



ABN 20 075 877 075

**ANNUAL REPORT
FOR YEAR ENDED 30 JUNE 2019**

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CORPORATE DIRECTORY

| | |
|-------------------------------|--|
| Directors | Daniel Chan (Chairman) George Lam (Deputy Chairman) William Ko Andrew Macintosh |
| Executives | Andrew Fogg (Chief Executive Officer) Bruce Patrick (Chief Operating Officer) |
| Company Secretary | Leni Stanley |
| Registered office | Level 16, 344 Queen Street Brisbane QLD 4000 (07) 3229 6606 |
| Share register | Link Market Services Limited Level 19, 324 Queen Street Brisbane QLD 4000 (02) 8280 7454 |
| Auditor | RSM Australia Partners Level 6, 340 Adelaide Street Brisbane QLD 4000 (07) 3225 7800 |
| Bankers | Westpac Banking Corporation 388 Queen Eagle Street Brisbane QLD 4000 |
| Stock exchange listing | AustChina Holdings Limited shares are listed on the Australian Securities Exchange – using the stock code 'AUH'. |
| Website address | www.austchinaholdings.com |

COMPETENT PERSON'S STATEMENT

The information in this Annual Report that relates to the Resources Statement for AustChina Holdings' Blackall Coal Project has been based on information compiled by Mr. Rowan Johnson who is a member of the Australasian Institute of Mining and Metallurgy and is a senior geologist employed by McElroy Bryan Geological Services Pty Ltd (MBGS).

Mr. Johnson has more than 30 years' experience as a geologist in the resources industry and more than 15 years in the estimation of coal resources for coal projects and coal mines in Australia and overseas. This expertise has been acquired principally through exploration and evaluation assignments at operating coal mines and for exploration areas in Australia's major coal basins and in other coal basins overseas. This experience is more than adequate to qualify him as a Competent Person for the purpose of Resource Reporting as defined in the 2012 edition of the JORC Code. Mr. Johnson consents to the inclusion in this announcement of the matters based on his information in the form and context in which it appears.

The Chairman's Report

On behalf of the AustChina Board I am pleased to introduce the Company's 2019 Annual Report.

On 28 September 2018 AustChina was successful in selling its 100% owned Surat Gas Pty Ltd at a time the company was unable to commit the required significant levels of funding to exploration of the petroleum tenements held by that company.

The sale provided the opportunity, through the acquisition of a 5% holding in minerals explorer Sector Projects Pty Ltd (Sector) to gain renewed exposure to the minerals exploration sector in the productive NW minerals province of Queensland. AustChina also acquired a secured Convertible Note issued by Sector. Should the Company decide to convert the Note at the current valuation it would result in a holding for AustChina in Sector of just under 10%.

The Blackall Coal Project remains a medium-term opportunity dependent in part on the increasing demand for thermal coal into South East Asia and on any improvement in infrastructure economics that may arise from the progression of Galilee Basin projects. Recent government approvals have been positive with respect to development of the Galilee Basin.

The Utilitas Group Pty Ltd (25.15% AustChina) has continued to focus on bringing the first bioHub projects through the final steps to financial close in addition to working with proponents on several new opportunities throughout Australia. The first two of these, the Bundaberg East Wastewater Treatment plant and Casino in Northern New South Wales have local government support. Utilitas is fast becoming the biogas developer of choice for "blue chip" industrial and municipal counterparts establishing multiutility solutions across energy, water and waste.

The Board wishes to thank Mr. Anthony Chan for his contribution to the company as Chairman of the Board from November 2013 until his retirement in June 2019. His support for AustChina has been unwavering.

Other long-serving Board members Mr. Ron Marks and Mr. Nick Bolkus retired in November and June (respectively). I wish them well in their future endeavors.

Mr. William Ko returned to the Board in December 2018, and Mr. Andrew Macintosh accepted an invitation to join the Board in July 2019. I welcome them to the Board.

On behalf of the Board, I thank existing shareholders for your continued support and welcome new shareholders to the Company.

I would also take this opportunity to thank the Board of Directors and Management for their contributions to the company during the year.

Daniel Chan
Chairman

CEO'S REPORT AND OPERATIONAL REVIEW

Tenement Update

A schedule of the Exploration Permits held as at 30 June 2019 by AustChina is provided in Table 1.

| AUSTCHINA HOLDINGS LIMITED: TENEMENT SCHEDULE | | | | |
|---|----------------------------|-------------|--------------|-------------|
| TENEMENT | PROJECT NAME | OWNERSHIP % | DATE GRANTED | EXPIRY DATE |
| EPC 1625 | ALPHA SOUTH WEST 2 | 100 | 29/04/2010 | 28/04/2020 |
| EPC 1719 | BARCOO RIVER-BLACKALL RAIL | 100 | 28/07/2010 | 27/07/2020 |
| EPC 1993 | BLACKALL SOUTH CORNER | 100 | 17/03/2010 | 16/03/2021 |

Table 1: AustChina Holdings Limited Tenement Portfolio at 30th June 2019.

The three current exploration permits for coal (EPCs) are located near Blackall in Central Queensland. The EPCs are in a single project-based administration area approved by the Department of Natural Resources, Mines and Energy.

The sale of AustChina's Surat Gas Pty Ltd was concluded on 28th September 2018. Surat Gas Pty Ltd previously held a 50% interest in three petroleum and gas tenements.¹

AustChina's Coal Project

AustChina's coal exploration footprint is shown in Figure 1, with its focus on the Blackall Coal Project to the south of the township of Blackall contained within EPCs 1719 and 1993.

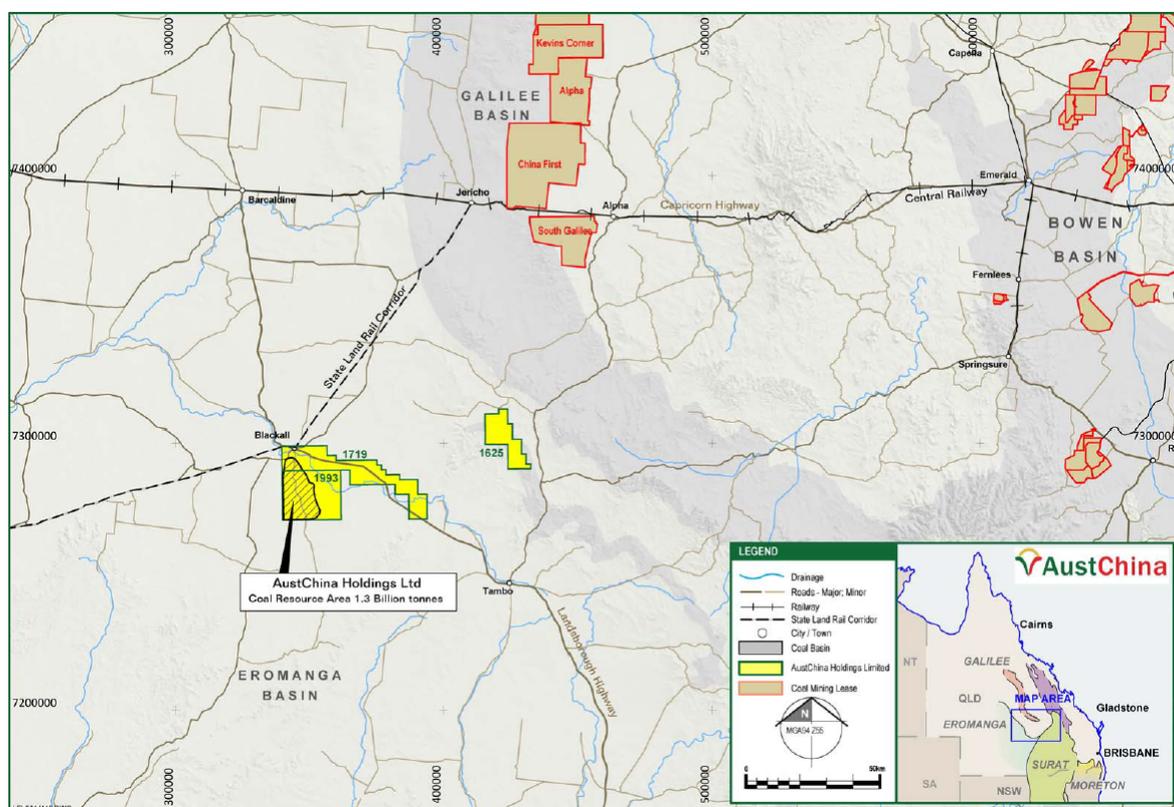


Figure 1: AustChina Coal Exploration Portfolio in Queensland at 30th June 2019.

¹ AUH ASX Announcement 28/9/2018: Sale of Surat Gas Pty Ltd – Completed. Investment in Copper Project

No new in-field exploration was undertaken in the year due to uncertainties in the near term thermal coal outlook, although the medium term outlook appears to improve in south-east Asia with increasing demand for power being addressed largely through the construction of latest technology coal-fired power stations in several countries.

The company notes the media announcements by the Queensland Minister for the Department of Environment and Science on 31 May 2019 of the approval for the Black-Throated Finch Management Plan, and on 13 June 2019 of the approval of the Groundwater Dependent Ecosystem Management Plan for the Adani Carmichael Mine. Government approvals for coal mine proponents in the nearby Galilee Basin have moved forward with the approval of the Environmental Impact Statement. These were key approvals that portend the potential development of the coal industry in the Galilee Basin that may lead to the improvement of rail infrastructure closer to its Blackall Coal Project in Central Queensland.

Development of rail infrastructure into the Galilee Basin would improve the prospects for the Blackall Coal Project in the future by bringing established rail infrastructure further towards the Blackall region.

Review of Mineral Resources and Reserves 2019

AustChina reviewed its mineral resource statements in September 2017. There has been no material change in status and there is no change to the coal resource previously announced and presented here in Table 2.

The company's sole Mineral Resource relates to its Blackall Coal Project where an Inferred Resource of 1.3 billion tonnes of thermal coal has been reported in accordance with the JORC Code (Table 2).²

Table 2: Summary of Coal Resources (EPC1719 and EPC1993)

| Tenement | Block Name | Seam Name | Block Area (km ²) | Coal Area (km ²) | Coal Thickness (m) | In Situ Density (g/cc) ⁽¹⁾ | Raw Ash (%) ⁽²⁾ | Specific Energy (kcal/kg) (a.d.) ⁽³⁾ | Specific Energy (kcal/kg) ⁽²⁾ | Total Sulphur (%) ⁽²⁾ | Inferred Resources (Mt) | | | |
|--|------------|-----------|-------------------------------|------------------------------|--------------------|---------------------------------------|----------------------------|---|--|----------------------------------|-------------------------|------------|-----------|-------------|
| | | | | | | | | | | | Subcrop-50m | 50-100m | 100-150m | Total |
| EPC1719 | F_INF1 | F | 7.70 | 6.37 | 1.2 | 1.56 | 35 | 3090 | 2640 | 0.53 | 10 | 1 | - | 11 |
| | E_INF1 | E | 12.23 | 5.50 | 2.1 | 1.42 | 18 | 4480 | 3940 | 0.37 | 15 | 16 | - | 31 |
| | D_INF1 | D | 15.33 | 7.70 | 2.2 | 1.39 | 14 | 4800 | 4250 | 0.48 | 16 | 27 | - | 43 |
| | C_INF1 | C | 12.73 | 5.75 | 0.6 | 1.39 | 15 | 4880 | 4180 | 0.42 | 1 | 5 | - | 6 |
| | B_INF1 | B | 22.48 | 8.04 | 0.7 | 1.43 | 20 | 4500 | 3810 | 1.21 | 4 | 11 | 2 | 17 |
| Total for EPC1719 | | | | | | | | | | | 46 | 60 | 2 | 108 |
| EPC1993 | F_INF2 | F | 6.17 | 3.45 | 1.4 | 1.50 | 29 | 3620 | 3120 | 0.50 | 7 | 1 | - | 8 |
| | F_INF3 | F | 1.95 | 1.73 | 1.6 | 1.55 | 23 | 3190 | 2770 | 0.84 | 4 | - | - | 4 |
| | F_INF4 | F | 23.89 | 20.45 | 1.0 | 1.46 | 24 | 4060 | 3500 | 0.55 | 27 | - | - | 27 |
| | F_INF5 | F | 3.50 | 2.29 | 0.5 | 1.48 | 26 | 3890 | 3350 | 0.56 | 2 | - | - | 2 |
| | E_INF2 | E | 76.10 | 53.59 | 3.0 | 1.41 | 17 | 4450 | 4020 | 0.37 | 242 | 25 | - | 267 |
| | E_INF3 | E | 14.68 | 6.99 | 1.7 | 1.42 | 18 | 4260 | 3920 | 0.37 | 14 | 1 | - | 15 |
| | D_INF2 | D | 151.01 | 72.42 | 2.6 | 1.42 | 19 | 4330 | 3890 | 0.63 | 309 | 107 | - | 416 |
| | C_INF2 | C | 159.66 | 59.97 | 1.4 | 1.41 | 18 | 4410 | 3950 | 0.41 | 128 | 100 | 1 | 229 |
| | B_INF2 | B | 173.57 | 75.11 | 1.1 | 1.43 | 20 | 4280 | 3810 | 1.31 | 36 | 114 | 9 | 159 |
| | A_INF1 | A | 56.07 | 17.67 | 1.0 | 1.38 ⁽⁴⁾ | 14 ⁽⁵⁾ | 4790 | 4290 | - | 10 | 17 | 30 | 57 |
| Total for EPC1993 | | | | | | | | | | | 779 | 365 | 40 | 1184 |
| Total for EPC1719 & EPC1993 | | | | | | | | | | | | | | 1292 |
| Total for EPC1719 & EPC1993 (Rounded) | | | | | | | | | | | | | | 1300 |

- Notes: 1 In Situ Density generated from Ash regression at 25% moisture basis
2 Raw coal quality parameters reported at In Situ Moisture basis (25%)
3 Specific Energy reported at air dried basis
4 Default In Situ Density generated from available laboratory data
5 Default Raw Ash generated from default In Situ Density and ash/density regression

This information was prepared and first disclosed under the JORC Code 2004. It has since been updated to comply with the JORC Code 2012 although the resource information has not materially changed since it was last reported.

There are no Mineral Reserves pertaining to the company's tenements.

² Coalbank ASX Release 20 June 2012: "Maiden Resource – 1.3 Billion Tonnes".

Investment in Sector Projects Pty Ltd (AUH 5%)

Through the sale of its subsidiary Surat Gas Pty Ltd completed on 28 September 2018, AustChina

- (1) acquired 5% of the issued capital of Sector Projects Pty Ltd (**Sector**); and
- (2) accepted an 8% 1 Year \$1.0m Convertible Note issued by Sector. The Note is secured by a Tenement Mortgage over 2 tenements controlled by Sector (through a wholly owned subsidiary, Sector Projects Australia Pty Ltd). The Convertible Note was due for repayment on 28 September 2019, however funds have not been received to date. Should AustChina convert the Note at the current share price, it would result in a holding for AustChina in Sector of just under 10%.

Background

Sector is 100% owner and operator of Exploration Permits for Minerals (EPMs) 18628, 18644, 18645, and 18647 together with EPMs 26419 and 26463 situated 220km north of Mt Isa in Queensland (Figure 2). Covering an area of 665 square kilometres, the tenements have been the subject of a systematic program of exploration activity over the years in the search for world scale base minerals deposits, primarily copper. The region is known to host a number of large-scale mineral deposits (Mt Isa, Century, George Fischer, Ernest Henry to name a few). The geology of the Sector tenements is known to contain the same host rocks; however, these tenements are overlain by cover material ranging from 40 to 200 metres deep. This cover material makes a more challenging environment for orebody identification when compared to areas closer to Mt Isa where many of the identified economic orebodies have outcropped at surface.

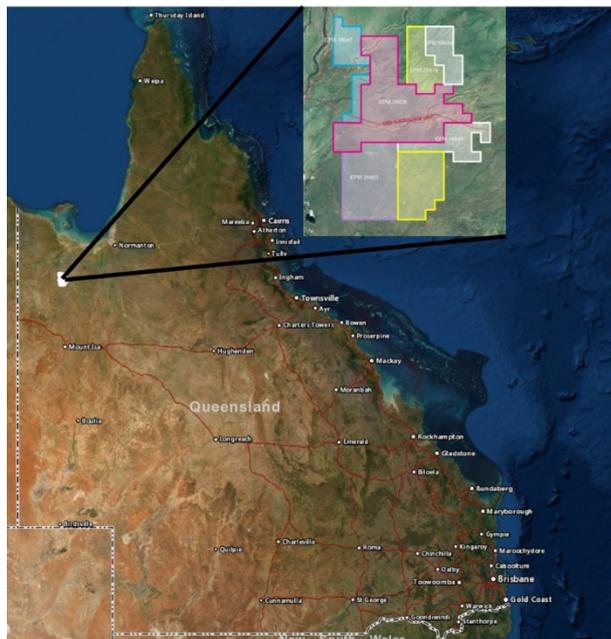


Figure 2: Sector Projects Exploration Area Location

Exploration Program 2019

During the second half of calendar 2018 an IP survey was undertaken over a small area within the tenements (Figure 3). Following modelling of this survey, a small number of high potential targets were identified and prioritised for drill testing.

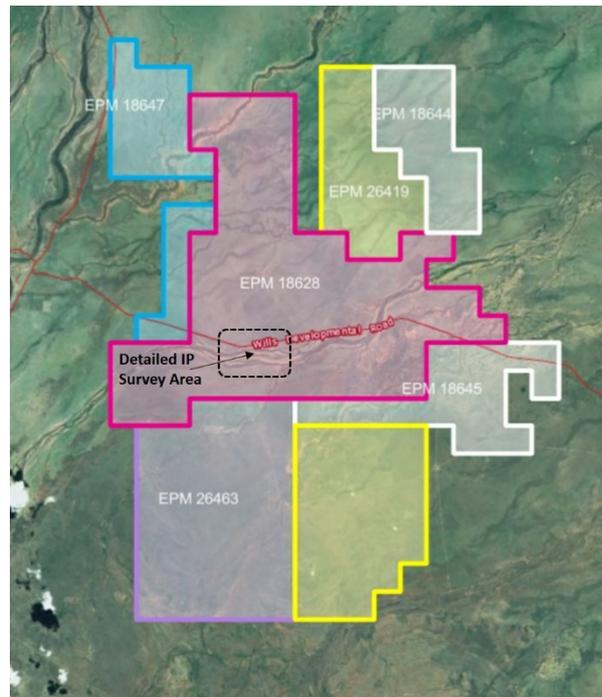


Figure 3: Detailed IP Survey Area

Commencing in H2 FYE 2019 and continuing into July 2019, a 4 hole 2,700m diamond drilling program was undertaken in EPM18628. Encouraging signs of mineralisation, predominantly chalcopyrite, were seen in 3 of the 4 holes. A cross section of these core samples were submitted for chemical analysis and detailed petrographical investigations.

Sector completed a ground-based gravity survey over a large section of the tenements. As a preliminary source of data for refinement of the next series of drill targets, high resolution ground gravity data is critical. In excess of 1,200 stations were sampled and modelling of these results will be completed in Q4 of calendar 2019.

Following an operational review of the 2019 drilling program, Sector have made the decision to action detailed electromagnetic surveys in and around the final hole drilled prior to the end of the 2019 exploration season.

Investment in Biogas Renewable Energy Sector

AustChina holds 25.15% of the Utilitas Group Pty Ltd (Utilitas Group), a Brisbane based privately owned company established in 2010 by Ms Fiona Waterhouse. The company is focused on the emerging biogas and biorefining industries in Australasia and represents a unique opportunity for AustChina to provide an additional investment in the energy and resources sector to diversify its existing portfolio. Ms Waterhouse remains a major shareholder in Utilitas and continues as its Chief Executive Officer.

Biogas has significant potential in Australia to deliver value across the energy, water and waste supply chain:

- Food, beverage and fibre producers exposed to uncertain energy (electricity, gas and fuel) prices and challenges securing network connections and locked in long term contracts for energy, waste and wastewater services.
- Municipal customers faced with aging infrastructure, limited public works budgets and risks and costs for biosolids disposal.
- Waste companies looking for sustainable disposal options in response to customer requirements for landfill

avoidance and emissions abatement.

A biogas facility sits at the core of Utilitas Group's multi-utility service bioHub infrastructure. This provides a platform for additional upstream and downstream processes, extending the types of materials that can be treated and the range of energy and resources that can be recovered to service regional communities with valuable, local, organic alternatives.

Biogas, mostly methane, is produced via a natural process called anaerobic digestion (AD) of organic material in the absence of oxygen. The world's most flexible fuel, biogas can directly displace fossil sources of dispatchable electricity, gas and transport fuel and is generated from feedstock that reduces trade waste costs and risks for producers. Additional processing equipment can yield bio-crude, platform chemicals and bio-plastics.

The biogas industry is supported by a global supply chain of mature equipment suppliers. Germany is the world leader with 12,500 biogas plants (av. 300kWe) connected to its national electricity network and 179 plants supplying biomethane (upgraded biogas) into its national gas grid.

Previously low electricity and gas prices in Australia has meant the local biogas industry has been slow to emerge, but this is changing with local issues around grid stability, high costs of electricity and gas, and gas shortages. In 2017 the World Biogas Association claimed the Australian biogas industry, from waste-based production (livestock manure, biosolids, food, and water) has the potential to generate \$4.3 billion per year. With a livestock population of 29 million cattle, over 2 million pigs, and 101 million poultry in addition to about 24 million people generating biosolids and 290 kg of food waste per year, the biogas potential is estimated to be 7.5 million m3.

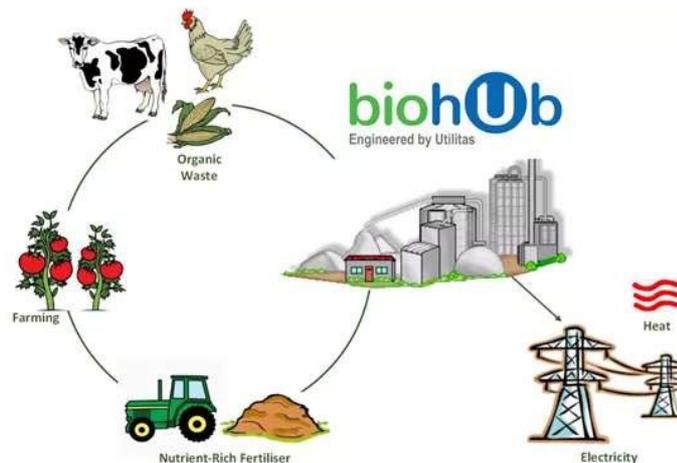


Figure 2 – The biogas cycle.

A regional bioHub aggregates organic waste and wastewater to produce energy, water and other bio-products. It provides infrastructure as a service to local industry and Councils.

Operationally Utilitas hit 3 significant milestones in FY2019

1. End to End Delivery:

Demonstrated their ability to do a full end to end design, procurement, installation, commission, operate, decommission at its Bundaberg site at pilot scale. Pilot scale biogas project with evaporator to produce high quality liquid phase digestate, for use in place as a bio fertiliser. Fertiliser trials are currently underway.

2. Bioproduct Value:

Demonstrated the agronomic value of our digestate based liquid fertiliser concentrate in collaboration with local Bundaberg agronomist and fertiliser distributor.

3. Market Expansion:

Extended its laboratory capability into Victoria to support the roll-out of commercial services and project portfolio into South Eastern Australia. Set up and commenced operation of Biomethane Potential (BMP) Testing Facility for Utilitas' own projects and external clients.

Utilitas is fast becoming the biogas developer of choice for "blue chip" industrial and municipal counterparts establishing multiutility solutions across energy, water and waste. Utilitas is focused on augmenting industrial and municipal infrastructure to extend its useful life and reduce operating costs providing a unique and strong value proposition for "anchor tenants".

At the end of the financial year Utilitas Group was continuing to focus on bringing the first bioHub projects through the final steps to achieve financial close.

The Utilitas Group issued new shares to several new and existing shareholders at 60c per share during the year.

Operations Outlook

The Blackall Coal Project remains a medium-term opportunity dependent in part on the increasing demand for thermal coal into South East Asia and on any improvement in infrastructure economics that may arise from the progression of Galilee Basin projects. The company plans to undertake a limited drilling programme at the Blackall Project in the coming year to improve the understanding of the resource.

The successful sale of our subsidiary Surat Gas Pty Ltd during the year returned the company to exposure to mineral exploration through the interest obtained in Sector. Sector is continuing a thorough on-ground programme on its exploration holdings in the established mineral province of NW Queensland. AustChina maintains a close rapport with Sector in these activities.

Utilitas continues to develop new projects in the biogas space. Companies that produce organic waste continually look to companies like Utilitas at methods of how to dispose of organic waste safely. The processing of organic waste provides opportunity in the energy sector coupled with the sale of residual by-products. Utilitas remains a strong player in the biogas (bioenergy and bioproducts) field in Australia.

The Company continues to focus on potential new opportunities in the resources and energy sector.

Andrew Fogg
Chief Executive Officer

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of AustChina Holdings Limited ("the company") and the entities it controlled at the end of, or during, the year ended 30 June 2019. Throughout this report the consolidated entity is referred to as the group.

Directors

The following persons were Directors of AustChina Holdings during the whole of the year and up to the date of this report (unless otherwise stated):

D Chan
G Lam
W Ko (from 5 December 2018)
A Macintosh (from 4 July 2019)
A Chan (to 7 June 2019)
N Bolkus (to 7 June 2019)
R Marks (to 21 November 2018)

Principal Activities

During the year the principal continuing activity of the Group consisted of exploration and investment in energy and resources.

Review of Operations

The operating profit after income tax of the Group for the year was \$2,587,315 (2018: loss \$951,981). The profit includes a gain on sale of assets held for resale of \$3,901,128 and non-cash expense items (including exploration assets written off, provision for non-recovery of convertible note, finance costs and share of loss from equity accounted investments) of \$671,157 (2018: \$238,337).

Information on the operations of AustChina Holdings Limited and its business strategies and prospects is set out in the CEO's Report and Review of Operations on pages 3 to 8 of this annual report.

Dividend

The directors do not recommend the payment of a dividend. No dividend was paid during the year.

Significant Changes in the State of Affairs

During the current year the Company sold a wholly owned subsidiary Surat Gas Pty Ltd for a total price of \$5.1m resulting in a gain of \$3,901,128 (refer note 21).

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

There was no change in Contributed Equity during the year.

Matters Subsequent to the End of the Financial Year

Since 30 June 2019 AustChina Holdings Limited has made a placement of 277,105,649 shares at \$0.003 to raise \$831,317 in working capital.

The Company holds a Convertible Note with a face value of \$1.0m which, together with accrued interest, was due for repayment on 28 September 2019. The Company has granted an extension for 3 months until 28 December 2019. The issuer of the Convertible Note paid all accrued interest and prepaid the interest to 28 December 2019. The Company has recognised a provision for non-recovery of this asset of \$553,000 as at 30 June 2019 such that the carrying value in the balance sheet does not exceed the independent valuation of the permits held as security against the Convertible Note.

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

Likely Developments and Expected Results from Operations

Comments on expected results of certain operations of the group are included in this annual report under the CEO's report and review of operations on pages 3 to 8.

Environmental Regulation

The Group is subject to significant environmental regulation in respect of its exploration activities in Australia and is committed to undertaking all its operations in an environmentally responsible manner.

To the best of the directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation and is not aware of any breach of those requirements during the financial year and up to the date of the directors' report.

Information on Directors

| D Chan CFA, MRICS. <i>Non-executive director</i> | |
|---|--|
| Experience and expertise | Mr Chan has extensive experience in the financial and investment arena and holds a Master's Degree in Finance from the Imperial College London and Chartered Financial Analyst (CFA) and is a member of the Royal Institute of Chartered Surveyors (MRICS). Mr Chan has over 12 years' experience in China real estate investment. |
| Other current directorships | Nil |
| Former directorships in last 3 years | Nil |
| Special responsibilities | Chairman, Member of the Audit and Risk Management Committee and Member of the Remuneration Committee. Mr Chan is also AustChina's representative Director on Utilitas Group Pty Ltd. |
| Interests in shares and options | Indirect interest in 665,239,694 Ordinary Shares |

| G Lam BSc, MSc, MBA, DPA, MPA, LLB (Hons), LLM, PCLL, PhD, FHKIoD, FHKI Arb, FCMA, FCPA(Aust.) <i>Independent non-executive director</i> | |
|---|---|
| Experience and expertise | Mr Lam has over 30 years of international experience in general management, strategy consulting, corporate governance, direct investment, investment banking and fund management across the telecommunications/media/technology (TMT), consumer/healthcare, infrastructure/real estates, energy/resources and financial services sectors. |
| Other current directorships | Nil |
| Former directorships in last 3 years | Nil |
| Special responsibilities | Chairman of the Audit and Risk Management Committee and Chairman of the Remuneration Committee |
| Interests in shares and options | Nil |

| W Ko. <i>Independent non-executive director (from 5 December 2018)</i> | |
|---|---|
| Experience and expertise | Mr Ko holds a Bachelor of Laws degree from the University of London as well as a Postgraduate Certificate in Laws from the University of Hong Kong and a Diploma in Chinese Laws from the University of Macau and has been admitted in Australia, Hong Kong, New Zealand and England. Mr Ko has over 30 years' experience in China trade and cross border transactions and has been involved in mining and resources projects including coal, iron ore, gold, copper and petroleum in Australia and overseas. |
| Other current directorships | Nil |
| Former directorships in last 3 years | Nil |
| Special responsibilities | Nil |
| Interests in shares and options | Nil |

| A Macintosh <i>Independent non-executive director (from 4 July 2019)</i> | |
|---|--|
| Experience and expertise | Mr Macintosh hold an MBA (Finance, Economics) and a Bachelor of Science (Computer Science, Mathematics). Mr Macintosh is non-executive Chairman of Acorus Investment Management, a China-Africa private equity fund and has extensive experience in investment banking and finance, both in Australia and overseas. |
| Other current directorships | Nil |
| Former directorships in last 3 years | Nil |
| Special responsibilities | Nil |
| Interests in shares and options | Nil |

| A Chan MH, JP. Non-executive director (until 7 June 2019) | |
|--|---|
| Experience and expertise | Mr Chan has extensive experience in managing both listed and unlisted entities, engaged in the resource industry commercial and residential development and early childhood education. Mr Chan is also actively involved in community services and organisations. |
| Other current directorships | Chairman and Director of Loyal Strategic Investment Limited and its wholly-owned subsidiary, Treasure Wheel Global Limited and Black Sea Horizon Investment Holdings Ltd. |
| Former directorships in last 3 years | Nil |
| Special responsibilities | Past Chairman |
| Interests in shares and options | Indirect interest in 665,239,694 Ordinary Shares |

| The Honourable N Bolkus Lib. Independent Non-executive director (until 7 June 2019) | |
|--|---|
| Experience and expertise | Mr Bolkus has a long and distinguished career in the Australian Parliament as a Senator for 24 years and having served as the Minister for Consumer Affairs, Minister for Administrative Services, Minister for Immigration, Minister Assisting The Treasurer (FIRB) and Minister for Multicultural Cultural Affairs. Since leaving politics Mr Bolkus was a partner in a Corporate Consultancy having consulted to a number of companies both within Australia and overseas. |
| Other current directorships | Wiseway Group Ltd |
| Former directorships in last 3 years | ZKP Group Ltd |
| Special responsibilities | Past Deputy Chairman |
| Interests in shares and options | Nil |

| R Marks. Independent non-executive director (until 21 November 2018) | |
|---|---|
| Experience and expertise | Mr Marks is the founder and Managing Director of Dynamic Products Corporation with head office in Sydney, Australia together with affiliated companies located in New Zealand, South Africa and China. He has had extensive experience over four decades with the establishment and 'hands on' control of production facilities in Australia, Thailand and China. He had led the development of export sales for this company's products to 63 countries throughout the world and is well respected in the specific fields of international marketing. Mr Marks and his company are proud winners of the coveted 'Export Award' presented by the Federal Government in recognition of outstanding Export Sales achievement. |
| Other current directorships | Nil |
| Former directorships in last 3 years | Nil |
| Special responsibilities | Nil |
| Interests in shares and options | Nil |

Company Secretary

The company secretary is Ms Leni Stanley CA, B.Com. Ms Stanley was appointed to the position of company secretary in 2002. Ms Stanley is the principal in a Chartered Accounting firm and holds the office of company secretary with other ASX listed companies.

Meetings of Directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2019, and the numbers of meetings attended by each director were:

| | Full Meetings of Directors | | Meetings of Audit Committee | |
|--------------------------------|----------------------------|----|-----------------------------|---|
| | A | B | A | B |
| D Chan | 10 | 10 | 2 | 2 |
| G Lam | 9 | 10 | 1 | 2 |
| W Ko (from 5 December 2018) | 6 | 6 | 1 | 1 |
| A Macintosh (from 4 July 2019) | - | - | - | - |
| A Chan (to 7 June 2019) | 10 | 10 | 2 | 2 |
| N Bolkus (to 7 June 2019) | 8 | 10 | 2 | 2 |
| R Marks (to 21 November 2018) | 5 | 5 | 1 | 1 |

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year.

There were no meetings of the Remuneration Committee during the year.

Remuneration Report (AUDITED)

The directors are pleased to present AustChina Holdings Limited's 2019 remuneration report which sets out remuneration information for AustChina Holdings Limited's non-executive directors, executive directors, and other key management personnel.

The report contains the following sections:

- (a) Key management personnel disclosed in this report
- (b) Remuneration governance
- (c) Use of remuneration consultants
- (d) Executive remuneration policy and framework
- (e) Relationship between remuneration and AustChina Holdings Limited's performance
- (f) Non-executive director remuneration policy
- (g) Voting and comments made at the company's 2016 Annual General Meeting
- (h) Details of remuneration
- (i) Service agreements
- (j) Details of share-based compensation and bonuses
- (k) Equity instruments held by key management personnel
- (l) Loans to key management personnel
- (m) Other transactions with key management personnel

(a) Key management personnel disclosed in this report

| <i>Non-executive and executive directors (see pages 10 to 11 for details about each director)</i> | |
|---|--|
| Name | Position |
| Present: | |
| D Chan | Non-executive director – appointed 22 November 2013 |
| G Lam | Independent non-executive director – appointed 22 November 2013 |
| W Ko | Independent non-executive director – appointed 5 December 2018 |
| A Macintosh | Independent non-executive director – appointed 4 July 2019 |
| Past: | |
| A Chan | Non-executive Chairman – appointed 22 November 2013 and ceased on 7 June 2019 |
| N Bolkus | Independent non-executive director – appointed 22 November 2013 and ceased on 7 June 2019 |
| R Marks | Independent non-executive director – appointed 22 November 2013 and ceased on 21 November 2018 |

Other key management personnel

| Name | Position |
|---------------|--|
| Andrew Fogg | Chief Executive Officer – appointed 2 December 2013 |
| Bruce Patrick | Chief Operating Officer – appointed 1 December 2013. Previously served as Chief Executive Officer. |

There have been no changes in key management personnel since the end of the financial year apart from the appointment of Mr A Macintosh as non-executive director on 4 July 2019.

(b) Remuneration governance

The board is responsible for:

- the over-arching executive remuneration framework
- operation of the incentive plans which apply to the executive team, including key performance indicators and performance hurdles
- remuneration levels of executive directors and other key management personnel, and
- non-executive directors' fees.

The objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Group.

(c) Use of remuneration consultants

The Group has not engaged the services of any remuneration consultants during the current or prior financial years.

Remuneration Report (continued)

(d) *Executive remuneration policy and framework*

The combination of base pay and superannuation make up the executives' fixed remuneration. Base pay for the executives is reviewed annually to ensure the executive's pay is competitive with the market. Executive pay is linked to the performance of the company through the issue of performance rights and share options. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency
- capital management.

Long-term incentives

Refer to section (j) of the Remuneration Report below for details regarding the Group's long-term incentives.

(e) *Relationship between remuneration and AustChina Holdings Limited's performance*

During the year, the Company has generated losses from its principal activity of exploration for coal. As the Company is still in the exploration and development stage, the link between remuneration, company performance and shareholder wealth is tenuous. Share prices are subject to the influence of coal prices and market sentiment towards the sector, and as such increases or decreases may occur quite independent of Executive performance or remuneration.

During the current and previous financial years the group has generated losses from its exploration and evaluation activities. Given the nature of the group's activities and the consequential operating results, no dividends have been paid. There have been no returns of capital in the current or previous financial periods. The details of market price movements are as follows:

| | Share price |
|-----------------------|-------------|
| Year end 30 June 2019 | \$0.003 |
| Year end 30 June 2018 | \$0.006 |
| Year end 30 June 2017 | \$0.003 |
| Year end 30 June 2016 | \$0.001 |
| Year end 30 June 2015 | \$0.002 |

(f) *Non-executive director remuneration policy*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. Non-executive directors do not receive performance based pay.

Share options are issued to non-executive directors at the discretion of the board and following shareholder approval.

The current base fees were last reviewed with effect from 22 November 2013.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$400,000 in aggregate and was approved by shareholders at the annual general meeting on 9 November 2009.

The following fees have applied:

| Base fees | \$ |
|---|--------|
| Chair - prior to 1 April 2019 | 30,000 |
| Chair – after 1 April 2019 | 22,500 |
| Other non-executive directors – prior to 1 April 2019 | 20,000 |
| Other non-executive directors – after 1 April 2019 | 15,000 |

(g) *Voting and comments made at the company's 2018 Annual General Meeting*

At the company's 2018 Annual General Meeting the shareholders voted 31% against and 69% in favour of the advisory remuneration report resolution on a poll, thereby not satisfying the 75% threshold and incurring its first strike.

(h) *Details of remuneration*

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 *Related Party Disclosures*) of AustChina Holdings Limited are set out in the following tables.

Remuneration Report (continued)

Key management personnel of AustChina Holdings Limited

| 2019 | Short-term benefits | Post-employment benefits | Share-based payments | | | |
|--|-------------------------|--------------------------|----------------------|----------------|-------------|----------|
| Name | Cash salary and fees \$ | Super-annuation \$ | Options \$ | Total \$ | A % | B % |
| <i>Non-executive directors</i> | | | | | | |
| D Chan, Chairman from 7 June 2019 | 20,252 | - | - | 20,252 | 100% | - |
| A Chan, (to 7 June 2019) | 26,983 | - | - | 26,983 | 100% | - |
| <i>Independent non-executive directors</i> | | | | | | |
| G Lam | 19,000 | - | - | 19,000 | 100% | - |
| W Ko (from 5 December 2018) | 10,480 | 996 | - | 11,476 | 100% | - |
| N Bolkus (to 7 June 2019) | 17,989 | 1,709 | - | 19,698 | 100% | - |
| R Marks (21 November 2018) | 7,849 | 746 | - | 8,595 | 100% | - |
| Sub-total non-executive directors | 102,553 | 3,451 | - | 106,004 | 100% | - |
| <i>Other key management personnel</i> | | | | | | |
| A Fogg – Chief Executive Officer | 117,708 | - | - | 117,708 | 100% | - |
| B Patrick– Chief Operating Officer | 125,000 | - | - | 125,000 | 100% | - |
| Total key management personnel compensation | 345,261 | 3,451 | - | 348,712 | 100% | - |

A Proportion of remuneration that is fixed remuneration

B Percentage of remuneration that is share-based payment

| 2018 | Short-term benefits | Post-employment benefits | Share-based payments | | | |
|--|-------------------------|--------------------------|----------------------|----------------|-------------|----------|
| Name | Cash salary and fees \$ | Super-annuation \$ | Options \$ | Total \$ | A % | B % |
| <i>Non-executive directors</i> | | | | | | |
| A Chan, Chairman | 30,000 | - | - | 30,000 | 100% | - |
| D Chan | 20,000 | - | - | 20,000 | 100% | - |
| <i>Independent non-executive directors</i> | | | | | | |
| N Bolkus | 20,000 | 1,900 | - | 21,900 | 100% | - |
| G Lam | 20,000 | - | - | 20,000 | 100% | - |
| R Marks | 20,000 | 1,900 | - | 21,900 | 100% | - |
| W Ko (9 August 2017-11 June 2018) | 16,822 | 1,598 | - | 22,220 | 100% | - |
| Sub-total non-executive directors | 110,000 | 3,800 | - | 113,800 | 100% | - |
| <i>Other key management personnel</i> | | | | | | |
| A Fogg – Chief Executive Officer | 152,500 | - | - | 152,500 | 100% | - |
| B Patrick– Chief Operating Officer | 135,000 | - | - | 135,000 | 100% | - |
| Total key management personnel compensation | 414,322 | 5,398 | - | 419,720 | 100% | - |

A Proportion of remuneration that is fixed remuneration

B Percentage of remuneration that is share-based payment

Remuneration Report (continued)

Amounts shown above as remuneration for prior year ended 30 June 2018 for non-executive directors A Chan, D Chan and Independent non-executive directors N Bolkus, G Lam, R Marks and Mr Ko included accruals totaling \$331,370 for fees not yet paid during that financial year and were included in trade and other payables at 30 June 2018. All outstanding accrued directors fees and superannuation were paid during the current year.

(i) Service agreements

The Company has a service agreement with NABJA Consulting Services Pty Ltd for the services of Mr Andrew Fogg, Chief Executive Officer. The service agreement was for an initial period of 5 years and commenced on 1 December 2013. The base fees were \$15,833 per month. The contract includes a change of control clause which is triggered if Treasure Wheel Global Limited ceases to hold 25% or more of AustChina Holdings Limited. Under the change of control clause a compensation amount equal to one year remuneration is payable. In addition, under the contract the contractor or his nominee is entitled to receive five million performance rights in the Company, once the share price equals or exceeds two cents for five consecutive trading days. The initial contract term expired on 1 December 2018 and in accordance with the provisions of the contract it was extended for a further period of 1 year.

The Company has a service agreement with Geomine Project Management Pty Ltd for the services of Mr Bruce Patrick, Chief Operating Officer. The service agreement is ongoing and commenced on 1 December 2013. The base fees are \$13,333 per month. There are no termination benefits under the agreement. In addition, under the contract the contractor or his nominee is entitled to receive three million performance rights in the Company, once the share price equals or exceeds two cents for five consecutive trading days.

(j) Details of share based compensation and bonuses

There have been no share based payment benefits, vested or exercised, or granted as compensation during the year (2018: Nil).

Options

There were no options over ordinary shares in the company provided as remuneration during the financial year (2017: nil).

Shares provided on exercise of remuneration options

There were no ordinary shares in the company issued on the exercise of remuneration options during the financial year (2018: nil).

Performance rights

There were no performance rights over ordinary shares in the company provided as remuneration during the financial year (2018: nil).

Shares provided on exercise of performance rights

There were no ordinary shares in the company issued to key management personnel during the financial year from the exercise of performance rights.

(k) Equity instruments held by key management personnel

The tables below show the number of:

- (i) options over ordinary shares in the company
- (ii) performance rights granted, and
- (iii) shares in the company

that were held during the financial year by key management personnel of the group, including their close family members and entities related to them.

Remuneration Report (continued)

There were no shares or options granted during the reporting period as compensation. There are no options or performance rights on issue at balance date.

(i) Shareholdings

| 2019 Name | Balance at the start of the year | Received during the year on the conversion of convertible notes | Other changes during the year | Balance at the end of the year |
|------------------------|-------------------------------------|--|----------------------------------|-----------------------------------|
| Ordinary shares | | | | |
| A Chan # (1) | 665,239,694 | - | - | 665,239,694 |
| N Bolkus | - | - | - | - |
| G Lam | - | - | - | - |
| D Chan # | 665,239,694 | - | - | 665,239,694 |
| R Marks | - | - | - | - |
| W Ko | - | - | - | - |
| A Fogg | 17,500,000 | - | - | 17,500,000 |
| B Patrick | 2,032,083 | - | (8,695) | 2,023,388 |

A Chan is a director and shareholder of Loyal Strategic Investment Ltd, the holding company of Treasure Wheel Global Limited, which is the registered holder of the 665,239,694 shares.

(1) A Chan resigned on 7 June 2019.

(l) Loans to key management personnel

There were no loans to key management personnel during the financial period.

(m) Other transactions with key management personnel

There were no other transactions with key management personnel during the financial period.

This is the end of the remuneration report (audited).

Shares under Option

There are no unissued ordinary shares of AustChina Holdings Limited under option or performance rights at the date of this report.

Shares Issued on the Exercise of Options

There were no ordinary shares of AustChina Holdings Limited issued during or since the end of the year ended 30 June 2019 on the exercise of options.

Insurance of Officers

During the financial year AustChina Holdings Limited paid a premium to insure the directors and officers of the company. The policy prohibits disclosure of details of the cover and the amount of premium paid.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company.

Agreement to Indemnify Officers

AustChina Holdings Limited is party to an agreement to indemnify the directors and officers of the company.

The indemnity relates to any liability:

- (a) incurred in connection with or as a consequence of the directors and officers acting in the capacity including, without limiting the foregoing, representing the company on any body corporate, and
- (b) for legal costs incurred in defending an action in connection with or as a consequence of the director or officer acting in the capacity.

No liability has arisen under these indemnities as at the date of this report.

Indemnity of auditors

AustChina Holdings Limited 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, AustChina Holdings Limited 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 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

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in Note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in Note 24 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Management Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of RSM Australia Partners

There are no officers of the Company who are former partners of RSM Australia Partners.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest dollar.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 19.

Auditor

RSM Australia Partners continues in office in accordance with section 327 of the *Corporations Act 2001*.

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



D Chan

Chairman

Brisbane, 30 September 2019



RSM Australia Partners

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F +61(0)7 3221 7666

www.rsm.com.au

AUDITOR'S INDEPENDENCE DECLARATION

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

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

RSM

RSM AUSTRALIA PARTNERS

Albert Loots
Partner

Brisbane, Queensland
Dated: 30 September 2019

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

RSM Australia Partners is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Australia Partners ABN 36 965 185 036

Liability limited by a scheme approved under Professional Standards Legislation

DECLARATION BY DIRECTORS

In the directors' opinion:

- (a) the attached financial statements and notes are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date, and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, for the reasons provided in Note 3(iii).

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The remuneration disclosures contained in the Remuneration Report comply with s300A of the *Corporations Act 2001*.

The directors have been given the declarations by the chief executive officer and the chief financial officer required by s295A of the *Corporations Act 2001*.

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



D Chan
Chairman

Brisbane, 30 September 2019

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2019**

| | Notes | Consolidated 2019 \$ | 2018 \$ |
|--|-------|----------------------------|------------------|
| <u>Continuing Operations</u> | | | |
| Interest income | | 63,537 | 412 |
| Option fee received | | - | 10,000 |
| Exploration assets written off/expensed | | (38,365) | - |
| Professional services expenses | | (383,409) | (413,158) |
| Corporate overhead expenses | | (216,779) | (175,678) |
| Depreciation expenses | | - | (646) |
| Directors' remuneration | | (106,005) | (132,220) |
| Interest costs | | (29,367) | (146,502) |
| Provision for non-recovery of convertible note | | (553,000) | - |
| Share of loss from equity accounted investment | | (50,425) | (94,189) |
| Profit (Loss) before income tax | 5 | (1,313,813) | (951,981) |
| Income tax expense | 6 | - | - |
| Loss from continuing operations | | (1,313,813) | (951,981) |
| <u>Discontinued operations</u> | | | |
| Gain on sale of assets held for resale | 22 | 3,901,128 | - |
| Gain from discontinued operations | | 3,901,128 | - |
| Net Profit (Loss) for the year | | 2,587,315 | (951,981) |
| Other comprehensive income | | | |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive profit (loss) for the year | | 2,587,315 | (951,981) |
| | | Cents | Cents |
| Profit (Loss) per share for loss from continued operations attributable to the ordinary equity holders of the company: | | | |
| Basic profit (loss) per share | 30 | (0.12) | (0.09) |
| Diluted profit (loss) per share | 30 | (0.09) | (0.06) |
| Profit (Loss) per share for loss from discontinued operations attributable to the ordinary equity holders of the company: | | | |
| Basic profit (loss) per share | 30 | 0.35 | - |
| Diluted profit (loss) per share | 30 | 0.28 | - |
| Loss per share for loss attributable to the ordinary equity holders of the company: | | | |
| Basic profit (loss) per share | 30 | 0.23 | (0.09) |
| Diluted profit (loss) per share | 30 | 0.19 | (0.06) |
| Total comprehensive income for the year attributable to owners arises from: | | | |
| Continuing operations | | (1,313,813) | (951,981) |
| Discontinued operations | | 3,901,128 | - |
| | | 2,587,315 | (951,981) |

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

**CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2019**

| | | Consolidated | |
|---|-------|---------------------|--------------|
| | Notes | 2019 | 2018 |
| | | \$ | \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 65,881 | 115,575 |
| Trade and other receivables | 8 | 18,916 | 23,862 |
| Convertible notes | 9 | 508,685 | - |
| Asset classified as held for sale | 10 | - | 269,212 |
| | | <hr/> | <hr/> |
| Total current assets | | 593,482 | 408,649 |
| Non-current assets | | | |
| Plant and equipment | 11 | - | - |
| Investments | 12 | 76,300 | - |
| Investments accounted for using equity method | 13 | 776,513 | 826,938 |
| Exploration and evaluation assets | 14 | 15,755,652 | 15,580,782 |
| Other assets | 15 | 10,200 | 9,700 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 16,618,665 | 16,417,420 |
| Total assets | | <hr/> | <hr/> |
| | | 17,212,147 | 16,826,069 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 16 | 65,868 | 435,472 |
| Borrowings | 17 | 1,268,269 | 2,981,639 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 1,334,137 | 3,417,111 |
| Non-current liabilities | | | |
| Other financial liabilities | 18 | 1,500,000 | 1,500,000 |
| | | <hr/> | <hr/> |
| Total non-current liabilities | | 1,500,000 | 1,500,000 |
| Total liabilities | | <hr/> | <hr/> |
| | | 2,834,137 | 4,917,111 |
| Net assets | | <hr/> | <hr/> |
| | | 14,378,010 | 11,908,958 |
| EQUITY | | | |
| Issued capital | 19 | 65,389,553 | 65,507,816 |
| Reserves | 20 | 3,528,043 | 3,528,043 |
| Accumulated losses | 20 | (54,539,586) | (57,126,901) |
| | | <hr/> | <hr/> |
| Total equity | | 14,378,010 | 11,908,958 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2019**

| | Notes | Issued Capital \$ | Share based payment reserve \$ | Accumulated Losses \$ | Total \$ |
|--|-------|-------------------------|---|-----------------------------|-------------------|
| Balance at 30 June 2017 | | 65,507,816 | 3,528,043 | (56,174,920) | 12,860,939 |
| Loss for the year | | - | - | (951,981) | (951,981) |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income | | - | - | (951,981) | (951,981) |
| Transactions with owners in their capacity as owners: | | | | | |
| Contributions of equity, net of transaction costs | 20 | - | - | - | - |
| Share based payments expense | 20 | - | - | - | - |
| Balance at 30 June 2018 | | 65,507,816 | 3,528,043 | (57,126,901) | 11,908,958 |
| Profit for the year | | - | - | 2,587,315 | 2,587,315 |
| Other comprehensive income | | - | - | - | - |
| Total comprehensive income | | - | - | 2,587,315 | 2,587,315 |
| Transactions with owners in their capacity as owners: | | | | | |
| Contributions of equity, net of transaction costs | 19 | - | - | - | - |
| Equity component of convertible note | 20 | (118,263) | - | - | (118,263) |
| Balance at 30 June 2019 | | 65,389,553 | 3,528,043 | (54,539,586) | 14,378,010 |

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2019**

| | Notes | Consolidated | |
|--|-------|--------------------|------------------|
| | | 2019 \$ | 2018 \$ |
| Cash flows from operating activities | | | |
| Receipts in the course of operations (inclusive of goods and services tax) | | 66,384 | 66,033 |
| Payments to suppliers (inclusive of goods and services tax) | | (1,181,560) | (655,633) |
| Option fee received | | - | 10,000 |
| Interest received | | 1,852 | 412 |
| Net cash outflows from operating activities | 27 | <u>(1,113,324)</u> | <u>(579,188)</u> |
| Cash flows from investing activities | | | |
| Payments for exploration and evaluation assets | | (174,870) | (214,890) |
| Proceeds on sale of Assets classified as held for sale | | 3,100,000 | - |
| Payment for equity investment | | - | - |
| Repayment of loan from other entity | | - | - |
| Payments for security deposits | | - | (2,200) |
| Refunds for security deposits | | (500) | 5,000 |
| Net cash outflows from investing activities | | <u>2,924,630</u> | <u>(212,090)</u> |
| Cash flows from financing activities | | | |
| Repayment of current borrowings | | (1,461,000) | - |
| Repayment of convertible note | | (400,000) | - |
| Proceeds from financial liabilities | | - | 661,000 |
| Net cash inflows from financing activities | | <u>(1,861,000)</u> | <u>661,000</u> |
| Net decrease in cash and cash equivalents | | <u>(49,694)</u> | <u>(130,278)</u> |
| Cash and cash equivalents at the beginning of the financial year | | <u>115,575</u> | <u>245,853</u> |
| Cash and cash equivalents at the end of the financial year | 7 | <u>65,881</u> | <u>115,575</u> |

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

Note 1 Summary of significant accounting policies

This financial report covers the Consolidated Entity of AustChina Holdings Limited (the "Company") and its controlled entities (together referred to as the "Consolidated Entity" or "Group"). AustChina Holdings Limited is a listed public company, incorporated and domiciled in Australia. The Consolidated Entity is a for-profit entity for the purpose of preparing the financial statements.

The following is a summary of the material accounting policies adopted by the Consolidated Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) 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').

Operations and principal activities

The principal activity of the Consolidated Entity is coal exploration.

Currency

The financial report is presented in Australian dollars which is the functional and presentational currency of the Consolidated Entity.

Authorisation of financial report

The financial report was authorised for issue on 30 September 2019.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed below.

Historical cost convention

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities (including structured 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 deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the group.

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

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and statement of comprehensive income, statement of changes in equity and balance sheet respectively.

Note 1 Summary of significant accounting policies (continued)

(c) Income taxes

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the assets and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(d) Exploration and evaluation assets

Exploration and evaluation assets incurred by or on behalf of the Group is accumulated separately for each area of interest until such time as the area of interest moves into development phase or is abandoned or sold. The realisation of the value of expenditure carried forward depends upon any commercial results that may be obtained through successful development and exploitation of the area of interest or alternatively by its sale. If an area of interest is abandoned or is considered to be of no further commercial interest the accumulated exploration costs relating to the area are written off against income in the year of abandonment.

(e) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

(f) Impairment of non-financial assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, recoverable amounts are determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

Note 1 Summary of significant accounting policies (continued)

(g) Property, plant and equipment

All property, plant and equipment are stated at historical cost, including costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less depreciation, and any impairment.

Depreciation is calculated on a straight-line basis to write off the net cost or revalued amount of each item of property, plant and equipment over its expected useful life to the entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

| | |
|---------------------|-------------|
| Plant and equipment | 3 – 5 years |
| Field equipment | 5 years |

(h) 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. These amounts are unsecured and usually have 30 day payment terms.

(i) Cash and cash equivalents

Cash and cash equivalents include 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.

(j) Issued capital and share-based payments

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

(k) Revenue

Interest Income

Interest income is recognised on a time proportion basis using the effective interest method.

(l) Goods and Services Tax (“GST”)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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 ATO is included in other receivables or payables in the Consolidated Balance Sheet.

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 taxation authority, are presented as operating cash flows.

(m) Earnings per share

(i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, 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 year.

(ii) *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.

Note 1 Summary of significant accounting policies (continued)

(n) Financial instruments

Initial recognition and measurement

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

Financial instruments 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.

Classification and subsequent measurement

Financial instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances valuation techniques are adopted.

Amortised cost is calculated as:

- a. the amount at which the financial asset or financial liability is measured at initial recognition;
- b. less principal repayments;
- c. plus or minus the cumulative amortization of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest rate method; and
- d. less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets).

(ii) Financial liabilities

Financial liabilities, after initial recognition, are measured at either amortised cost using the effective interest rate method, or at fair value. Where an instrument contains an embedded derivative that component is, where appropriate, separately identified and measured at fair value. If the embedded derivative is not capable of being measured separately at acquisition or at the end of a reporting period, the entire instrument is measured at fair value.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

Note 1 Summary of significant accounting policies (continued)

(o) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred
- equity interests issued by the group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

(p) Parent entity financial information

The financial information for the parent entity, AustChina Holdings Limited, disclosed in note 21 has been prepared on the same basis as the consolidated financial statements except in respect of tax consolidation legislation.

AustChina Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, AustChina Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, AustChina Holdings Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate AustChina Holdings Limited for any current tax payable assumed and are compensated by AustChina Holdings Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to AustChina Holdings Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Note 1 Summary of significant accounting policies (continued)

(q) Fair value measurement

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

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

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Derivative financial instruments have been valued using the fair value at the time of the receipt of the funds. The Group's exploration and evaluation activities have not progressed to a stage to allow more reliable measurement of any future royalty payment obligations.

(r) New accounting standards and interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity has adopted this standard from 1 July 2018 but the impact of its adoption has been minimal for the consolidated entity.

Note 2 Financial instruments

The Group's activities expose it to a variety of financial risks; credit risk, liquidity risk and cash flow interest rate risk.

The Group holds the following financial instruments:

| | Consolidated | |
|--|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Financial assets | | |
| Cash and cash equivalents | 65,881 | 115,575 |
| Trade and other receivables | 18,916 | 23,862 |
| Asset classified as held for sale | - | 269,212 |
| Convertible notes | 508,685 | - |
| Security deposits | 10,200 | 9,700 |
| | <u>603,682</u> | <u>418,349</u> |
| Financial liabilities | | |
| Trade and other payables | 65,868 | 435,472 |
| Other financial liabilities (including borrowings and derivatives) | 2,768,269 | 4,481,639 |
| | <u>2,834,137</u> | <u>4,917,111</u> |

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

There have been no substantive changes to the Group's exposure to financial instruments, its objectives, policies and processes for managing risks from previous periods.

Credit risk

Credit risk is managed on a Group basis. Credit risk arises primarily from cash and cash equivalents and deposits with banks and financial institutions. For bank and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available).

| | Consolidated | |
|--|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash at bank and short-term bank deposits | | |
| AA- | 65,778 | 115,472 |
| A | 103 | 103 |
| | <u>65,881</u> | <u>115,575</u> |

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet obligations when due.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows. No finance facilities were available to the Group at the end of the reporting period.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings.

| 30 June 2019 | Less than 6 months | 6 – 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount |
|--------------------------|---------------------------|----------------------|------------------------------|------------------------------|---------------------|-------------------------------------|------------------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-derivatives</i> | | | | | | | |
| Trade and other payables | 65,868 | - | - | - | - | 65,868 | 65,868 |
| Borrowings | - | - | - | - | 1,500,000 | 1,500,000 | 1,500,000 |
| | <u>65,868</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,500,000</u> | <u>1,565,868</u> | <u>1,565,868</u> |
| <i>Derivatives</i> | | | | | | | |
| Convertible notes | 1,268,269 | - | - | - | - | 1,268,269 | 1,268,269 |

Note 2 Financial risk management (continued)

| 30 June 2018 | Less than 6 months | 6 – 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount |
|--------------------------|--------------------|---------------|-----------------------|-----------------------|--------------|------------------------------|-----------------|
| <i>Non-derivatives</i> | | | | | | | |
| Trade and other payables | 435,472 | - | - | - | - | 435,472 | 435,472 |
| Borrowings | 1,461,000 | - | - | - | - | 1,461,000 | 1,461,000 |
| | 1,896,472 | - | - | - | - | 1,896,472 | 1,896,472 |
| <i>Derivatives</i> | | | | | | | |
| Convertible notes | 1,520,639 | - | - | - | - | 1,520,639 | 1,520,639 |

Other financial liabilities of \$1,500,000 (2018: \$1,500,000) relate to a royalty agreement as outlined in Note 17. At this stage there is no known cash outflow arising from this liability.

Cash flow and fair value interest rate risk

As the Group has interest-bearing cash assets, the company's income and operating cash flows are exposed to changes in market interest rates. The company manages its exposure to changes in interest rates by using fixed term deposits.

At 30 June 2019 if interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$15,884 lower/higher (2018 – change of 100 bps: \$115 higher/lower), as a result of higher/lower interest income from cash and cash equivalents.

Fair Value

The carrying value of all other assets and liabilities approximate their fair value.

Note 3. Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies.

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period and future periods if the revision affects both current and future periods. There were no key adjustments during the year which required estimates and/or judgements.

Key judgements and estimates

(i) Carrying value of exploration and evaluation assets

The Group has capitalised exploration expenditure of \$15,755,652 (2018: \$15,580,782). This amount includes costs directly associated with exploration. These costs are capitalised until assessment and/or drilling of the permit is complete and the results have been evaluated. These costs include employee remuneration, materials, rig costs, delay rentals and payments to contractors. The expenditure is carried forward until such a time as the area of interest moves into the development phase, is abandoned, sold or sub-blocks relinquished.

Given exploration activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable resources and the difficulty in forecasting cash flows to assess the fair value of exploration expenditure there is uncertainty as to the carrying value of exploration expenditure. The ultimate recovery of the carrying value of exploration expenditure is dependent upon the successful development and commercial exploitation or, alternatively, sale of the interests in the tenements. There are no factors or circumstances which suggest that the carrying amount of remaining exploration and evaluation assets may exceed recoverable amount.

(ii) Fair value of the financial liabilities

The Group has agreements with Oliver Lennox-King (Lennox-King), whereby Lennox-King has paid a net \$1.5 million to the Group and in return the Group has agreed to pay Lennox-King a royalty equal to 1% of the gross value of coal sold from the tenements currently held by the Group, in the areas of the Moreton Energy Coal Project in the Clarence-Moreton Basin and the Tambo Coal & Gas Project in the Upper Surat Basin. The liability was initially recognised at fair value. Post initial recognition, the financial liability is accounted for in accordance with the Group policy for financial instruments set out in Note 1(n).

Note 3. Critical accounting estimates and judgements (continued)

The royalty is only payable in the event of future production of coal.

The Group's exploration and evaluation activities have not progressed to a stage to allow more reliable measurement of any future royalty payment obligations. As such, the Board is of the view that the fair value at the time of the receipt of the funds remains the appropriate measure of fair value at reporting date.

(iii) Going concern

The financial statements have been prepared on the going concern basis which contemplates continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business.

For the year ended 30 June 2019 the Group generated a consolidated loss from continuing operations of \$1,313,813 and incurred operating cash outflows of \$1,113,324 for the year ended 30 June 2019 and was in a net current liability position of \$740,655 at this date.

The Group's ability to continue to adopt the going concern assumption will depend upon the Group being able to manage its liquidity requirement and by taking some or all of the following actions:

1. raising addition capital;
2. successful exploration and subsequent exploitation of the Group's tenements;
3. reducing its working capital expenditure; and
4. disposing of non-core projects.

The directors have concluded as a result of the requirement to raise funds in the future there exists a material uncertainty that may cast significant doubt regarding the Group's ability to continue as a going concern and therefore, the Group may be unable to realise their assets and discharge their liabilities in the normal course of business. Nevertheless, after taking into account the current financial position of the Group, and the Group's ability to raise further capital, the directors have a reasonable expectation that the Group will have adequate resources to fund its future operational requirements and for these reasons they continue to adopt the going concern basis in preparing the financial report.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the Group be unable to continue as a going concern.

Note 4 Segment information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources. The Board of Directors carries out the role and is therefore the Chief Operating Decision Maker. Financial information provided to the board is currently at the consolidated level.

Management currently identifies the consolidated entity as having only one reportable segment, being exploration of coal, oil and gas. All significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

The Group operates solely within Australia.

The Group does not have any products or services that it derives revenue from.

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Note 5 Expenses | | |
| Loss before income tax includes the following specific expenses: | | |
| <i>Defined contribution superannuation expense</i> | 3,450 | 5,398 |
| <i>Depreciation</i> | | |
| Plant and equipment | - | 646 |
| <i>Exploration expenditure written off/expensed</i> | 38,365 | - |
| <i>Share of loss from equity accounted investment</i> | 50,425 | 94,189 |
| <i>Provision for non-recovery of convertible note</i> | 553,000 | - |
| <i>Finance costs</i> | | |
| Unwinding of issue costs financial liabilities not at fair value through profit or loss | - | 143,502 |
| Interest paid | - | 3,000 |
| <i>Finance costs expensed</i> | <u>-</u> | <u>146,502</u> |

| | Consolidated | |
|---|--------------|--------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Note 6 Income tax expense | | |
| (a) Income tax expense | | |
| Current tax expense | - | - |
| Deferred tax expense | - | - |
| Aggregate income tax expense | - | - |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| Profit (Loss) from operations before income tax expense | 2,587,315 | (951,981) |
| Tax at the Australian tax rate of 27.5% (2017: 27.5%) | 711,512 | (261,795) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Other | 8,076 | - |
| | 719,588 | (261,795) |
| Deferred tax assets not recognised | (719,588) | 261,795 |
| Income tax expense | - | - |
| (c) Deferred Tax Liabilities | | |
| The balance comprises temporary differences attributable to: | | |
| Exploration expenditure | 4,332,804 | 4,284,715 |
| Other assets held for resale | - | 47,221 |
| | 4,332,804 | 4,331,936 |
| Total deferred tax liabilities | 4,332,804 | 4,331,936 |
| Set-off of deferred tax assets pursuant to set-off provisions | (4,332,804) | (4,331,936) |
| Net deferred tax liabilities | - | - |
| (d) Deferred Tax Assets | | |
| The balance comprises temporary differences attributable to: | | |
| Tax losses | 17,547,153 | 18,663,538 |
| Accruals | 6,875 | 5,363 |
| Business capital costs | - | 6,843 |
| Fixed assets | 3,050 | 3,050 |
| Investments | 458,531 | 55,535 |
| Other financial liabilities | 412,500 | 412,500 |
| | 18,428,109 | 19,146,829 |
| Total deferred tax assets | 18,428,109 | 19,146,829 |
| Set-off of deferred tax assets pursuant to set-off provisions | (4,332,804) | (4,331,936) |
| Net adjustment to deferred tax assets not recognised | (14,095,305) | (14,814,893) |
| Net deferred tax assets | - | - |
| (e) Unrecognised net deferred tax assets | | |
| Unused tax losses for which no deferred tax asset has been recognised | 48,052,177 | 52,114,917 |
| Potential tax effect at 27.5% (2017: 27.5%) | 13,214,349 | 14,331,602 |

Note 6 Income tax expense (continued)

Following the proportional takeover by Treasure Wheel Global Limited, the Group failed the Continuity of Ownership Test (COT). Unused tax losses are therefore carried forward under the Same Business Test (SBT). Management and the Directors are satisfied that the Group passes SBT on the basis that coal exploration has always been, and continues to be, the core focus of the business.

Unused losses which have not been recognised as an asset, will only be obtained if:

- (i) the group derives future assessable income of a nature and of an amount sufficient to enable the losses to be realised;
- (ii) the group continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the group in realising the losses.

(f) Tax consolidation legislation

AustChina Holdings Limited and its wholly-owned Australian subsidiaries have implemented the income tax consolidation legislation from 1 August 2010. AustChina Holdings Limited is the head entity of the tax consolidated group for the year ended 30 June 2019. The Australian Taxation Office has been notified of the formation of the AustChina Holdings Limited tax consolidated group.

| Consolidated | |
|--------------|------|
| 2019 | 2018 |
| \$ | \$ |

Note 7 Current assets – Cash and cash equivalents

| | | |
|--------------------------|--------|---------|
| Cash at bank and on hand | 10,587 | 10,134 |
| Deposits at call | 55,294 | 105,441 |
| | <hr/> | <hr/> |
| | 65,881 | 115,575 |
| | <hr/> | <hr/> |

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 2. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

(b) Deposits at call

All deposits are at call bearing an interest rate of between 0% and 0.7% (2018 – 0% to 0.7%).

Note 8 Current assets – Trade and other receivables

| | | |
|---------------|--------|--------|
| Prepayments | 13,728 | 17,864 |
| Other debtors | 5,188 | 5,998 |
| | <hr/> | <hr/> |
| | 18,916 | 23,862 |
| | <hr/> | <hr/> |

Note 9 Current assets – Convertible Notes

| | 30 June 2019 | 30 June 2018 |
|---------------------------------|-----------------|-----------------|
| | \$ | \$ |
| Convertible Note at face value | 1,000,000 | - |
| Capitalised Interest | 61,684 | - |
| Less provision for non-recovery | (553,000) | - |
| | <hr/> | <hr/> |
| | 508,685 | - |
| | <hr/> | <hr/> |

During the current financial year as part consideration for the sale of Surat Gas Pty Ltd (refer Note 21) the company received a Convertible Note with a Face Value of \$1,000,000 in Sector Projects Pty Ltd, the purchaser of Surat Gas Pty Ltd.

The Convertible Note has an initial term of 12 months and was to mature on 28 September 2019, however the Company has granted a three month extension until 28 December 2019. The Note accrues interest of 8% calculated daily and capitalised at the end of each calendar month and is payable together with the face value of the convertible note on maturity date, unless AustChina Holdings Limited elects to convert to shares in Sector Projects Pty Ltd. The accrued interest to 30 June as well as prepaid interest to 28 December 2019 has been received. The Note is secured by a mortgage over two tenements controlled by Sector Projects Pty Ltd. The Company has recognised a provision for non-recovery of this asset of \$553,000 as at 30 June 2019 such that the carrying value in the balance sheet does not exceed the independent valuation of the permits held as security against the Convertible Note.

Note 10 Asset classified as held for sale

On 28 August 2018 AustChina Holdings Limited announced the sale of its subsidiary company, Surat Gas Pty Ltd. The final sale price was settled at \$5,100,000. Proceeds from the sale received to date total \$2,100,000 with a further \$3,000,000 being due for payment on 28 September 2018. A gain on sale of the asset classified as held for sale of \$3,901,128 was realised (refer note 21).

At 30 June 2018, Surat Gas Pty Ltd assets were classified as "Assets classified as held for sale" and valued at \$269,212, representing the cost base on that date. Following the sale of Surat Gas, at 30 June 2019 the "assets classified as held for sale" was \$0.

| | 2019 \$ | 2018 \$ |
|----------------------------|------------|------------|
| Unlisted ordinary shares | - | 269,212 |
| Reconciliation | | |
| Opening value | 269,212 | - |
| Additions (refer note 21) | - | 269,212 |
| Reductions (refer note 21) | (269,212) | - |
| | - | 269,212 |

Note 11 Non-current assets – Plant and equipment

| Consolidated | Plant & equipment \$ | Field plant & equipment \$ | Total \$ |
|--------------------------------|----------------------------|----------------------------------|-------------|
| Year ended 30 June 2018 | | | |
| Opening net book amount | 646 | - | 646 |
| Additions | - | - | - |
| Disposals | - | - | - |
| Depreciation charge | (646) | - | (646) |
| Closing net book amount | - | - | - |
| At 30 June 2018 | | | |
| At Cost | 6,495 | - | 6,495 |
| Accumulated depreciation | (6,495) | - | (6,495) |
| Net book amount | - | - | - |
| Year ended 30 June 2019 | | | |
| Opening net book amount | - | - | - |
| Additions | - | - | - |
| Disposals | - | - | - |
| Depreciation charge | - | - | - |
| Closing net book amount | - | - | - |
| At 30 June 2019 | | | |
| At Cost | 6,495 | - | 6,495 |
| Accumulated depreciation | (6,495) | - | (6,495) |
| Net book amount | - | - | - |

Note 12 Non-current assets – Investments

| | Consolidated | |
|---|--------------|------|
| | 2019 | 2018 |
| | \$ | \$ |
| Unlisted equity securities – at written down value | 76,300 | - |
| Unlisted securities are traded in inactive markets. | | |
| Balance at the beginning of the year | - | - |
| Additions during the year | 1,000,000 | - |
| Decrement on revaluation | (923,700) | - |
| Balance at the end of the year | 76,300 | - |

During the current financial year as part consideration for the sale of Surat Gas Pty Ltd (refer Note 21) the company received shares with a Face Value of \$1,000,000 in Sector Projects Pty Ltd, the purchaser of Surat Gas Pty Ltd. The shares in Sector Projects Pty Ltd were independently valued to a fair value of \$76,300 and a decrement on revaluation of \$923,700 was recognised against the gain on sale.

Note 13 Non-current Asset – Investments accounted for using equity method

| | Consolidated | |
|-------------------------|--------------|---------|
| | 2019 | 2018 |
| | \$ | \$ |
| Investment in Associate | 776,513 | 826,938 |

Refer to Note 31 for further information on investment in associate.

Note 14 Non-current assets – Exploration and evaluation assets

| | Consolidated | |
|--|--------------|------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Exploration phase costs – at cost | | |
| | 15,755,652 | 15,580,782 |
| The capitalised exploration assets carried forward above has been determined as follows: | | |
| Balance at the beginning of the year | 15,580,782 | 15,558,524 |
| Expenditure incurred during the year - additions | 174,870 | 193,970 |
| Expenditure transferred to Asset classified as held for sale | - | (171,712) |
| Exploration expenditure written off | - | - |
| Balance at the end of the year | 15,755,652 | 15,580,782 |

The ultimate recoupment of costs carried forward for exploration assets is dependent upon the successful development and commercial exploitation or alternatively sale of the interests in the tenements.

| | Consolidated | |
|--|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Note 15 Non-current assets – Other assets | | |
| Security deposit | 10,200 | 9,700 |

Security deposits represent amounts lodged with the Queensland Department of Natural Resources and Mines as security for tenements.

Note 16 Current liabilities – Trade and other payables

| | | |
|------------------|---------------|----------------|
| <i>Unsecured</i> | | |
| Trade payables | 65,868 | 435,472 |
| | <u>65,868</u> | <u>435,472</u> |

Note 17 Current liabilities – Borrowings

| | | |
|------------------|------------------|------------------|
| Borrowings | - | 1,461,000 |
| Convertible note | 1,268,269 | 1,520,639 |
| | <u>1,268,269</u> | <u>2,981,639</u> |

| | 2019 | 2018 |
|---|------------------|------------------|
| | \$ | \$ |
| <i>Borrowings – Convertible note</i> | | |
| Face value of notes issued | 1,500,000 | 1,900,000 |
| Other equity securities – value of conversion rights (note 19(e)) | (231,731) | (379,361) |
| | <u>1,268,269</u> | <u>1,520,639</u> |
| Interest expense recognised in prior years | - | - |
| | <u>-</u> | <u>-</u> |
| Current liability | <u>1,268,269</u> | <u>1,520,639</u> |

Borrowings – Loan

During the current financial year the company repaid \$1,461,000 of the unsecured loan to Treasure Wheel Global Limited.

Derivative financial instruments – Convertible note

On 30 November 2016, the Company issued a Convertible Note for \$1,900,000 to Treasure Wheel Global Limited in place of \$1,900,000 unsecured loan. As at 30 June 2019 this Convertible Note is classified as a current liability (2017: non-current liability). During the current financial year the convertible note of \$1,900,000 matured. The company repaid \$400,000 of the convertible note and secured extensions such that the current maturity date is 8 November 2019. There is no interest payable on the convertible note.

The Convertible Note has a term of 24 months from the date of issue and is interest free. The note is convertible into ordinary shares in the parent entity at a price per share equal to 10 day VWAP x 0.915 for the 10 days immediately before the conversion date.

The initial fair value of the liability portion of the note was determined using a market interest rate for an equivalent non-convertible note at the issue date. The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity, net of income tax, and not subsequently re-measured.

| | Consolidated | |
|--|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Note 18 Non-current liabilities – Other financial liabilities | | |
| Other financial liabilities | <u>1,500,000</u> | <u>1,500,000</u> |

The Group has agreements with Oliver Lennox-King (Lennox-King), whereby Lennox-King has paid a net \$1.5 million to the Group and in return the Group has agreed to pay Lennox-King a royalty equal to 1% of the gross value of coal sold from certain tenements currently held by the Group, in the areas of the Moreton Energy Coal Project in the Clarence-Moreton Basin and the Tambo Coal & Gas Project in the Upper Surat Basin. The liability was initially recognised at fair value. Post initial recognition, the financial liability is accounted for in accordance with the Group policy for financial instruments set out in Note 1(n) of the 30 June 2019 Annual Report.

The royalty is only payable in the event of future production of coal.

There has been no movement in the balance of the liability. The Group has assessed that the fair value at the time of the initial transaction, which was at arm's length, remains a reasonable assessment of the fair value at 30 June 2019 as no changes in the underlying circumstances have occurred since. The fair value would be Level 3 in the fair value hierarchy.

The Group's exploration and evaluation activities have not progressed to a stage to allow more reliable measurement of any future royalty payment obligations.

Note 19 Issued capital

| | Consolidated | | Consolidated | |
|------------------------------|----------------------|----------------------|---------------------|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | Shares | Shares | \$ | \$ |
| (a) Share capital | | | | |
| (i) Ordinary shares | | | | |
| Fully paid | 1,115,385,048 | 1,115,385,048 | 65,389,553 | 65,507,816 |
| (ii) Other equity securities | | | | |
| Value of conversion rights | | | | |
| – convertible notes | - | - | (118,263) | - |
| | <u>1,115,385,048</u> | <u>1,115,385,048</u> | <u>65,389,553</u> | <u>65,507,816</u> |

(b) Movements in ordinary share capital:

| Date | Details | Number of Shares | Issue Price | \$ |
|--------------|--|-----------------------------|------------------------|-------------------|
| 1 July 2017 | Balance | 1,115,385,048 | | 65,507,816 |
| | Nil transactions | - | | - |
| | Costs associated with the Convertible Note | - | | - |
| 30 June 2018 | Balance | 1,115,385,048 | | 65,507,816 |
| | Value of conversion rights of convertible notes | - | | (118,263) |
| 30 June 2019 | | <u>1,115,385,048</u> | | <u>65,389,553</u> |

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Note 19 Issued capital (continued)

(d) Options

At balance date there were no options over ordinary shares of AustChina Holdings Limited on issue.

(e) Other equity securities

The amount of \$118,263 (2018: \$Nil) shown for other equity securities is the value of the conversion rights relating to the convertible notes, details of which are shown in Note 17.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group includes equity attributable to equity holders, comprising of issued capital, reserves and accumulated losses. In order to maintain or adjust the capital structure, the company may issue new shares, sell assets to reduce debt or adjust the level of activities undertaken by the company.

The Group monitors capital on the basis of cash flow requirements for operational, and exploration and evaluation expenditure. The Group will continue to use capital market issues and joint venture participant funding contributions to satisfy anticipated funding requirements.

The Group has no externally imposed capital requirements. The Group's strategy for capital risk management is unchanged from prior years.

(g) Subsequent events

Since 30 June 2019 AustChina Holdings Limited has made a placement of 277,105,649 shares at \$0.003 to raise \$831,317 in working capital.

| Consolidated | |
|--------------|------|
| 2019 | 2018 |
| \$ | \$ |

Note 20 Reserves and accumulated losses

(a) Reserves

| | | |
|------------------------------|-----------|-----------|
| Share-based payments reserve | 3,528,043 | 3,528,043 |
| Movements: | | |
| Balance 1 July | 3,528,043 | 3,528,043 |
| Share based payments | - | - |
| Balance 30 June | 3,528,043 | 3,528,043 |

(b) Accumulated losses

| | | |
|----------------------------|--------------|--------------|
| Balance 1 July | (57,126,901) | (56,174,920) |
| Profit (Loss) for the year | 2,587,315 | (951,981) |
| Balance 30 June | (54,539,586) | (57,126,901) |

Nature and purpose of reserves

Share based payments reserve

The share-based payments reserve is used to recognise:

- (i) the grant date fair value of options issued to directors / contractors and vendors of assets
- (ii) the grant date fair value of performance rights issued to directors / contractors

NOTE 21 DISCONTINUED OPERATION

On 28 August 2018 AustChina Holdings Limited announced the sale of its subsidiary company, Surat Gas Pty Ltd. The sale was completed on 28 September 2018 for a total price of \$5.1m, comprising \$3.1 million cash, shares in Sector Projects Pty Ltd, being the purchaser of Surat Gas Pty Ltd, representing 5% of the issued capital with a nominal value of \$1.0 million and a Convertible Note in Sector projects Pty Ltd for \$1.0 million.

The financial performance of the discontinued operation as at 30 June 2019 was as follows:

| | 2019 \$ | 2018 \$ |
|---|------------|------------|
| Revenue | - | - |
| Operating expenses | - | - |
| Exploration expenditure written off | - | - |
| Loss on discontinued operations before income tax | - | - |
| Income tax expense | - | - |
| Loss from discontinued operations | - | - |
| | 2019 \$ | 2018 \$ |
| Net cash inflow from operating activities | - | - |
| Net cash inflow (outflow) from investing activities | - | (27,802) |
| Net cash (outflow) from financing activities | - | - |
| Net decrease in cash of discontinued operation | - | (27,802) |

| | 2019 \$ | 2018 \$ |
|--|------------|------------|
| The carrying amounts of assets and liabilities as at 30 June were: | | |
| Exploration and evaluation assets | - | 171,712 |
| Security Deposits | - | 97,500 |
| Total assets | - | 269,212 |
| Trade and other payables | - | - |
| Total liabilities | - | - |
| Net assets | - | 269,212 |

Gain on sale of Assets classified as held for resale

During the current financial year the Company recognised a gain on sale of assets classified as held for resale of \$3,901,128. This gain arose from the sale of Surat Gas Pty Ltd, which was a 100% owned subsidiary of the Company. The sale was completed on 28 September 2018 for a total price of \$5.1 million, comprising \$3.1 million cash, shares in Sector Projects Pty Ltd, being the purchaser of Surat Gas Pty Ltd, representing 5% of the issued capital with a nominal value of \$1.0 million and a Convertible Note in Sector Projects Pty Ltd for \$1.0 million (refer note 9). The shares in Sector Projects Pty Ltd were independently valued to a fair value of \$76,300 and a decrement on revaluation of \$923,700 was recognised against the gain on sale.

| | |
|---|-------------|
| The gain on sale represents: | \$ |
| Sale price | 5,100,000 |
| Less: Costs incurred in respect of the sale | (5,960) |
| Carrying value of the asset at 30 June 2018 | (269,212) |
| Revaluation decrement on the shares in Sector Projects Pty Ltd upon Independent Valuation | (923,700) |
| Net Gain on Sale | \$3,901,128 |

Note 22 Parent entity information

The following information relates to the parent entity, AustChina Holdings Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 1 where applicable.

| | 2019 \$ | 2018 \$ |
|-----------------------------------|------------------|--------------------|
| Current assets | 593,482 | 408,649 |
| Non-current assets | 8,942,249 | 8,471,793 |
| Total assets | 9,535,731 | 8,880,442 |
| Current liabilities | 1,334,137 | 3,417,111 |
| Non-current liabilities | 1,500,000 | 1,500,000 |
| Total liabilities | 2,834,137 | 4,917,111 |
| Issued capital | 65,389,552 | 65,507,816 |
| Accumulated losses | (62,216,001) | (65,072,528) |
| Share based payment reserve | 3,528,043 | 3,528,043 |
| Total equity | 6,701,594 | 3,963,331 |
| Profit (loss) for the year | 2,856,526 | (1,283,892) |
| Total comprehensive income | 2,856,526 | (1,283,892) |

Guarantees

AustChina Holdings Limited has not guaranteed any debts of its subsidiaries.

Contingent liabilities

The parent entity has no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Note 23 Director and key management personnel disclosures

Key management personnel compensation

| | Consolidated | |
|------------------------------|----------------|----------------|
| | 2019 \$ | 2018 \$ |
| Short-term employee benefits | 345,262 | 414,322 |
| Post-employment benefits | 3,450 | 5,398 |
| | 348,712 | 419,720 |

Note 24 Remuneration of auditors

| | Consolidated | |
|--|---------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| During the year the following fees were paid, payable or accrued for services provided by the auditor or, its related practices and non-related audit firms: | | |
| RSM Australia Partners | | |
| <i>Audit services</i> | | |
| Audit and review of financial reports | 35,450 | 36,710 |
| Total remuneration for audit and other assurance services | 35,450 | 36,710 |
| <i>Other services</i> | | |
| Independent expert report | - | - |
| Taxation services | 5,650 | 5,600 |
| Accounting advice | - | 2,110 |
| Total remuneration for other services | 5,650 | 7,710 |
| Total auditor remuneration | 41,100 | 44,420 |

Note 25 Related parties

(a) Parent entities

The parent entity and ultimate Australian parent entity within the group is AustChina Holdings Limited. The ultimate parent entity is Treasure Wheel Global Limited which at 30 June 2019 owned 59.64% (2018: 59.64%).

(b) Subsidiaries

Interests in subsidiaries are set out in Note 29.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 23.

(d) Amounts payable to related parties

During the current financial year the company repaid an unsecured loan of \$1,461,000 to Treasure Wheel Global Limited.

During the current financial year a convertible note of \$1,900,000 matured. The company repaid \$400,000 on the convertible note and secured an extension from Treasure Wheel Global Limited. No interest is payable on the convertible note which has a maturity date of 8 November 2019.

As at 30 June 2019 there is on issue 1 convertible note with a face value of \$1,500,000 (2018: \$1,900,000). The note is convertible into ordinary shares of the parent entity, at any time at the option of the holder, at a price equal to 10 day VWAP x 0.915 for the 10 days immediately before the conversion date.

At 30 June 2018 Included in trade payables was an amount of \$331,370 (2017: \$192,500) which represented amounts payable to directors for unpaid directors' fees. These fees have been paid in full during the current year and at 30 June 2019 there is \$Nil unpaid fees payable to directors.

Note 26 Events occurring after reporting date

Since 30 June 2019 AustChina Holdings Limited has made a placement of 277,105,649 shares at \$0.003 to raise \$831,317 in working capital.

The Company holds a Convertible Note with a face value of \$1.0m which, together with accrued interest, was due for repayment on 28 September 2019. This repayment was not received by the due date. The Company has recognised a provision for non-recovery of this asset of \$661,684 as at 30 June 2019 such that the carrying value in the balance sheet does not exceed the independent valuation of the permits held as security against the Convertible Note. The Company is reviewing its options in respect of this default.

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

Note 27 Reconciliation of loss after income tax to net cash outflow from operating activities

| | Consolidated | |
|--|--------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Profit (Loss) after income tax | 2,587,315 | (951,981) |
| Exploration written off | - | - |
| Depreciation | - | 646 |
| Profit on sale of assets held for resale | (3,901,128) | - |
| Accrued interest | (61,684) | - |
| Share of loss from equity accounted investment | 50,425 | 94,189 |
| Provision for non-recovery of convertible note | 553,000 | - |
| Finance costs: Interest | 29,367 | 143,502 |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other receivables | 4,946 | (15,566) |
| Increase/(decrease) in trade and other payables | (375,565) | 150,022 |
| Net cash outflow from operating activities | <u>(1,113,324)</u> | <u>(579,188)</u> |

Note 28 Commitments for expenditure

| | Consolidated | |
|---|----------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Exploration commitments | | |
| Commitments for payments under exploration permits for coal and petroleum in existence at the reporting date but not recognised as liabilities payable is as follows: | | |
| - payable within one year | 146,667 | 161,667 |
| - payable between one year and five years | 42,500 | 100,417 |
| | <u>189,167</u> | <u>262,084</u> |

So as to maintain current rights to tenure of various exploration tenements, the Group will be required to outlay amounts in respect of tenement exploration expenditure commitments. These outlays, which arise in relation to granted tenements are noted above. The outlays may be varied from time to time, subject to approval of the relevant government departments, and may be relieved if a tenement is relinquished.

Exploration commitments are calculated on the assumption that each of these tenements will be held for its full term. But, in fact, commitments will decrease materially as exploration advances and ground that is shown to be unprospective is progressively surrendered. Expenditure commitments on prospective ground will be met out of existing funds, joint ventures, farm-outs, and new capital raisings.

Note 29 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

| Name of entity | Principal Activities | Country of incorporation | Class of shares | Equity holding | |
|------------------------------|-----------------------|--------------------------|-----------------|----------------|--------|
| | | | | 2019 % | 2018 % |
| Tambo Coal & Gas Pty Limited | Coal exploration | Australia | Ordinary | 100 | 100 |
| Moreton Energy Pty Ltd | Coal exploration | Australia | Ordinary | 100 | 100 |
| Coalbank Qld Pty Ltd | Coal exploration | Australia | Ordinary | 100 | 100 |
| Surat Gas Pty Ltd | Petroleum exploration | Australia | Ordinary | - | 100 |

Note 30 Earnings per share

| | 2019 Cents | 2018 Cents |
|--|---------------|---------------|
| (a) Basic earnings per share | | |
| From continuing operations attributable to ordinary equity holders of the company | (0.12) | (0.09) |
| From discontinued operations attributable to ordinary equity holders of the company | 0.35 | - |
| Total basic earnings per share attributable to the ordinary equity holders of the company | 0.23 | (0.09) |
| (b) Diluted earnings per share | | |
| From continuing operations attributable to ordinary equity holders of the company | (0.09) | (0.06) |
| From discontinued operations attributable to ordinary equity holders of the company | 0.28 | - |
| Total diluted earnings per share attributable to the ordinary equity holders of the company | 0.19 | (0.06) |
| (c) Reconciliation of earnings used in calculating earnings per share | | |
| <i>Basic per share</i> | | |
| Profit (loss) attributable to the ordinary equity holders of the company used in calculating basic per share from continuing operations | (1,313,813) | (951,981) |
| <i>Diluted earnings per share</i> | | |
| Profit (loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share from continuing operations | 3,901,128 | - |
| | 2,587,315 | (951,981) |
| (d) Weighted average number of shares used as the denominator | | |
| | 2019 Number | 2018 Number |
| <i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i> | 1,115,385,048 | 1,115,385,048 |
| Adjustments for calculation of diluted earnings per share: | | |
| Convertible note | 532,905,105 | 603,182,129 |
| <i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i> | 1,648,290,153 | 1,718,567,177 |

(e) Information concerning the classification of securities

Options and rights

There are no options or rights on issue at 30 June 2019.

Note 31 Investments in Associate accounted for using equity method

AustChina Holdings holds 25.15% (2018: 25.72%) of the issued capital of Utilitas Group Pty Ltd, a company that is engaged in the Biogas Renewable Energy Sector.

| | Consolidated | |
|--------------------------------|--------------|----------|
| | 2019 \$ | 2018 \$ |
| Opening carrying amount | 826,938 | 921,127 |
| Share of loss after income tax | (50,425) | (94,189) |
| Closing carrying amount | 776,513 | 826,938 |

More details on the operations of Utilitas Group is set out under the CEO's report and review of operations on pages 3 to 8.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 25 September 2019.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

| | <u>Class of equity security</u> |
|------------------|---------------------------------|
| | <u>Ordinary Shares</u> |
| 1 – 1,000 | 65 |
| 1,001 – 5,000 | 29 |
| 5,001 – 10,000 | 130 |
| 10,001 – 100,000 | 268 |
| 100,001 and over | 245 |
| | <u>737</u> |

There were 513 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

| Name | <u>Ordinary shares</u> | |
|--|------------------------|---------------------------------|
| | Number Held | Percentage (%) of issued shares |
| J P Morgan Nominees Australia Limited | 665,239,694 | 47.77 |
| Icon Venture Group Limited | 277,105,649 | 19.90 |
| KAMS Brother Holdings Limited | 128,093,700 | 9.20 |
| Ms Sihol Marito Gultom | 44,100,000 | 3.17 |
| Mr Peter Andrew Proksa | 20,550,000 | 1.48 |
| Group 4 Solutions Pty Ltd | 17,500,000 | 1.26 |
| Trevor Robert Learey | 14,048,975 | 1.01 |
| Leejames Nominees Pty Ltd | 12,909,710 | 0.93 |
| TRE Pty Ltd | 12,000,000 | 0.86 |
| Mr Nicholas Playford Forgan | 9,264,917 | 0.67 |
| Mr Dobrivoj Kolundzija | 8,931,846 | 0.64 |
| Mr Aaron Jermaine Proksa | 7,200,000 | 0.52 |
| Mr Ianaki Semerdziev | 6,025,675 | 0.43 |
| Square Resources Pty Ltd | 5,937,500 | 0.413 |
| Mr Jeffrey Howard Latimer & Mrs Judith Ann Latimer | 5,190,414 | 0.374 |
| Ms Gayle Patric Doran | 3,908,217 | 0.28 |
| Jomot Pty Ltd | 3,830,752 | 0.28 |
| Oliver Lennox-King | 3,750,000 | 0.27 |
| Mr Aron Harkham | 3,684,428 | 0.26 |
| Mr Craig Sexton & Mrs Loren Sexton | 3,635,274 | 0.26 |
| | <u>12,252,906,751</u> | <u>89.98</u> |

C. Substantial shareholders

Substantial shareholders as shown in substantial shareholder notices received by the company at 25 September 2019 are:

| | Number held | Percentage |
|--------------------------------|-------------|------------|
| <u>Ordinary shares</u> | | |
| Treasure Wheel Global Limited | 665,239,694 | 47.74% |
| Icon Venture Group Limited | 277,105,649 | 19.90% |
| Kam's Brother Holdings Limited | 128,093,700 | 9.20% |

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

- (a) 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.
- (b) Options
No voting rights.

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www.rsm.com.au**INDEPENDENT AUDITOR'S REPORT****To the Members of AustChina Holdings Limited****Opinion**

We have audited the financial report of AustChina Holdings Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated balance sheet 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 financial 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 3 (iii) in the financial report, which indicates the Group incurred a loss after tax from continuing operations of \$1,313,813 and had net cash outflows from operating activities of \$1,113,324 for the year ended 30 June 2019. As at the date, the Group had net current liabilities of \$740,655. As stated in Note 3 (iii), these events or conditions, along with other matters as set forth in Note 3 (iii), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

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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 and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matter | How our audit addressed this matter |
|---|--|
| Carrying Value of Capitalised Exploration Expenditure Refer to Note 14 in the financial statements | |
| <p>The Group has capitalised exploration expenditure with a carrying value of \$15,755,652 as at 30 June 2019.</p> <p>We determined this to be a key audit matter due to the significant management judgment involved in assessing the carrying value in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources, including:</p> <ul style="list-style-type: none"> • Determination of whether expenditure can be associated with finding specific mineral resources, and the basis on which that expenditure is allocated to an area of interest; • Assessing whether any indicators of impairment are present; and • Determination of whether exploration activities have progressed to the stage at which the existence of an economically recoverable mineral reserve may be determined. | <p>Our audit procedures in relation to the carrying value of capitalised exploration costs included:</p> <ul style="list-style-type: none"> • Ensuring that the right to tenure of the areas of interest was current through confirmation with the relevant government departments; • Critically assessing and evaluating management's assessment that no indicators of impairment existed; • Agreeing a sample of the additions to capitalised exploration expenditure during the year to supporting documentation, and ensuring that the amounts were capitalised correctly; and • Through discussions with the Group's Directors, and review of the Group's ASX announcements and other relevant documentation, assessing management's determination that exploration activities have not yet progressed to the point where the existence or otherwise of an economically recoverable mineral resource may be determined. |

Other Information

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

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

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: <http://www.auasb.gov.au/auditorsresponsibilities/ar2.pdf>.

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 16 of the directors' report for the year ended 30 June 2019.

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

Responsibilities

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

A handwritten signature in black ink that reads 'RSM'.

RSM AUSTRALIA PARTNERS

A handwritten signature in black ink that reads 'Albert Loots'.

Albert Loots
Partner

Brisbane, Queensland
Dated: 30 September 2019