included in the Remuneration Report.

Note 21. Equity - issued capital (continued)

Share buy-back

There is no current on-market share buy-back.

Capital risk management

Management controls the capital of the group in order to maintain a reasonable debt to equity ratio, provide the shareholders with adequate returns, and ensure that the group can fund its operations and continue as a going concern.

The group's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

Management effectively manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues. The group's capital management strategy altered in the prior year when debt funding was sourced. In the current year the group has raised further share capital and debt.

There are no externally imposed capital requirements.

Call options over unissued shares

All options issued by the company entitle the holder to purchase one fully paid ordinary share in the capital of the company at their respective exercise prices. None of the options has any dividend or voting entitlements, nor do they carry any participation rights in respect of any proceeds from the winding up of the company.

Note 22. Equity - reserves

| | Consolidated | |
|------------------------------|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Share-based payments reserve | - | 45,551 |

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.

Movements in reserves

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

| | Share-based payments reserve \$ | Total \$ |
|-------------------------------|--|-------------|
| Consolidated | | |
| Balance at 1 July 2017 | 2,495 | 2,495 |
| Options exercised | (2,495) | (2,495) |
| Options granted | 45,551 | 45,551 |
| Balance at 30 June 2018 | 45,551 | 45,551 |
| Options granted | 56,158 | 56,158 |
| Transfer to retained earnings | (101,709) | (101,709) |
| Balance at 30 June 2019 | - | - |

Note 23. Equity - dividends

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

Note 24. Financial instruments

Financial risk management objectives

Risk management is carried out under policies set by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas.

The Board monitors and manages the financial risk relating to the operations of the group. The group'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 group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. The group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

A summary of the group's financial instruments is set out below:

| | Consolidated | |
|--|---------------------|-------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Financial assets | | |
| Cash and cash equivalents | 81,402 | 1,250,695 |
| Trade and other receivables | 388,204 | 5,397,176 |
| Other financial assets - Deposits | 101,969 | 597,969 |
| Other financial assets - Restricted cash | 3,965,720 | 3,965,720 |
| Total financial assets | <u>4,537,295</u> | <u>11,211,560</u> |
| Financial liabilities | | |
| Trade and other payables | 1,602,137 | 1,291,057 |
| Financial borrowings | 13,676,476 | 8,750,000 |
| Total financial liabilities | <u>15,278,613</u> | <u>10,041,057</u> |

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position.

Market risk

Foreign currency risk

The group does not currently have any significant exposure to foreign currency risk.

Commodity price risk

Commodity price risk relates to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors for commodities. The group has no exposure to commodity price risk as it is not yet in production.

Interest rate risk

The group's main interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the group to interest rate risk. Borrowings obtained at fixed rates expose the consolidated entity to fair value interest rate risk. The group had no variable rate borrowings at 30 June 2019 and 30 June 2018.

Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the group.

The group's exposure to credit risk arises from potential default of the counter- party, with a maximum exposure equal to the carrying amount of the financial assets.

The group does not hold any credit derivatives to offset its credit exposure.

The group trades only with recognised, creditworthy third parties, and as such collateral is not requested. Risk limits are regularly monitored.

Note 24. Financial instruments (continued)

The maximum exposure to credit risk for financial assets is their carrying amount as shown above. The group has a concentration of credit risk in respect of trade and other receivables and other financial assets.

Liquidity risk

Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The group manages risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financial activities;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit risk profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profit of financial assets.

Remaining contractual maturities

The following tables detail the group'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.

| | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|--------------------------------------|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Consolidated - 2019 | | | | | |
| Non-derivatives | | | | | |
| <i>Non-interest bearing</i> | | | | | |
| Trade payables | 1,602,137 | - | - | - | 1,602,137 |
| <i>Interest-bearing - fixed rate</i> | | | | | |
| Borrowings | 3,024,901 | 10,651,575 | - | - | 13,676,476 |
| Total non-derivatives | 4,627,038 | 10,651,575 | - | - | 15,278,613 |
| | | | | | |
| | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
| Consolidated - 2018 | | | | | |
| Non-derivatives | | | | | |
| <i>Non-interest bearing</i> | | | | | |
| Trade payables | 1,291,057 | - | - | - | 1,291,057 |
| <i>Interest-bearing - fixed rate</i> | | | | | |
| Borrowings | 8,750,000 | - | - | - | 8,750,000 |
| Total non-derivatives | 10,041,057 | - | - | - | 10,041,057 |

Note 25. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the group is set out below:

| | Consolidated | |
|------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Short-term employee benefits | 722,889 | 437,106 |
| Post-employment benefits | 60,932 | 46,409 |
| Termination benefits | 305,409 | - |
| Share-based payments | 56,158 | 45,551 |
| | <u>1,145,388</u> | <u>529,066</u> |

The Remuneration Report contained in the Directors' Report contains details of the remuneration paid or payable to each member of the group's key management personnel.

Note 26. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Nexia Brisbane Audit Pty Ltd, the auditor of the company:

| | Consolidated | |
|--|---------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Audit services - Nexia Brisbane Audit Pty Ltd</i> | | |
| Audit or review of the financial statements | <u>85,000</u> | <u>35,000</u> |

Note 27. Contingent liabilities

A former company advisor (PricewaterhouseCoopers) is claiming outstanding professional fees from the company in the amount of \$97,000. The company is contesting this claim. Further details pertaining to this matter, including the basis of contention, are not able to be disclosed as any disclosure of these details may prejudice the outcome of the claim.

Note 28. Commitments

| | Consolidated | |
|---|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Lease commitments - operating</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 22,485 | 14,802 |
| One to five years | - | 16,315 |
| | <u>22,485</u> | <u>31,117</u> |
| <i>Capital expenditure commitments</i> | | |
| Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 342,110 | 814,108 |
| One to five years | 1,900,500 | 737,404 |
| | <u>2,242,610</u> | <u>1,551,512</u> |

Note 28. Commitments (continued)

Capital expenditure commitments

The group must meet minimum expenditure commitments in relation to granted exploration and mining development tenements to maintain those tenements in good standing. If the relevant tenement is relinquished the expenditure commitment also ceases.

Note 29. Related party transactions

The groups main related parties are as follows:

Moreton Resources Limited is the parent entity and as such exercises control over the group.

Subsidiaries

Interests in subsidiaries are set out in note 32.

Key management personnel

Disclosures relating to key management personnel, their remuneration and equity interests are set out in note 25 and the remuneration report included in the directors' report.

Any persons(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

Other related parties

Other related parties include entities controlled by the Ultimate Parent Entity and entities over which key management personnel have joint control.

Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

| | Consolidated | |
|--|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Payment for goods and services: | | |
| Rent paid to a company associated with a former Director - Philip Anthony Feitelson* | 19,479 | 41,660 |
| Salary paid to the wife of a Director - Alexander Jason Elks | 13,356 | 130,000 |
| Consultancy fees paid to former Director - Valeri Melik-Babakhanov | - | 43,058 |
| Payment for other expenses: | | |
| Interest paid/payable on unsecured loan from Director - Philip Anthony Feitelson* | 21,904 | 9,901 |
| Interest paid/payable on debentures from former Director - Philip Anthony Feitelson* | 52,192 | 103,130 |
| Interest paid/payable on debentures from Director - Alexander Jason Elks | 75,000 | 41,644 |

* Tony Feitelson, a former Non-executive Director of the company, resigned on 5 November 2018. Tony Feitelson and entities associated with him ceased to be related parties subsequent to Tony's resignation as a Non-Executive Director of the company.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Note 29. Related party transactions (continued)

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

| | Consolidated | |
|--|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Current borrowing - unsecured: | | |
| Loan from a former Director - Philip Anthony Feitelson* | - | 500,000 |
| Loan from a Director - Alexander Jason Elks - refer note 18 | 200,000 | - |
| Debentures payable to companies and entities associated with a former Director - Philip Anthony Feitelson* | - | 1,500,000 |
| Debentures payable to a Director - Alexander Jason Elks | 750,000 | 750,000 |

* Philip Anthony Feitelson, a former Non-executive Director of the company, resigned on 5 November 2018. Philip Anthony Feitelson and entities associated with him ceased to be related parties subsequent to Philip Anthony Feitelson's resignation as a Non-Executive Director of the company.

Note 30. Parent entity information

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

Statement of profit or loss and other comprehensive income

| | Parent | |
|---|---------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Profit/(loss) after income tax | (26,052,057) | 1,415,815 |
| Other comprehensive income for the year, net of tax | - | - |
| Total comprehensive income | (26,052,057) | 1,415,815 |

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Note 30. Parent entity information (continued)

Statement of financial position

| | Parent | |
|-------------------------------|--------------------|-------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Total current assets | 19,316,015 | 26,317,980 |
| Total non-current assets | 4,380,106 | 4,663,920 |
| Total assets | 23,696,121 | 30,981,900 |
| Total current liabilities | 26,108,301 | 10,169,918 |
| Total non-current liabilities | - | - |
| Total liabilities | 26,108,301 | 10,169,918 |
| Net assets/(liabilities) | <u>(2,412,180)</u> | <u>20,811,982</u> |
| Equity | | |
| Issued capital | 85,225,294 | 82,508,541 |
| Share-based payments reserve | - | 45,551 |
| Accumulated losses | (87,637,474) | (61,742,110) |
| Total equity/(deficiency) | <u>(2,412,180)</u> | <u>20,811,982</u> |

The supplementary information about the parent entity has been extracted from the books and records of the financial information of the parent entity and has been prepared in accordance with Australian Accounting Standards.

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 30 June 2019 and 30 June 2018.

Contingent liabilities

The contingencies of the parent entity are consistent with the group - refer note 27.

Capital commitments - Property, plant and equipment

The parent entity did not have any capital commitments at 30 June 2019 and 30 June 2018.

Note 31. Business combinations

2018

MRV Metals Pty Ltd, a 100% subsidiary of Moreton Resources Limited, acquired the historic Twin Hills Silver Mine on the date of granting of Mining Licence 100106 being 3rd October 2017 and the Directors have determined that this is a business combination pursuant to AASB 3 'Business Combinations' (the transaction meets the definition of a business combination as it involves the acquisition of inputs, processes and outputs). The company had previously acquired exploration permits for the area and its surrounds. Included in the acquisition was certain fixed plant and equipment such as the crusher system and the processing plant that was previously used by Alcyone Resources Limited when it operating the Twin Hills Silver Mine in 2014. Site infrastructure was also acquired which included the leach heaps and the ponds and dams used in the mining process. Included in the heaps is an amount of silver inventory. This acquisition has given MRV Metals Pty Ltd the ability to recommence the mining operation. In turn this recommencement of operations will give the Queensland Government a significant benefit that the area will no longer be classified as an "abandoned mine" and the State will therefore not be responsible for the ongoing costs to manage the site. In order to release the State of this ongoing site management the formerly abandoned assets were transferred to MRV Metals Pty Ltd upon the granting of the mining licence for \$10,103.

Details of the acquisition are as follows:

| | Fair value \$ |
|--------------------------------|--------------------------|
| Plant and equipment | 3,556,000 |
| Mine infrastructure | 4,020,000 |
| Inventories | 9,554,500 |
| Provision for rehabilitation | <u>(3,800,000)</u> |
| Net assets acquired | 13,330,500 |
| Goodwill | <u>-</u> |
| Total | <u><u>13,330,500</u></u> |
| Representing: | |
| Cash paid or payable to vendor | 10,003 |
| Gain on acquisition | <u>13,320,497</u> |
| | <u><u>13,330,500</u></u> |

In addition to the acquisition payment, the company lodged a voluntary bond for the project, covering future environmental responsibilities. Acquisition related costs included in the profit and loss total \$39,859

The assets acquired and the liabilities assumed are recorded at their fair value determined on the following basis:

Plant and equipment, and mine infrastructure fair values were determined by consultants with experience in valuing this type of equipment who have visited the site and made their assessments based upon their expert knowledge. Inventories were based upon an assessment of the recoverable silver in the heaps valued at the lower of an estimated cost of production or net realisable value. The land has an associated liability with it being on the Contaminated Land Register and the company taken on the liability to rehabilitate this issue for which it has made an estimate for the cost remedy this problem (this amount has been agreed with the Queensland Government).

Note 32. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest* | |
|-----------------------------------|---|---------------------|-----------|
| | | 2019 % | 2018 % |
| MRV Tarong Basin Coal Pty Limited | Australia | 100.00% | 100.00% |
| MRV Surat Basin Coal Pty Limited | Australia | 100.00% | 100.00% |
| MRV Bowen Basin Coal Pty Limited | Australia | 100.00% | 100.00% |
| MRV Metals Pty Limited | Australia | 100.00% | 100.00% |

* The proportion of ownership interest is equal to the voting power held. Ownership interests are directly held.

The assets of MRV Bowen Basin Coal Pty Ltd secure the claim by the Australian Tax Office (note 10). MRV Metals Pty Limited has guaranteed the company's obligations under the Debentures (note 18). There are no significant restrictions over the group's ability to access or use the assets and settle liabilities of the group.

Note 33. Events after the reporting period

In the matter of Moreton Resources Ltd v Innovation and Science Australia, the Federal Court of Australia has considered the appeal of Moreton Resources Limited, and found in favour of the appeal by Moreton Resources Limited, and as such have determined that the prior decision of the Tribunal, is to be set aside and the matter remitted to the Tribunal for determination according to law. As at the date of this report the matter remained unresolved.

On 29 July 2019 the company issued a total of 12,299,308 ordinary shares in the company as follows:

- 2,804,794 issued in lieu of debenture interest; and
- 9,494,514 issued to Mr Alexander Jason Elks in conjunction with the Moreton Resources Corporate Employees Long-Term Incentive plan.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

Note 34. Cash flow information

Reconciliation of profit/(loss) after income tax to net cash used in operating activities

| | Consolidated | |
|---|---------------------|--------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Profit/(loss) after income tax expense for the year | (26,471,457) | 11,338,312 |
| Adjustments for: | | |
| Depreciation and amortisation | 205,385 | 169,424 |
| Impairment of non-current assets | 149,157 | - |
| Net loss/(gain) on disposal of property, plant and equipment | 457,279 | (54,985) |
| Share-based payments | 56,158 | 45,551 |
| Gain on business acquisition | - | (13,320,497) |
| Equity settled debenture interest and interest capitalised | 890,431 | 239,853 |
| Share issue costs expensed | 137,623 | - |
| Change in operating assets and liabilities: | | |
| Increase in trade and other receivables | (151,543) | (134,902) |
| Decrease in inventories | 167,478 | - |
| Increase in trade and other payables | 1,150,920 | 367,079 |
| Decrease in other provisions | (70,111) | (52,016) |
| Decrease in Research and Development Tax Incentive receivable | 5,160,515 | - |
| Increase in provision for Research and Development Tax Incentive offset | 10,770,731 | - |
| Net cash used in operating activities | <u>(7,547,434)</u> | <u>(1,402,181)</u> |

Non-cash investing and financing activities

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Debenture interest settled by the issue of shares | 352,540 | 239,852 |
| Shares issued to former CEO for no consideration as part of termination payment | 137,623 | - |
| | <u>490,163</u> | <u>239,852</u> |

Changes in liabilities arising from financing activities

| Consolidated | Debentures | Short-term | Related party | Total |
|------------------------------------|-------------------|-------------------|----------------------|-------------------|
| | \$ | loan | loans | \$ |
| | | \$ | \$ | |
| Balance at 1 July 2017 | 3,025,000 | - | - | 3,025,000 |
| Net cash from financing activities | 4,025,000 | 1,200,000 | 500,000 | 5,725,000 |
| Balance at 30 June 2018 | 7,050,000 | 1,200,000 | 500,000 | 8,750,000 |
| Net cash from financing activities | - | 4,146,047 | 200,000 | 4,346,047 |
| Non-cash movements: | | | | |
| Transfer to short-term loans | (4,800,000) | 4,800,000 | - | - |
| Interest capitalised | - | 505,528 | 74,901 | 580,429 |
| Balance at 30 June 2019 | <u>2,250,000</u> | <u>10,651,575</u> | <u>774,901</u> | <u>13,676,476</u> |

Note 35. Earnings per share

| | Consolidated 2019 \$ | 2018 \$ |
|---|----------------------------|----------------------|
| Profit/(loss) after income tax attributable to the owners of Moreton Resources Limited | <u>(26,471,457)</u> | <u>11,338,312</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 3,033,728,436 | 2,985,706,314 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options over ordinary shares | <u>-</u> | <u>18,115,903</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>3,033,728,436</u> | <u>3,003,822,217</u> |
| | Cents | Cents |
| Basic earnings per share | (0.87) | 0.38 |
| Diluted earnings per share | (0.87) | 0.38 |

All of the group's options were considered to be potential ordinary shares and were included in the determination of diluted earnings per share, to the extent to which they were dilutive. As at 30 June 2019 there were no options remaining on issue. For the financial year ended 30 June 2018 the outstanding options were:

| Grant date | Vesting date | Expiry date | Exercise price | Number |
|------------|--------------|-------------|----------------|-------------------|
| 27/10/2017 | 01/11/2018 | 31/12/2018 | \$0.004 | 20,189,062 |
| 27/10/2017 | 01/11/2019 | 31/12/2019 | \$0.004 | 20,189,062 |
| | | | | <u>40,378,124</u> |

Note 36. Share-based payments

Employees', Officers', Consultants and Partners Option Plan 2015

The exercise price and vesting conditions of options issued under the plan are determined by the company's Directors, in accordance with the plan. The total fair value of these options is recognised progressively on a pro-rate basis over each option's respective vesting period. Participation in the plan is at the Directors' discretion. The options are granted for no consideration and carry no dividend or voting entitlements. When exercised, each option converts into one fully paid ordinary share in the capital of the company. The maximum number of unexercised options that can be issued at any one time is 5% of the current number of issued shares.

On 27 October 2017 the company granted 40,378,124 options to Alexander Jason Elks (former Managing Director and Chief Executive Officer). Given the speculative nature of the company's activities, it is considered the performance of the Managing Director and the performance and value of the company are closely related. As such the options granted would provide reward and incentive for future services provided to the company to further the progress of the company to deliver growth and shareholder value. The value of these options at grant date was \$101,709. The following were the vesting dates for the options:

- 20,189,062 options were due to vest on 1 November 2018
- 20,189,062 options due to vest on 1 November 2019

Following the resignation of Alexander Jason Elks as CEO on 23 November 2018, the options granted to him were cancelled.

No options were issued under this plan during the 2019 financial year.

Long Term Incentive Plan (LTIP)

Note 36. Share-based payments (continued)

At the company's annual general meeting held on 11 October 2018, the company's shareholders approved an LTIP. The aim of the LTIP is to align long term incentives for executives to participate in the future growth and profitability of the company with the delivery of key performance measures and to align them with company and shareholder objectives. The LTIP allows the grant of share rights to participants each of which is a right to acquire a share, subject to the satisfaction of performance conditions. No share rights were issued under this plan during the 2019 financial year.

Set out below are summaries of options granted:

| 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 |
| 27/10/2017 | 31/12/2018 | \$0.004 | 20,189,062 | - | - | (20,189,062) | - |
| 27/10/2017 | 31/12/2019 | \$0.004 | 20,189,062 | - | - | (20,189,062) | - |
| | | | 40,378,124 | - | - | (40,378,124) | - |
| Weighted average exercise price | | | \$0.004 | \$0.000 | \$0.000 | \$0.004 | \$0.000 |
| 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 |
| 27/11/2015 | 31/12/2017 | \$0.006 | 8,057,250 | - | (8,057,250) | - | - |
| 27/10/2017 | 31/12/2018 | \$0.004 | - | 20,189,062 | - | - | 20,189,062 |
| 27/10/2017 | 31/12/2019 | \$0.004 | - | 20,189,062 | - | - | 20,189,062 |
| | | | 8,057,250 | 40,378,124 | (8,057,250) | - | 40,378,124 |
| Weighted average exercise price | | | \$0.006 | \$0.004 | \$0.006 | \$0.000 | \$0.004 |

The weighted average remaining contractual life of options outstanding at 30 June 2018 was 1 year.

No options remained on issue at 30 June 2019.

The total expense arising from share-based payment option transactions recognised during the year is \$56,158 (2018: \$45,551).

Share issues

As set out in note 18, interest payable on debentures may be settled in equity.

In the current financial year 29,254,667 shares have been issued at an average price of \$0.012 per share to settle interest payable of \$352,540. Of the 29,254,667 shares issued, 6,818,182 were to former Director Philip Anthony Feitelson and related parties and 3,409,092 were to Non-executive Chairman Alexander Jason Elks.

Moreton Resources Limited
Directors' declaration
30 June 2019

In the directors' opinion:

- 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 group's financial position as at 30 June 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.

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

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



Phillip Bryant
Managing Director

9 October 2019

Independent Auditor's Report to the Members of Moreton Resources Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Moreton Resources Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its performance for the year then ended; 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements which indicates that the Group incurred a net loss of \$26,471,457 for the year ended 30 June 2019, had net cash outflows from operating activities of \$7,547,434 and, as of that date, the Group's current liabilities exceeded its total current assets by \$16,179,704. The note also indicates that in order for the Company to fund ongoing operational expenditure in relation to progressing its mining, exploration and corporate activities and meet debt repayment obligations due within 1 year it will be principally dependent upon the initiatives outlined in the note.

As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Independent Auditor's Report to the Members of Moreton Resources Limited (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|--|---|
| <p>Carrying value of Deferred Exploration and Evaluation expenditure</p> <p>As disclosed in note 14 "Non-current assets – exploration and evaluation" in the Group's consolidated statement of financial position as at 30 June 2019 is capitalized expenditure with a carrying value of \$5,978,631. The Group's accounting policy in respect of exploration and evaluation assets is outlined in Note 2.</p> <p>Exploration assets are required to be tested for impairment when facts and circumstances suggest that the carrying amount of deferred exploration and evaluation assets may exceed their recoverable amount.</p> <p>As the carrying value of the Exploration and Evaluation Assets represent a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of the assets may exceed their recoverable amount.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Challenging the directors' assumptions that supported the evaluation of impairment indicators; and • We obtained evidence as to whether the rights to tenure of the areas of interest remained current at balance date as well as confirming that rights to tenure are expected to be renewed for tenements that will expire in the near future; and • We obtained evidence of the future intention for the areas of interest, including reviewing future budgeted expenditure and related work programs; and • We obtained an understanding of the status of ongoing exploration programs, for the areas of interest; and • Verified the Group's ownership interest for each of the tenements to which the deferred exploration expenditure relates. |

Independent Auditor's Report to the Members of Moreton Resources Limited (continued)

| Key audit matter | How our audit addressed the key audit matter |
|--|--|
| <p>Carrying value of Mine Development assets.</p> <p>As disclosed in Note 15 "Non-current assets – Mine development assets in the groups consolidated statement of financial position as at 30 June 2019 are assets relating to the acquisition of the Twin Hills silver mine ("Twin Hills") in the preceding year with a carrying value of \$10,722,990.</p> <p>The directors have assessed the recoverable amount of the Cash Generating Unit ("CGU") to which these assets relate using a value in use analysis which incorporates significant judgement in respect of assumptions such as discount rates, estimates of the quantities of reserves, future production levels, future operating costs and risk rates as outlined in Notes 3 and 15.</p> <p>This was a key audit matter due to the significant carrying value of the Twin Hills CGU's non-current assets which are subject to the judgements and assumptions outlined in Notes 3 and 15 in determining whether there is an impairment to the CGU's assets.</p> | <p>We evaluated the Group's assessment of whether there were any indicators of impairment at 30 June 2019 for its CGU, including considering whether there were any further impairment indicators for the CGU which had not been considered by the Group.</p> <p>With the assistance of Nexia valuation experts our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Evaluating the value in use discounted cash flow model developed by management to assess recoverable amount of the acquired mine assets, including critically assessing the following assumptions: <ul style="list-style-type: none"> - Whether cash flow projections are based on reasonable and supportable assumptions; - Evaluated discount rates used by assessing the cost of capital and suitability of other risk premiums applied in the discounted cash flow by comparing them to market data and industry research; - Consider whether management's allocation of corporate overheads was reasonable based on past performance. • Testing the mechanical accuracy of management's forecast and the discounted cash flow model; • Performing sensitivity analysis on a number of assumptions, including discount rates, growth rates, production volumes, commodity prices and forecast profitability; and • Assessing the appropriateness of the relevant disclosures in the financial statements. |

Independent Auditor's Report to the Members of Moreton Resources Limited (continued)

Other information

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

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

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

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

Responsibilities of the Director's 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report to the Members of Moreton Resources Limited (continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 18 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Moreton Resources Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Independent Auditor's Report to the Members of Moreton Resources Limited (continued)

Responsibilities

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

Nexia Brisbane Audit Pty Ltd

Nexia Brisbane Audit Pty Ltd



Gavin Ruddell
Director

Level 28, 10 Eagle Street
Brisbane, QLD, 4000

Date: 9 October 2019

Moreton Resources Limited
Shareholder information
30 June 2019

The shareholder information set out below was applicable as at 24 September 2019.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares |
|---------------------------------------|---|
| 1 to 1,000 | 95 |
| 1,001 to 5,000 | 59 |
| 5,001 to 10,000 | 116 |
| 10,001 to 100,000 | 674 |
| 100,001 and over | 1,256 |
| | <u>2,200</u> |
| Holding less than a marketable parcel | <u>986</u> |

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

| | Ordinary shares % of total shares issued |
|---|---|
| Number held | |
| MR PHILIP ANTHONY FEITELSON | 730,246,139 23.33 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 548,268,009 17.52 |
| MR ALEXANDER JASON ELKS | 229,093,733 7.32 |
| THE PROMENADE COFFS HARBOUR PTY LTD | 102,926,066 3.29 |
| SUPERFOS PTY LTD | 81,000,000 2.59 |
| COLLINGS SEA FORCE PROPERTY PTY LTD | 68,946,000 2.20 |
| MR ALEXANDER CAMPBELL SMITH | 55,000,000 1.76 |
| HENADOME PTY LTD | 51,352,428 1.64 |
| MR ALEXANDER JASON ELKS & MRS LOUISE MARY ELKS | 35,488,757 1.13 |
| A & J CONSULTANCY PTY LTD | 34,131,647 1.09 |
| MR JOHN NIELSEN | 30,175,000 0.96 |
| LIMITLESS INTERNATIONAL HOLDINGS PTY LTD | 28,571,429 0.91 |
| MRS LOUISE ELKS | 26,544,216 0.85 |
| BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD DRP | 22,662,617 0.72 |
| CITICORP NOMINEES PTY LIMITED | 17,380,350 0.56 |
| AARAN GROUP (WA) PTY LTD | 16,442,424 0.53 |
| MR HARSH MAKADIA & MRS KRISHNA MAKADIA | 16,000,000 0.51 |
| FEITELSON HOLDINGS PTY LIMITED | 15,171,248 0.48 |
| MR PETER ANDREW ELSTON | 13,824,103 0.44 |
| COOROY ROCK PTY LTD | 13,466,001 0.43 |
| | <u>2,136,690,167 68.26</u> |

Unquoted equity securities

| | Number on issue |
|-------------------------------------|--------------------|
| Options over ordinary shares issued | 20,189,062 |

Moreton Resources Limited
Shareholder information
30 June 2019

Substantial holders

Substantial holders in the company are set out below:

| | Ordinary shares | |
|---|------------------------|---------------------------------|
| | Number held | % of total shares issued |
| MR PHILIP ANTHONY FEITELSON | 730,246,139 | 23.33 |
| J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 548,268,009 | 17.52 |
| MR ALEXANDER JASON ELKS | 229,093,733 | 7.32 |

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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.

There are no other classes of equity securities.