

# NOVONIX

## ANNUAL REPORT

### 2019



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# NOVONIX LIMITED

ABN 54 157 690 830

## Annual Report – 30 June 2019

Corporate directory	2
Review of operations and activities	3
Directors' report	13
Directors and Company Secretary	
Principal activities	
Dividends	
Review of operations	
Significant changes in the state of affairs	
Events since the end of the financial year	
Likely developments and expected results of operations	
Environmental regulation	
Information on Directors	
Meetings of Directors	
Remuneration report	
Shares under option	
Insurance of officers and indemnities	
Proceedings on behalf of the Company	
Non-audit services	
Auditor's independence declaration	37
Corporate governance statement	38
Financial report	39
Directors' declaration	97
Independent auditor's report to the members	98
Shareholder information	105

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## Corporate directory

<b>Directors</b>	A Bellas <i>B.Econ, DipEd, MBA, FAICD, FCPA, FGS</i> G A J Baynton <i>M.Econ St, MBA, B.Bus, FGS</i> P M St Baker <i>B.Eng</i> R Cooper <i>BE (Mining), MEngSc, MAusIMM, MAICD</i> Admiral R J Natter, US Navy (Ret.) Andrew N. Liveris <i>AO, BE (Hons) Doctor of Science (honoris causa)</i>
<b>Secretary</b>	S M Yeates <i>CA, B.Bus</i>
<b>Registered office in Australia</b>	McCullough Robertson Level 11, Central Plaza Two 66 Eagle Street Brisbane QLD 4000
<b>Principal place of business</b>	Level 8, 46 Edward Street Brisbane QLD 4000
<b>Share register</b>	Link Market Services Limited Level 21, 10 Eagle Street Brisbane QLD 4000 <a href="http://www.linkmarketservices.com.au">www.linkmarketservices.com.au</a>
<b>Auditor</b>	PricewaterhouseCoopers 480 Queen Street Brisbane QLD 4000 <a href="http://www.pwc.com.au">www.pwc.com.au</a>
<b>Solicitors</b>	Atkinson Corporate Lawyers 99 St George's Terrace Perth WA 6000
<b>Bankers</b>	Commonwealth Bank of Australia
<b>Stock exchange listing</b>	NOVONIX Limited shares are listed on the Australian Securities Exchange (ASX)
<b>Website address</b>	<a href="http://www.novonixgroup.com">www.novonixgroup.com</a>

### Competent Person's Statement

The information in this Annual Report that relates to the JORC Mineral Resource for NOVONIX Limited's Mt Dromedary Project has been based on information compiled by Mr Robert Dennis who is a Member of Australian Institute of Geoscientists and a full time employee of RPM Limited. Mr Dennis has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves. Mr Dennis has consented to the inclusion of the matters based on his information in the form and context in which it appears.



## Review of operations and activities

### NOVONIX – Summary



FY2019 has been a year focused on the implementation of our business plan to become a world leading battery materials and technology company.

NOVONIX is comprised of two key businesses: PUREgraphite (manufacturer of battery anode material), and NOVONIX Battery Technology Solutions (provider of battery R&D services and a manufacturer of battery test equipment)

	<ul style="list-style-type: none"> <li>• Premium high capacity and long-life graphite anode material</li> <li>• US manufactured - plant located in Chattanooga, Tennessee</li> <li>• Phase 1 commercial production-ready during 2019</li> <li>• Targeting the electric vehicle and energy storage markets</li> </ul>
	<ul style="list-style-type: none"> <li>• Battery test equipment accelerates R&amp;D from years to weeks</li> <li>• Battery test equipment used by leading battery makers</li> <li>• Full pilot line for battery assembly supporting R&amp;D</li> <li>• Based in Canada with sales in fourteen countries</li> </ul>

NOVONIX's business plan to enter the battery technology and materials space continues to be validated by market growth and demand. The Lithium Ion Battery Market is forecasted to grow from US\$36.20 billion in 2018 to US\$109.72 billion by 2026, at a CAGR of 13.4%, during the forecast period. Lithium-ion batteries are increasingly being used as a hybrid and full-battery electric vehicle (BEV) power source, along with energy storage systems (ESS)<sup>1</sup>.

<sup>1</sup> Reports and Data, "Lithium Ion Battery Market To Reach USD 109.72 Billion By 2026", 18 March, 2019, New York.

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In FY2019, based on this market validation, NOVONIX made several strategic decisions to increase the company’s opportunity for future growth in the battery technology and materials space. These strategic decisions and investments included: NOVONIX exercising its “call option” to increase NOVONIX ownership of PUREgraphite from 50% to 75%, PUREgraphite relocated to a new premises with 3,700 square meters and rights of first offer to lease additional 11,150 square meters, NOVONIX BTS moved into a new facility in Bedford and expanding staffing to 20 employees, NOVONIX BTS entered into strategic R&D partnerships with Dalhousie University, NOVONIX BTS commenced a patent development pipeline, and NOVONIX BTS began offering new expert advisory and development services and product options.

### **NOVONIX – Highlights for FY2019**

#### Corporate

- Exercised “call option” to increase NVX ownership of PUREgraphite from 50% to 75% and production rights to 100% above 1,000tpa (Q3) with the remaining 25% being acquired in Q4

#### PUREgraphite

- Commenced hand-over of PUREgraphite CEO and CFO roles to NOVONIX executives and appointment of COO (Q3)
- Conducted further follow-up technical and business development meetings with international battery-makers, providing additional samples of our anode material for evaluation (Q4)
- Began relocation of existing plant equipment and personnel from the Duncan Street, Chattanooga facility to its new premises located in Corporate Place, Chattanooga. Lease executed on new facility has 3,700 square meters with rights of first offer to lease additional 11,150 square meters (Q4)



#### NOVONIX BTS

- Commenced strategic battery R&D partnership with Dalhousie University (Q1)
- Filed several patent applications including a provisional patent for a silicon infused graphite material and manufacturing process and a provisional patent for cathode material processing methods aimed at increasing life & reducing cost (Q2 and Q3)
- Cell building sales accelerated with contracts for multiple large customers to build custom cells and evaluate materials (Q4)

#### Mount Dromedary

- Main activities included maintaining the tenements in good standing, finalising land holder and native title agreements, and reassessing next steps with permitting on the project

## PUREgraphite – Overview



Photo: PUREgraphite's new home in Chattanooga Tennessee USA.

PUREgraphite was established in March 2017 as a 50:50 joint venture between NOVONIX and Coulometrics to develop and commercialize ultra-high purity high performance graphite anode material for the lithium-ion battery market focused on electric vehicles, energy storage and specialty applications.

PUREgraphite commenced operations from within the Coulometrics Battery Development Facility in Duncan St, Chattanooga, Tennessee, USA. The combined facility included capabilities for materials processing, electrode and battery cell making and battery testing – allowing PUREgraphite to rapidly advance its materials development and to benchmark and demonstrate performance of its materials in commercial-standard batteries. As of FY2019, based on customer interest, the Company decided to expand into commercial-scale premises, and PUREgraphite began relocation of existing plant, equipment and personnel from the Coulometrics facility to its new premises located in Corporate Place, Chattanooga.

Of the US\$10 million originally invested by NOVONIX, US\$5 million was used by PUREgraphite to fund the exclusive acquisition of all graphite-related intellectual property from Coulometrics and ongoing exclusivity from Coulometrics and CEO of Coulometrics, Dr. Edward Buiel, for development of graphite products and battery anode materials using that technology.

The Coulometrics graphite IP includes innovative high-performance graphite anode materials (demonstrated to outperform leading materials currently in the market) and production methods expected to deliver production costs significantly lower than existing producers. NOVONIX also contributed US\$5 million to fund operations of the JV to cover anticipated capital and operating costs in the first two to three years of operation (2017, 2018, 2019).

As part of this arrangement, Coulometrics provided facilities, plant, equipment and labour under a predefined service arrangement which enabled the joint venture to transition directly into operation with a facility and staff immediately in place.



### **PUREgraphite – Progress**

The PUREgraphite business development workstream is focused on two categories of potential customers. The first group are niche battery producers in the USA, and the second are the large-scale electric vehicle and energy storage battery manufacturers.

To serve these customers, significant progress has been made in FY2019 in product development, process optimization, plant engineering, and customer trials and testing.



To accelerate our readiness to serve the second group, large-scale electric vehicle and energy storage battery manufacturers, in FY2019 PUREgraphite commenced relocation to its new premises in Corporate Place, Chattanooga. Large-scale battery manufacturers have signed non-disclosure and/or confidentiality agreements, advised volume requirements and have engaged in testing programs with us.

To be ready to serve these potential customers, PUREgraphite is actively engaged in large-scale production planning to 25,000 tpa and beyond.

As part of R&D, PUREgraphite also continues to investigate technologies that have potential to optimize or accelerate large-scale production.

PUREgraphite’s sourcing program for precursor materials is well advanced leveraging in-house processing, purification, coating, blending, and cell building capabilities. These capabilities allow PUREgraphite to rapidly screen and qualify precursor materials and optimise performance and cost in sourcing.

Milestones achieved by PUREgraphite during the year in review include:

#### Executive

- Conducted due diligence on PUREgraphite progress and the market opportunity ahead of ownership increase (Q1 and Q2)
- Exercised “call option” to increase NVX ownership from 50% to 75% and production rights to 100% above 1,000tpa (Q3), with the remaining 25% being acquired in Q4
- Commenced hand-over of CEO and CFO roles to NOVONIX executives and appointment of COO (Q3)

#### Business Development

- Continued product trials with beachhead customers (Q1)
- Planned product trials with multiple global battery makers (Commenced Q2)
- Expanded product trials and technical review with both domestic and international customers prospects (Q3)
- Conducted further follow-up technical and business development meetings with international battery-makers, providing additional samples of our anode material for evaluation (Q4)

#### Operations - Equipment

- Finalized decisions on all production scale equipment (Q1)

- Purchased first round of production scale equipment (Q1)
- Completed manufacturing first round of production scale equipment (Q2)
- Installed first round of production equipment (Q3)
- Competed equipment trials and order specifications for remaining process equipment (Q2)
- Completed pre-shipment acceptance testing for primary commercial processing equipment (Q3)

#### Operations - Location

- Evaluated and short-listed industrial properties suitable for scaling the business above 1,000tpa (Q3)
- PUREgraphite announces decision to relocate to new premises based on conversations with international battery-makers, confirming that there is a strong growing market for the anode material product that PUREgraphite has focused upon, and genuine customer interest to support the Company's decision to expand into its new commercial scale premises (Q4)
- Commenced relocation of existing plant equipment and personnel from the Duncan Street, Chattanooga facility to its new premises located in Corporate Place, Chattanooga. Lease executed on new facility has 3,700 square meters with rights of first offer to lease additional 11,150 square meters. (Q4)
- Engineering, procurement and construction planning activities for first 1,000tpa well advanced at Corporate Place facility (Q4)

#### **PUREgraphite – Next Steps for FY2020 and Beyond**

FY2020:

- Expand product trials and technical interchange with domestic US & global battery makers
- Commission first set of production equipment for ~500tpa capacity by Q2
- First customer acquisition targeted for Q3
- Expansion of manufacturing capacity based on anticipated customer requirements
- Ongoing product development leveraging our expanded R&D capabilities in Halifax and our partnership with Dalhousie University

#### **NOVONIX BTS – Overview**



Photo: NOVONIX Battery Technology Centre located in Bedford (near Halifax) Nova Scotia Canada.



NOVONIX Battery Testing Services Inc was acquired by the Company on 1 June 2017 for C\$5m, with the founders (Dr Chris Burns and Dr David Stevens) receiving partial payment in the form of shares in NOVONIX and both continuing as CEO and CTO respectively under executive employment contracts incorporating equity-based incentive plans.

As the new parent company, GRAPHITECORP Limited changed its name in July 2017 to NOVONIX Limited, adopting the name of the established business to leverage the strong brand that has been developed within the lithium-ion battery sector and to better represent the operations and future direction of the company

NOVONIX BTS is based in Bedford (near Halifax), Nova Scotia, Canada and makes the most accurate lithium-ion battery cell test equipment in the world now used by leading battery makers and researchers and equipment manufacturers including Panasonic, CATL, BOSCH, Dyson, 3M and Alcatel-Lucent.

The primary drivers for the acquisition of the NOVONIX BTS business were to acquire the market-leading HPC Testing technology which provides battery researchers with substantial competitive advantage by reducing R&D cycle timing from years to weeks, to leverage the strong brand name and customer relationships in the lithium-ion battery industry, and to leverage the NOVONIX founders' skills in developing both battery materials and testing technologies.

In less than four years, NOVONIX BTS has deployed HPC testing units in more than 14 countries.

#### **NOVONIX BTS – Progress**



Photo: Professor Jeff Dahn and NOVONIX's COO Dr Chris Burns inspecting battery assembly at the NOVONIX pilot cell manufacturing line in Bedford (near Halifax) Nova Scotia Canada.

FY2019 not only marked a successful year of growth for NOVONIX BTS, but also has well positioned NOVONIX BTS for future growth. In its fourth year of operations, NOVONIX BTS launched a new set of expert consulting and testing services which is in high demand. Coupling contract cell making, materials analysis and testing with continued equipment sales leverages further growth possibility for BTS. This sales growth has been and will continue to be supported by several factors including strong industry reputation, repeat business with large growing customers, and new business from new products and services offered.

As part of positioning NOVONIX BTS for future growth, investments were made this this year such as moving into a new facility in Bedford and expanding staffing to 20 employees, entering into strategic R&D partnerships with Dalhousie University, beginning a patent development pipeline, and offering the new services and products options.

Milestones achieved by PUREgraphite during the year in review include:

#### Sales

- Strong Q1 and Q2 sales (Q1-Q2)
- Due to slippage of a large “customized” order into next year (due to customer order change), BTS sales revenue growth projected for 10% year on year vs 30% previously forecast (Q3)
- Strong fourth quarter for sales and service (Q4)
- Scoped large Differential Thermal Analysis (DTA) and cell testing projects with large customers to start in Q1 2020 (Q4)
- Cell building and consulting services have multiple large customer contracts to build custom cells and evaluate materials for customers (Q4)
- Year ends with growth in services (external battery testing and R&D) outstripping equipment sales (Q3/Q4)

#### Partnerships and Patents

- October 1<sup>st</sup>, commenced strategic battery R&D partnership with Dalhousie University (Q1)
- Battery R&D partnership with Dalhousie University filed first patent application in December (Q2)
- Filed US provisional patent application for a silicon infused graphite material and manufacturing process, publication pending (Q2)
- Filed US provisional patent application for cathode material processing methods aimed at increasing life & reducing cost (Q3)

#### Funding and growth

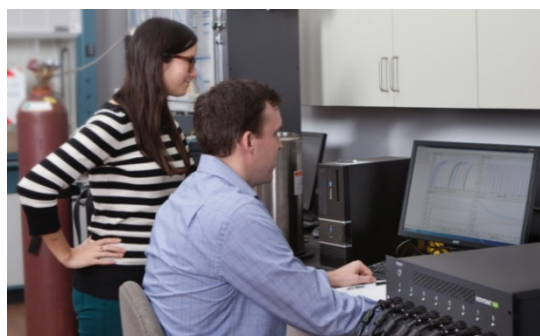
- Government of Canada (NRC IRAP) provided a C\$487,693 R&D support grant (Q1)

Expanded staffing to 20 to support increased activity in cell building and expanded infrastructure to 1,000+ circuits for cell and pack testing (Q4)

#### **NOVONIX BTS – Next Steps for FY2020 and Beyond**

FY2020:

- Continue to grow equipment sales with focus on specialized equipment and custom solutions
- Deliver large customized order to customer
- Secure DTA patent and publish white papers on DTA and HPC experiments to demonstrate importance of equipment
- Large growth in cell building, expert consulting and testing services
- Begin several new long-term customer research projects for cell design and material evaluation including programs demonstrating PUREgraphite material to potential customers
- Develop and file on new materials IP with Dalhousie University research partnership
- Develop, and file patent(s), on new electrolyte IP from internal research programs



## Mount Dromedary – Overview



The Mount Dromedary Graphite Project is world-class, high-grade (18%+) natural graphite deposit outcropping at surface over a 3km strike length and located in an established mining region in Australia next to quality transport infrastructure and international ports.

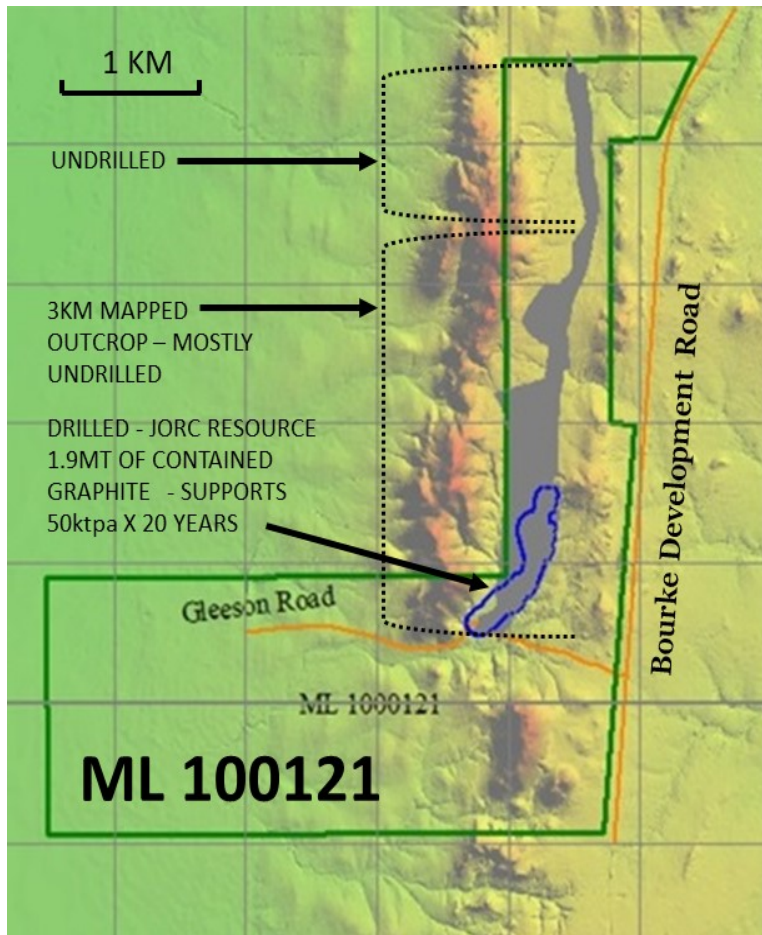


Image: Map of the Mount Dromedary Graphite Project

From drilling approximately 30% of the known mapped deposit, the project has a total JORC Mineral Resource Estimate to 1.908 Million tonnes of contained graphite and a Measured and Indicated Resource containing 1.316 Million tonnes of graphite.

The natural graphite deposit is adjacent (<1km) to sealed highway connecting to multiple export ports with bulk and containerized options. The project has access to attractive back-haul and container transport capacity (road and ocean).

Extensive metallurgical testing has determined suitability for producing export grade concentrate. A preliminary design for a concentrator has been completed.

Given the lithium ion battery market is one of the most prospective markets for natural graphite concentrate NOVONIX has completed extensive trials upgrading its concentrate to anode grade material, building full commercial size lithium ion battery cells and undertaking extensive performance testing and benchmarking.

These trials have included chemical and thermal purification, shaping and coating of particles, physical characterisation of the materials, battery cell construction and comprehensive electrochemical testing. The trials have involved independent laboratories in Europe, USA and our own battery technology centre in Halifax Nova Scotia Canada.

Physical examination of anode materials made from Mount Dromedary concentrate shows the material has good purity levels and can be shaped and coated to the desired standard with reasonable

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yields. The electrochemical tests on the battery cells made with anode materials based on Mount Dromedary concentrate have performed very well when compared with other reference materials including commercial grade anode materials. The test battery cells had high reversible capacity, good first cycle efficiency and good cycling performance and has confirmed the Mount Dromedary concentrate is well suited as a precursor for anode materials for lithium ion batteries.

Despite the favourable characteristics of this natural graphite deposit and the suitability of the concentrate for the lithium ion battery market the company has decided to put a hold on advancing the project at this time.

The primary reasons behind this decision are:

- Medium term oversupply conditions with the broader natural graphite concentrate market;
- Substantially more favourable investment opportunities for the company manufacturing advanced battery anode materials in the Chattanooga Tennessee USA and providing battery technologies and services at our battery technology centre in Canada

The company continues to hold the project in good standing while monitoring the state of the global natural graphite market and will maintain a state of readiness to advance the project should the right market condition emerge or transact with the project.

#### **Mount Dromedary – Progress**

During FY2019, given the strategic decision to put the natural graphite project on hold, the company did not undertake much activity this year and sought to minimise expenditure on the project.

Main activities included keeping the tenements in good standing, finalising land holder and native title agreements which were already well advanced and reassessing next steps with permitting on the project.

After consultation with the Queensland Government Department of Environment and Science and our environmental consultants the company is now reviewing options to apply for a standard environmental authority suitable for a small scale operation and defer incurring the significant additional costs associated with a larger scale operation to a later time when the company has decided to advance that level of project.

#### **Copper (Cu) at Mount Dromedary**

As reported last year the Company identified high-grade Copper (Cu) ore hosted in Malachite during surface sampling. During this year the Company undertook further sampling and field-work to assess the extent of these Copper occurrences. Unfortunately, while more surface copper was identified it was not found with sufficient concentration and grade to motivate further exploration by NOVONIX at this time. NOVONIX may consider farming out the exploration opportunity on the copper in the future.

#### **NOVONIX – Outlook**

NOVONIX is well positioned to participate in the rapidly growing electric vehicle and battery energy storage markets from its operations in North America. As mentioned previously, market dynamics are strongly favourable with the Lithium Ion Battery Market expected to grow from US\$36.20 billion in 2018 to US\$109.72 billion by 2026, at a CAGR of 13.4%, during the forecast period.

NOVONIX BTS expects to have continued strong sales in existing HPC products and also further strengthen sales with new products and services such as DTA and battery cell design. Expert consulting and development services are also expected to grow rapidly, from a low base commencing in FY2019. This new area of business is attracting some of the leading international battery companies to utilize the services of our world-class team of experts. Continued R&D, strategic partnerships, and a growing patent pipeline well position NOVONIX to be at the forefront of battery technology of the future.

PUREgraphite, now in its expanded premises, is nearing commercial production capability and expects to be the first successful North American company producing and selling commercial quantities of EV-grade anode battery materials.

The Company's Board and management are excited by the immediate opportunities ahead for growth and sales, as well as NOVONIX's positioning to participate in the broader long-term growth of the international battery market.

#### TENEMENT LIST

Tenement	Permit Holder	Grant date	NVX Rights	Expiry date
EPM 26025	Exco Resources Limited	14/12/2015	100% (Sub-Blocks Normanton 3123 D, J, N, O and S)	13/12/2020
EPM 17323	MD South Tenements Pty Ltd (Subsidiary of NOVONIX Limited)	20/10/2010	100%	19/10/2021
EPM 17246	MD South Tenements Pty Ltd	26/10/2010	100%	25/10/2020



## Directors' report

Your Directors present their report on the consolidated entity consisting of NOVONIX Limited and the entities it controlled at the end of, or during, the year ended 30 June 2019. Throughout the report, the consolidated entity is referred to as the Group.

### Directors and Company Secretary

The following persons were Directors of NOVONIX Limited during the whole of the financial year and up to the date of this report:

G A J Baynton  
A G Bellas  
P M St Baker  
R Cooper  
A N Liveris  
R J Natter  
D Price (alternate for R Cooper)

The Company Secretary is Mrs S Yeates. Mrs Yeates was appointed to the position of Company Secretary on 18 September 2015. She is a Chartered Accountant, Founder and Principal of Outsourced Accounting Solutions Pty Ltd. She holds similar positions with other public and private companies.

### Principal activities

During the year, the principal activities of the Group included the development and implementation of a downstream integration strategy transforming the business into a supplier of advanced battery materials, equipment and services to the global Lithium-ion Battery (LIB) market.

### Dividends

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

### Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the review of operations and activities on pages 3 – 12 of this annual report.

## Significant changes in the state of affairs

Significant changes in the state of affairs of the group during the financial year were as follows:

- (a) 9,166,667 convertible loan notes were issued to sophisticated investors to raise \$5,500,000 in August 2018.
- (b) 15,000,000 convertible loan notes were issued to the St Baker Energy Innovation Fund (a related party of Philip St Baker) and 2,250,000 convertible loan notes to another leading Australian institutional investor to raise a total of \$6,900,000, following Shareholder approval on 8 March 2019 (refer note 19 for key terms of the loan notes).
- (c) \$4,000,000 short-term loan from St Baker Energy Innovation Fund was received in June 2019 which converted to 10,000,000 convertible loan notes, following shareholder approval on 31 July 2019. The loan notes will be issued on the same terms noted above at (b) above.
- (d) Exercised its option under the terms of the Joint Venture Agreement of February 2017, to purchase an additional 25% interest in the USA-based PUREgraphite battery anode material business for USD \$5,000,000. The increase in ownership of PUREgraphite provided NOVONIX Limited with control of the business and significant commercial benefits, including the right to 100% of PUREgraphite anode material production exceeding 1,000 tonnes per annum. The remaining 25% of PUREgraphite was acquired in Q4 and as at 30 June 2019 NOVONIX Limited holds a 100% equity interest in PUREgraphite.
- (e) Impairment of goodwill and identifiable intangibles – Novonix Battery Testing Services (BTS)

For FY2019, the Company has recognised an impairment loss of \$5,251,028 relating to the goodwill and intangibles of BTS. At the time it was acquired in FY2017, BTS was primarily a producer of battery testing equipment. Consulting services to the energy storage industry began as an adjunct service supporting the equipment supply business operation. The consulting services operation which yields much higher margins, has now become a business line on its own and has grown rapidly over the course of this financial year and, in particular, over the past six months. In the context of this rapid growth and the forward pipeline of consulting work, the consulting services business has become a core operation and is considered to be BTS's strongest growth opportunity. Given the slowing in the rate of growth of sales of testing equipment and the increased relative importance of consulting services, the directors have taken the opportunity to write down the value of the testing equipment supply business.

## Significant changes in the state of affairs (continued)

### (f) Impairment of Mt Dromedary

For FY2019, the Company has recognised an impairment loss of \$10,667,897 relating to the Mt Dromedary graphite mining project. The future development of the Mt Dromedary mine will not occur in the short to medium term given the tonnages of natural graphite required by the PUREgraphite business is unlikely to be sufficient to warrant the development of the mine in that timeframe. As well, a significant portion of graphite used by PUREgraphite will be synthetic graphite, and the natural graphite required at this time can be more cost effectively sourced from other natural graphite producers.

The Mt Dromedary asset remains a strategic asset for the Group, however the Directors have determined that it is appropriate for the carrying value of the Mt Dromedary asset to reflect the exploration and evaluation expenditure incurred since acquisition, and to write off all acquisition related costs which relate to the minority interest acquired by the Group on 29 August 2016 in return for shares in the Company (i.e. scrip-based consideration).

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

## Likely developments and expected results of operations

Comments on likely developments and expected results of operations are included in the review of operations and activities on pages 3 – 12.

## Events since the end of the financial year

Since the end of the financial year the NOVONIX Limited has:

- (a) issued 10,000,000 unsecured convertible loan notes to the St Baker Energy Innovation Fund at \$0.40 each on the conversion of a short-term loan of \$4,000,000 which was unsecured and interest bearing at a rate of 10%. The loan notes have a coupon interest rate of 10% per annum capitalised over a term of 36 months;
- (b) granted 2,500,000 options to an employee on the same terms as those set out in note 26(f);  
and
- (c) following shareholder approval on 31 July 2019, granted 15,000,000 options to directors;

## Environmental regulation

The Group is subject to significant environmental regulation in respect of its mining, exploration and development 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 are not aware of any breach of those requirements during the financial year and up to the date of the Directors' report.

## Information on Directors

The following information is current as at the date of this report.

### A G Bellas. *Chair – non-executive*

Experience and expertise	<p>Tony was appointed as Chair of the Company on 11 August 2015. He brings almost 30 years of experience in the public and private sectors. Tony was previously CEO of the Seymour Group, one of Queensland’s largest private investment and development companies. Prior to joining the Seymour Group, Tony held the position of CEO of Ergon Energy, a Queensland Government-owned corporation involved in electricity distribution and retailing. Before that, he was CEO of CS Energy, also a Queensland Government-owned corporation and the State’s largest electricity generation company, operating over 3,500 MW of gas-fired and coal-fired plant at four locations.</p> <p>Tony had a long career with Queensland Treasury, achieving the position of Deputy Under Treasurer.</p> <p>Tony is a director of the listed companies shown below and is also a director of Loch Exploration Pty Ltd, Colonial Goldfields Pty Ltd and West Bengal Resources (Australia) Pty Ltd.</p>
Other current directorships	Chairman of Shine Limited and IntelliHR Limited, Deputy Chairman of State Gas Limited. Chairman of the Endeavour Foundation.
Former listed directorships in last 3 years	Chairman of Corporate Travel Management Ltd (ceased 2019). Chairman of ERM Power Ltd (ceased 2019).
Special responsibilities	Chairman of the Board Member of the Audit Committee
Interests in shares and options	1,179,354 ordinary shares 1,750,000 options

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**P M St Baker. Managing Director**

Experience and expertise	Mr St Baker was previously the Managing Director and CEO of ERM Power Limited for eight years until October 2014 during which time the company transformed from a private power development company into one of Australia's fastest growing diversified energy companies with an annual turnover growing from \$10 million to over \$2 billion. Mr St Baker oversaw the development of ERM Power's retail sales and gas exploration business and the expansion of its power generation business. Prior to joining ERM Power, Mr St Baker had a 16 year career with BHP Billiton. His focus there was on delivering improved operational performance.
Other current directorships	Non-executive Director of ERM Power Limited.
Former listed directorships in last 3 years	None.
Special responsibilities	Managing Director
Interests in shares and options	14,976,903 ordinary shares 1,895,833 performance rights 2,000,000 options

**G A J Baynton. Executive Director**

Experience and expertise	Mr Baynton founded Graphitecorp in April 2012. He has been a Director of Australian exploration companies for over 19 years. He is founder and Executive Director of investment and advisory firm, Orbit Capital. Mr Baynton has experience in investment banking, merchant banking, infrastructure investment, IPOs, public company directorships, Queensland Treasury and the Department of Mines and Energy. He is a Fellow of the Geological Society of London.
Other current directorships	Non-executive Director of Superloop Limited (ASX: SLC), Non-executive Director of intelliHR Limited (ASX: IHR), and Executive Director of State Gas Limited.
Former listed directorships in last 3 years	None.
Special responsibilities	Member of the Audit Committee Executive Director.
Interests in shares and options	29,561,827 ordinary shares 500,000 performance rights 1,000,000 options



**R Cooper. Non-Executive Director**

Experience and expertise	Mr Cooper is a mining engineer with more than 25 years' industry experience, having held leadership roles across a diverse range of commodities, both in Australia and overseas. He has a broad foundation of operating and technical experience in both operations and project development. Mr Cooper has previously held leadership positions with BHP Billiton as General Manager of Leinster Nickel Operations within Nickel West, and as Asset President of Ekati Diamonds in Canada. He more recently held positions with Discovery Metals as General Manager-Operations in Botswana and as General Manager-Development in their Brisbane office. Robert is currently the CEO of Round Oak Minerals Pty Limited (formerly CopperChem Pty Limited), a 100% owned subsidiary of the Washington H Soul Pattinson Group of companies.
Other current directorships	Non-executive Director of Syndicated Metals Limited.
Former listed directorships in last 3 years	Non-executive Director of Verdant Minerals Limited (ceased 2019).
Special responsibilities	Chairman of the Audit Committee.
Interests in shares and options	200,000 ordinary shares 200,000 options

**D Price. Alternative Non-Executive Director**

Experience and expertise	Dean has over 17 years of corporate finance experience practising in the areas of mergers & acquisitions, capital raising and restructuring.  Dean is currently an executive director of Pitt Capital Partners, a wholly owned subsidiary of Washington H Soul Pattinson & Company Limited and is responsible for generating investment ideas, sourcing new investment opportunities and working with portfolio companies to grow those businesses.
Other current directorships	None.
Former listed directorships in last 3 years	None.
Special responsibilities	None.
Interests in shares and options	None.

**Admiral R J Natter. Non-Executive Director**

Experience and expertise	<p>Robert Natter retired from active military service a decade ago and now has more than 10 years of experience in both the government and private sectors in the North American market.</p> <p>In his Navy career, Robert Natter served as the Commander of the U.S. Seventh Fleet operating throughout Asia and the Indian Ocean; Commander in Chief of the U.S Atlantic Fleet; and the first Commander of U.S. Fleet Forces, overseeing all Continental U.S. Navy bases, facilities and training operations. For six years until 2018, Natter was Chairman of the US Naval Academy Alumni Association Board of Trustees, representing about 60,000 living graduates. He currently serves on the Board of the Naval Academy Foundation, and also served on the Boards of the National Navy SEAL Museum and the Yellow Ribbon Fund.</p> <p>He serves on the Board of Directors of Allied Universal Security Company with over 200,000 employees and Corporate Travel Management (CTM), specializing in corporate employee travel throughout Australia, New Zealand, Asia, Europe, and the United States. He also serves on the Board of Physical Optics Corp (POC) in Torrance, CA.</p>
Other current directorships	Non-executive Director of Corporate Travel Management Limited.
Former listed directorships in last 3 years	None.
Special responsibilities	None.
Interests in shares and options	750,000 ordinary shares 3,750,000 options

**Andrew N. Liveris. Non-Executive Director**

Experience and expertise	A recognized global business leader with more than 40 years at the Dow Chemical Company, Mr Liveris' career has spanned roles in manufacturing, engineering, sales, marketing, and business and general management around the world.  During more than a decade as Dow's CEO, Liveris has led the Company's transformation from a cyclical commodity chemicals manufacturing company into a global specialty chemical, advanced materials, agro-sciences and plastics company.
Other current directorships	Non-executive director of Saudi Arabian Oil Company (Saudi Aramco) and Worley Parsons Limited (ASX: WOR).  Non-executive director of International Business Machines (IBM) Corporation (NYSE: IBM).
Former listed directorships in last 3 years	Executive Chairman of DowDuPont Inc (NYSE: DEDO).
Special responsibilities	None.
Interests in shares and options	2,007,574 ordinary shares 14,000,000 options

**Meetings of Directors**

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

	Full meetings of Directors		Meetings of Audit Committee	
	A	B	A	B
A Bellas	8	8	2	2
G A J Baynton	8	8	2	2
P M St Baker	8	8	-	-
R Cooper	6	8	1	2
Admiral R J Natter	7	8	-	-
A Liveris	4	8	-	-
D Price	-	-	-	-

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

## Remuneration report (Audited)

The Directors present the NOVONIX Limited 2019 remuneration report, outlining key aspects of our remuneration policy and framework, and remuneration awarded this year.

The report is structured as follows:

- (a) Key management personnel (KMP) covered in this report
- (b) Remuneration policy and link to performance
- (c) Elements of remuneration
- (d) Link between remuneration and performance
- (e) Remuneration expenses for executive KMP
- (f) Contractual arrangements for executive KMP
- (g) Non-executive Director arrangements
- (h) Additional statutory information

### (a) Key management personnel covered in this report

#### *Non-executive and Executive Directors (see pages 16 to 20 for details about each Director)*

A Bellas (Non-executive Chairman)  
G A J Baynton (Executive Director)  
P M St Baker (Managing Director)  
R Cooper (Non-executive Director)  
A Liveris (Non-executive Director)  
R Natter (Non-executive Director)  
D Price (Alternate non-executive Director)

#### *Other key management personnel*

<i>Name</i>	<i>Position</i>
J C Burns	Group COO and CEO of NOVONIX Battery Testing Services Inc and PUREgraphite LLC.
D A Stevens	Group CTO
N Liveris	Group Vice President – Business Development and CFO of NOVONIX Battery Testing Services Inc and PUREgraphite LLC.

#### *Changes since the end of the reporting period*

There have been no changes to key management personnel since the end of the reporting period.

### (b) Remuneration policy and link to performance

The role of a remuneration committee is performed by the full Board of Directors. The board reviews and determines the remuneration policy and structure annually to ensure it remains aligned to business needs, and conforms with our remuneration principles. In particular, the board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the Company to attract and retain key talent
- aligned to the Company's strategic and business objectives and the creation of shareholder value
- transparent and easily understood, and
- align with shareholder interests and are acceptable to shareholders

## Remuneration report (continued)

Element	Purpose	Performance metrics	Potential value	Changes for FY 2019
Fixed remuneration (FR)	Provide competitive market salary including superannuation and non-monetary benefits	Nil	Positioned at median market rate	None.
STI	Reward for in-year performance	Based on individual KPI's.	100% of base salary (if bonus paid in cash) 150% of base salary (if bonus paid in shares)	None.
LTI	Alignment to long-term shareholder value	Market price and performance vesting conditions	Variable subject to share price.	None.

### *Balancing short-term and long-term performance*

Annual incentives are set at a maximum of 100% of base salary (150% if paid in shares) in order to drive performance.

Long term incentives are assessed periodically and are designed to promote long-term stability in shareholder returns.

### *Assessing performance*

The board of directors is responsible for assessing performance against KPIs and determining the STI and LTI to be paid.

### *(c) Elements of remuneration*

#### *(i) Fixed annual remuneration (FR)*

Executives receive their fixed remuneration as cash. FR is reviewed annually and is benchmarked against market data for comparable roles in companies in a similar industry and with similar market capitalisation. The board has the flexibility to take into account capability, experience, value to the organisation and performance of the individual. The Group has not engaged an external remuneration consultant during FY2019.

Superannuation is included in FR for executives. In FY 2019, fixed remuneration was not increased.

#### *(ii) Short term incentives*

Short term incentives for all key management personnel have been in place for FY2019. All KMP are eligible to receive a cash bonus of up to 100% of their base salary at the end of the financial year subject to the executive achieving the KPIs set for them during the financial year.



## Remuneration report (continued)

The Company reserves the right to pay any STI cash bonus by way of an issue of fully paid ordinary shares at the board of director's sole discretion. If the Company determines that the cash bonus is to be paid in shares, the value of the shares the executive shall receive will be calculated at 150% of the cash bonus amount. For the purpose of calculating the number of shares to be issued to the executive, the issue price of the shares shall be based on the 10 day volume weighted average price of shares.

If an executive does not achieve each of the KPIs during the financial year, the Managing Director shall determine the appropriate pro rate STI cash bonus to be received by the Executive. The Board of Directors shall make this determination for both the Managing Director and the Executive Director.

### Structure of the short-term incentive plan

Feature	Description																
Max opportunity	KMP executives: 100% of fixed remuneration if paid in cash; 150% of fixed remuneration if paid in shares.																
Performance metrics	The STI metrics align with our strategic priorities.																
	<table border="1"> <thead> <tr> <th>Metric</th> <th>Target</th> <th>Weighting</th> <th>Reason for selection</th> </tr> </thead> <tbody> <tr> <td>PUREgraphite production and expansion targets</td> <td>June 2019</td> <td>25%</td> <td>Focus of the groups growth strategy.</td> </tr> <tr> <td>Battery Technology Services business expansion and product development targets</td> <td>June 2019</td> <td>25%</td> <td>Focus of the groups growth strategy.</td> </tr> <tr> <td>Execution of business strategy, and management of operations, including investor communications.</td> <td>Ongoing</td> <td>50%</td> <td>Focus on the groups growth strategy and shareholder value.</td> </tr> </tbody> </table>	Metric	Target	Weighting	Reason for selection	PUREgraphite production and expansion targets	June 2019	25%	Focus of the groups growth strategy.	Battery Technology Services business expansion and product development targets	June 2019	25%	Focus of the groups growth strategy.	Execution of business strategy, and management of operations, including investor communications.	Ongoing	50%	Focus on the groups growth strategy and shareholder value.
	Metric	Target	Weighting	Reason for selection													
	PUREgraphite production and expansion targets	June 2019	25%	Focus of the groups growth strategy.													
Battery Technology Services business expansion and product development targets	June 2019	25%	Focus of the groups growth strategy.														
Execution of business strategy, and management of operations, including investor communications.	Ongoing	50%	Focus on the groups growth strategy and shareholder value.														
Delivery of STI	STI awarded in cash will be paid after the end of the financial year. STI awarded in shares will be awarded as soon as practical after the end of the financial year, and where subject to shareholder approval, after shareholder approval is received.																
Board discretion	The Board has discretion to adjust remuneration outcomes up or down to avoid any inappropriate reward outcomes, including reducing (down to zero, if appropriate) any deferred STI award.																

### (iii) Long-term incentives

Executive KMP participate, at the board's discretion, in the Long Term Incentive Program ("LTIP") comprising one off grants of options or performance rights, with varying vesting conditions. The company does not have a formal LTIP, rather incentives are awarded at the discretion of the Board.

#### Performance Rights

1,750,000 performance rights were granted to Directors and Executives, following shareholder approval at the November 2018 AGM (1,000,000 to Philip St Baker, 500,000 to Greg Baynton, and 250,000 to Nick Liveris). These performance rights were awarded in the prior financial year. A share based payment expense was recognised for the related services performed based on an estimate of the grant date fair value, as well as an estimate of the number of performance rights expected to vest. Following shareholder approval, revised valuations were performed, which can be seen in the table on page 28. The performance rights expire on 1 January 2025. These performance rights vest on 1 January 2020 subject to the following performance related vesting conditions:

## Remuneration report (continued)

- The executive remains employed in the capacity of an executive as at the vesting date;
- 1,000 tonnes of sales contracts for PUREgraphite anode material;
- Production capability of 1,000 tonnes per annum at PUREgraphite;
- Expansion to 10,000 tonnes per annum planned and costed ready for final investment decision with funding plan;
- Maintained or exercised rights to increase the Group's interest in PUREgraphite by 25%;
- Sales revenue for NOVONIX Battery Testing Services, Inc. exceeding CAD\$3 million in any 12 month period; and
- The 10 day VWAP of NOVONIX's shares exceeds \$1.575 at the vesting date.

In the event that not all vesting conditions are satisfied, but the overall performance of the Company and the Executive has been high, the board can award a portion of the long-term incentive on a discretionary basis.

### *Options*

During FY2019, 34,200,000 options were granted to Directors and Executives. 15,000,000 of the options awarded during FY 2019 were subject to shareholder approval which was received at the General Meeting of shareholders held on 31 July 2019. A further 2,500,000 options are subject to shareholder approval which will be sought at the 2019 AGM.

2,450,000 options were granted to Directors and Executives, following shareholder approval at the November 2018 AGM (1,500,000 to Nick Liveris, 750,000 to Tony Bellas and 200,000 to Robert Cooper). These options were awarded in the prior financial year. A share based payment expense was recognised for the related services performed based on an estimate of the grant date fair value. Following shareholder approval, revised valuations were performed, which can be seen in the table on page 28.

### *(d) Link between remuneration and performance*

During the year, the Group has generated losses from its principal activities supplying advanced battery materials, equipment and services to the global LIB battery market. As the Company is still growing the business, the link between remuneration, Company performance and shareholder wealth is difficult to define. Share prices are subject to the influence of fluctuation in the world market price for graphite and general market sentiment towards the sector, and, as such, increases or decreases may occur quite independently of Executive performance.

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:

## Remuneration report (continued)

	Share price
Year end 30 June 2019	\$0.44
Year end 30 June 2018	\$0.61
Year end 30 June 2017	\$0.75
Year end 30 June 2016	\$0.35
IPO price - 2 December 2015	\$0.20

### (e) *Remuneration expenses for executive KMP*

The following table shows details of the remuneration expense recognised for the Group's executive key management personnel for the current and previous financial year measured in accordance with the requirements of the accounting standards.

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## Remuneration report (continued)

Name	Year	Fixed remuneration			Variable remuneration			Total
		Cash salary	Post- employment benefits	Sign-on bonus	STI	Performance rights*	Options*	
<i>Executive Directors</i>								
G A J Baynton	2019	91,324	8,676	-	-	(7,420)	21,608	114,188
	2018	91,324	8,676	-	-	16,572	-	116,572
P M St Baker	2019	122,318	11,620	-	-	(14,840)	943,216	1,062,314
	2018	122,318	11,620	-	-	34,101	517,757	685,796
<i>Other key management personnel (group)</i>								
C Burns	2019	227,572	-	-	95,335	43,832	1,262,918	1,629,657
	2018	203,249	-	-	79,337	16,572	922,413	1,221,571
D Stevens	2019	215,664	-	-	51,865	21,916	851,653	1,141,098
	2018	203,249	-	-	79,337	8,286	922,413	1,213,285
N Liveris	2019	224,204	14,895	-	52,832	(4,463)	134,323	421,791
	2018	178,451	16,167	9,406	38,875	9,039	394,349	646,287
<i>Non-executive Director</i>								
A Bellas	2019	50,000	4,750	-	-	-	39,138	93,888
	2018	50,000	4,750	-	-	-	96,466	151,216
R Cooper	2019	30,000	2,850	-	-	-	4,675	37,525
	2018	30,000	2,850	-	-	-	25,724	58,574
R Natter	2019	30,000	-	-	-	-	396,631	426,631
	2018	30,000	-	-	-	-	559,145	589,145
A Liveris (from 1/07/18)	2019	30,000	2,850	-	-	-	2,452,717	2,485,567
	2018	-	-	-	-	-	-	-
<b>Total KMP remuneration expensed</b>	<b>2019</b>	<b>1,021,082</b>	<b>45,641</b>	<b>-</b>	<b>200,032</b>	<b>39,025</b>	<b>6,106,879</b>	<b>7,412,659</b>
	<b>2018</b>	<b>908,591</b>	<b>44,063</b>	<b>9,406</b>	<b>197,549</b>	<b>84,570</b>	<b>3,438,267</b>	<b>4,682,446</b>

\* Performance rights and options are expensed over the performance period, including for options that have been awarded to individuals but have not yet formally been granted, which includes the year in which the rights and options are awarded / granted and the subsequent vesting period.

D Price did not receive any remuneration in FY2019 or FY2018.

## Remuneration report (continued)

### (f) Contractual arrangements with executive KMP's

Component	Philip St Baker	Greg Baynton	Chris Burns	David Stevens	Nick Liveris
Fixed remuneration	\$150,000 (part-time) Inclusive of superannuation.	\$100,000 (part-time) Inclusive of superannuation	\$264,618 (CAD\$250,000)^	\$221,056 (CAD\$205,000)	\$234,751 (USD\$165,000)^
Contract duration	Ongoing contract	Ongoing contract	Ongoing contract	Ongoing contract	Ongoing contract
Notice by the individual / company	6 months	6 months	12 months	12 months	12 months

<sup>^</sup>Chris Burns and Nick Liveris remuneration was revised with effect from 1 April 2019. Chris Burns increased from CAD\$200,000 pa to CAD\$250,000 and Nick Liveris increased from USD\$150,000 pa to USD\$165,000 pa.

### (g) Non-executive Director arrangements

The non-executive chairman receives fees of \$50,000 per annum plus superannuation. Other non-executive directors receive \$30,000 per annum plus superannuation. Fees are reviewed annually by the board taking into account comparable roles. The current base fees were reviewed with effect from 1 December 2015.

The maximum annual aggregate non-executive Directors' fee pool limit is \$250,000 (excluding share based payments) and was set out in the 2015 Prospectus.

All Non-executive Directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the board policies and terms, including remuneration relevant to the office of Director.

### (h) Additional statutory information

#### (i) Performance based remuneration granted and forfeited during the year

The table below shows for each KMP how much of their STI cash bonus was awarded and how much was forfeited. It also shows the value of options and performance rights that were granted, exercised and forfeited during FY 2019. The number of options and performance rights and percentages vested/forfeited for each grant are disclosed in section (iv) on pages 31 to 32 below.

Philip St Baker and Greg Baynton were both awarded STI's relating to FY 2019 of 25%, however both have decided to forfeit their awarded STI.

## Remuneration report (continued)

	Total STI bonus				LTI performance rights			LTI Options			
	Total opportunity		Awarded %	Forfeited %	Value granted* \$	Value awarded \$	Value exercised \$	Value granted* \$	Value awarded*** \$	Value awarded^ \$	Value exercised** \$
	If paid in cash	If paid in shares									
<b>2019</b>											
<i>P M St Baker</i>	150,000	225,000	-	100%	25,000~	-	-	-	684,400	-	475,000
<i>G A J Baynton</i>	100,000	150,000	-	100%	12,500~	-	-	-	342,200	-	-
<i>A Bellas</i>	-	-	-	-	-	-	-	126,975~	342,200	-	-
<i>R Cooper</i>	-	-	-	-	-	-	-	33,860~	-	-	-
<i>A Liveris</i>	-	-	-	-	-	-	-	-	3,079,800	-	-
<i>R Natter</i>	-	-	-	-	-	-	-	390,050	342,200	-	-
<i>C Burns</i>	224,925	337,388	42%	58%	-	-	-	5,976,400	-	-	-
<i>D Stevens</i>	211,694	317,541	25%	75%	-	-	-	-	-	-	-
<i>N Liveris</i>	215,640	323,460	25%	75%	6,250~	-	-	425,100~	342,200	1,412,575	-

\* The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options and performance rights granted during the year as part of remuneration. For the performance rights, the value granted is based on an estimate of the number of performance rights expected to vest.

\*\* The value at the exercise date of options that were granted as part of remuneration and were exercised during the year has been determined as the intrinsic value of the options at that date.

\*\*\* The options were awarded to KMP during FY2019 and granted following shareholder approval on 31 July 2019. The value has been calculated as the fair value of the options as at 31 July 2019.

^ The value awarded represents an estimate of the fair value of the options as the options will not be formally granted until shareholder approval is obtained at the 2019 Annual General Meeting of shareholders.

~ Options and performance rights were awarded in the prior financial year and subsequently granted following shareholder approval at the 2018 AGM. The value represents the fair value of the options and performance rights at the date shareholder approval was received.

### (iii) Terms and conditions of the share-based payment arrangements

#### Options

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:



## Remuneration report (continued)

Grant date	Vesting and exercise date	Expiry date	Exercise price	Value per option at grant date	Performance achieved	% vested
27/6/2017	02/06/2019	Cessation of employment	\$0.74	\$0.59	100%	100%
21/11/2017	30/06/2019	01/07/2021	\$0.66	\$1.11	100%	100%
21/11/2017	30/06/2020	01/07/2021	\$0.66	\$1.14	-	-
21/11/2017	14/07/2018	14/07/2020	\$0.95	\$0.91	100%	100%
21/11/2017	14/07/2019	14/07/2020	\$1.10	\$0.90	-	-
22/11/2018	22/11/2018	06/03/2023	\$0.90	\$0.19	100%	100%
22/11/2018	06/03/2019	06/03/2023	\$1.20	\$0.17	100%	100%
22/11/2018	06/03/2020	06/03/2023	\$1.40	\$0.15	-	-
22/11/2018	28/07/2019	Cessation of employment	\$0.80	\$0.28	-	-
22/11/2018	22/11/2018	29/08/2023	\$0.70	\$0.23	100%	100%
22/11/2018	29/08/2019	29/08/2023	\$0.90	\$0.20	-	-
22/11/2018	29/08/2020	29/08/2023	\$1.20	\$0.18	-	-
22/11/2018	29/08/2021	29/08/2023	\$1.40	\$0.17	-	-
24/05/2019	30/06/2020~	05/08/2024	\$0.50	\$0.32	-	-
24/05/2019	30/06/2022~	05/08/2024	\$0.50	\$0.34	-	-
31/07/2019	30/06/2020~	05/08/2024	\$0.50	\$0.33	-	-
31/07/2019	30/06/2022~	05/08/2024	\$0.50	\$0.35	-	-
13/03/2019	30/06/2021~	Cessation of employment	\$0.50	\$0.54	-	-
13/03/2019	30/06/2022~	Cessation of employment	\$0.50	\$0.55	-	-
13/03/2019	31/03/2023~	Cessation of employment	\$0.50	\$0.56	-	-
13/03/2019	30/06/2023~	Cessation of employment	\$0.50	\$0.56	-	-
13/03/2019	28/02/2024~	Cessation of employment	\$0.50	\$0.57	-	-
13/03/2019	31/03/2024~	Cessation of employment	\$0.50	\$0.57	-	-
13/03/2019	31/05/2024~	Cessation of employment	\$0.50	\$0.57	-	-
13/03/2019	30/06/2024~	Cessation of employment	\$0.50	\$0.57	-	-
13/03/2019	31/01/2025~	Cessation of employment	\$0.50	\$0.58	-	-
13/03/2019	28/02/2025~	Cessation of employment	\$0.50	\$0.58	-	-
21/11/2019*	30/06/2021~	Cessation of employment	\$0.50	\$0.54^	-	-
21/11/2019*	30/06/2022~	Cessation of employment	\$0.50	\$0.55^	-	-
21/11/2019*	31/03/2023~	Cessation of employment	\$0.50	\$0.56^	-	-
21/11/2019*	30/06/2023~	Cessation of employment	\$0.50	\$0.56^	-	-
21/11/2019*	28/02/2024~	Cessation of employment	\$0.50	\$0.57^	-	-

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21/11/2019*	31/03/2024~	Cessation of employment	\$0.50	\$0.57^	-	-
21/11/2019*	31/05/2024~	Cessation of employment	\$0.50	\$0.57^	-	-
21/11/2019*	30/06/2024~	Cessation of employment	\$0.50	\$0.57^	-	-
21/11/2019*	31/01/2025~	Cessation of employment	\$0.50	\$0.58^	-	-
21/11/2019*	28/02/2025~	Cessation of employment	\$0.50	\$0.58^	-	-

^ The value per option at grant date represents an estimate of the fair value of the options as they will not be formally granted until shareholder approval is obtained at the 2019 Annual General Meeting of shareholders.

\* Subject to shareholder approval at the Annual General Meeting of Shareholders scheduled for 21 November 2019

~ Vesting is subject to satisfaction of performance related vesting conditions. The vesting date shown represents an estimate of when vesting conditions will be satisfied.

The number of options over ordinary shares in the Company provided as remuneration to key management personnel is shown in the table below on page 31. The options carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share of NOVONIX Limited.

On 17 June 2019 the Company entered into a loan agreement for \$1,500,000 with Mr St Baker for the purpose of funding the exercise of 5,000,000 options (exercise price \$0.30, expiring 30 June 2019). The loan is limited in recourse over the shares issued on exercise of the options, and the Company has placed a holding lock over the shares to secure repayment. The loan is interest free and has a term of 5 years, with early repayment if Mr St Baker ceases to be a director or employee of the Company. For accounting purposes, the granting of the loan has been treated as a modification of the original option terms to extend the expiry date of the options by 5 years, to the repayment date of the loan. A share based payment expense of \$900,000 was recognised which reflects the incremental fair value of the modified option.

#### *Performance rights*

The terms and conditions of each grant of performance rights affecting remuneration in the current or a future reporting period are as follows:

	<b>Grant date</b>	<b>Vesting date</b>	<b>Grant date value</b>
P M St Baker	22/11/2018	01/01/2020	\$0.05
G A J Baynton	22/11/2018	01/01/2020	\$0.05
C Burns	13/02/2018	01/01/2020	\$0.33
D Stevens	13/02/2018	01/01/2020	\$0.33
N Liveris	22/11/2018	01/01/2020	\$0.05

The number of performance rights over ordinary shares in the Company provided as remuneration to key management personnel is shown on page 32. The performance rights carry no dividend or voting rights. See page 28 above for conditions that must be satisfied for the performance rights to vest.

When exercisable, each performance right is convertible into one ordinary share of NOVONIX Limited. If an executive ceases employment before the rights vest, the rights will be forfeited, except in limited circumstances that are approved by the board on a case-by-case basis.

## Remuneration report (continued)

### (iv) Reconciliation of options, performance rights, ordinary shares and loan notes held by KMP

The table below shows a reconciliation of options held by each KMP from the beginning to the end of FY2019. No options were forfeited during the year.

#### Options

2019 Name & Grant dates	Balance at the start of the year		Granted as compensation	Vested		Exercised	Balance at the end of the year	
	Unvested	Vested		Number	%		Vested and exercisable	Unvested
R Natter								
21 Nov 2017	500,000	250,000	-	250,000	33%	-	500,000	250,000
22 Nov 2018	-	-	2,000,000	500,000	25%	-	500,000	1,500,000
P M St Baker								
21 October 2016	-	5,000,000	-	-	-	(5,000,000)	-	-
A Bellas								
22 Nov 2018	-	-	750,000	500,000	67%	-	500,000	250,000
R Cooper								
22 Nov 2018	-	-	200,000	133,333	67%	-	133,333	66,667
A Liveris								
21 Nov 2017	4,000,000	1,000,000	-	2,000,000	40%	-	3,000,000	2,000,000
C Burns								
27 June 2017	3,000,000	-	-	3,000,000	100%	-	3,000,000	-
13 March 2019	-	-	10,000,000	-	-	-	-	10,000,000
24 May 2019	-	-	1,000,000	-	-	-	-	1,000,000
D Stevens								
27 June 2017	3,000,000	-	-	3,000,000	100%	-	3,000,000	-
N Liveris								
22 Nov 2018	-	-	1,500,000	-	-	-	-	1,500,000

## Remuneration report (continued)

The amounts paid per ordinary share on the exercise of options at the date of exercise (24 June 2019) was \$0.30 per share. The Company entered into a loan agreement for \$1,500,000 with Mr St Baker for the purpose of funding the exercise of 5,000,000 options (exercise price \$0.30, expiring 30 June 2019) (as detailed on page 91).

Exercise date	Amount paid per share
24/06/2019	\$0.30

The table below shows how many performance rights were granted and vested during the year. No performance rights were forfeited during the year.

### Performance rights

Name	Year granted	Balance at the start of the year		Vested during the year	Exercised during the year	Granted as compensation	Balance at the end of the year		Maximum value yet to vest* \$
		Unvested	Vested				Unvested	Vested	
P M St Baker	2016		895,833	-	-	-	-	895,833	-
	2019		-	-	-	1,000,000	1,000,000	-	6,696
G Baynton	2019	-	-	-	-	500,000	500,000	-	3,348
C Burns	2018	500,000	-	-	-	-	500,000	-	22,096
D Stevens	2018	250,000	-	-	-	-	250,000	-	11,048
N Liveris	2019	-	-	-	-	250,000	250,000	-	1,674

\* The maximum value of the performance rights yet to vest has been determined as the amount of the grant date fair value of the rights that are yet to be expensed. The minimum value of deferred shares yet to vest is nil, as the shares will be forfeited if the vesting conditions are not met.

## Remuneration report (continued)

### Shareholdings

2019 Name	Balance at the start of the year	Received on the exercise of options	Other changes during the year	Balance at the end of the year
<b>Ordinary shares</b>				
A Bellas	3,929,354	-	(2,750,000)*	1,179,354
G A J Baynton	29,561,827	-	-	29,561,827
P M St Baker	9,976,903	5,000,000**		14,976,903
R Cooper	200,000	-	-	200,000
R Natter	750,000	-	-	750,000
A Liveris	2,007,574^	-	-	2,007,574
D Price	-	-	-	-
C Burns	1,765,968	-	-	1,765,968
D Stevens	2,609,948	-	-	2,609,948
N Liveris	-	-	-	-

^ Represents A Liveris shareholding at the time of his appointment being 1 July 2018.

\* Represents an off market transfer to M Bellas

\*\* Exercise of options funded by way of a loan agreement (refer page 91).

#### (v) Other transactions with key management personnel

During the financial year, Philip St Baker was paid rent totalling \$76,896 (USD\$52,000), for the use of property owned by Mr St Baker in Colorado, USA. Mr St Baker's salary has been adjusted to reflect the additional benefit Mr St Baker is receiving.

There have been no other transactions with key management personnel.

#### End of remuneration report (audited)

## Shares under option and performance rights

### Unissued ordinary shares

Unissued ordinary shares of NOVONIX Limited under option at the date of this report are as follow:

Date options granted	Expiry date	Exercise price	Number under option
23 February 2017	7 April 2020	\$0.60	450,000
27 June 2017	Cessation of employment	\$0.74	6,000,000
14 July 2017	14 July 2022	\$0.90	450,000
20 December 2017	1 September 2019	\$0.60	560,000
21 November 2017	14 July 2020	\$0.80	250,000
21 November 2017	14 July 2020	\$0.95	250,000
21 November 2017	14 July 2020	\$1.10	250,000
21 November 2017	1 July 2021	\$0.66	5,000,000
7 February 2018	7 February 2023	\$0.785	200,000
2 November 2018	2 November 2023	\$0.55	160,000
6 December 2018	6 December 2023	\$0.55	40,000
22 November 2018	Cessation of employment	\$0.80	1,500,000
22 November 2018	6 March 2023	\$0.90	316,666
22 November 2018	6 March 2023	\$1.20	316,667
22 November 2018	6 March 2023	\$1.40	316,667
22 November 2018	29 August 2023	\$0.70	500,000
22 November 2018	29 August 2023	\$0.90	500,000
22 November 2018	29 August 2023	\$1.20	500,000
22 November 2018	29 August 2023	\$1.40	500,000
14 March 2019	12 March 2022	\$0.80	17,250,000
5 August 2019	5 August 2022	\$0.80	10,000,000
13 March 2019	Cessation of employment	\$0.50	12,500,000
5 August 2019	Cessation of employment	\$0.50	2,500,000
14 March 2019	Cessation of employment	\$0.50	750,000
24 May 2019	5 August 2024	\$0.50	1,000,000
31 July 2019	5 August 2024	\$0.50	15,000,000

Unissued ordinary shares of NOVONIX Limited under performance right at the date of this report total 3,395,833. 895,833 of these performance rights were the performance rights granted as remuneration to Mr St Baker during previous years. The remaining 2,500,000 performance rights were granted to KMP during the prior financial year. Of these, shareholder approval for 1,750,000 performance rights was required and obtained at the 2018 AGM held on 22 November 2018. Details of the performance rights granted to key management personnel are disclosed on page 32 above.

No performance right holder or option holder has any right to participate in any other share issue of the Company or any other entity.



## Insurance of officers and indemnities

### *Insurance of officers*

During the financial year, NOVONIX Limited paid a premium of \$58,099 to insure the Directors and secretaries of the Company.

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 entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful 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. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### Proceedings on behalf of the Company

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

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

### Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year there were no fees were paid or payable for non-audit services provided by the auditor of the parent entity (2018: Nil).

### **Auditor's independence declaration**

A copy of the auditors independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

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



A Bellas  
Chairman

Brisbane  
30 September 2019

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## *Auditor's Independence Declaration*

As lead auditor for the audit of Novonix Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read 'Michael Shewan', with a long horizontal flourish extending to the right.

Michael Shewan  
Partner  
PricewaterhouseCoopers

Brisbane  
30 September 2019

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## Corporate governance statement

NOVONIX Limited and the board are committed to achieving and demonstrating the highest standards of corporate governance. NOVONIX Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2019 corporate governance statement is dated as at 30 June 2019 and reflects the corporate governance practices in place throughout the 2019 financial year. The 2019 corporate governance statement was approved by the board on 30 September 2019. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at <https://www.novonixgroup.com/governance/>.

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## NOVONIX LIMITED

ABN 54 157 690 830

### Annual financial report – 30 June 2019

Financial statements	
Consolidated statement of profit or loss and other comprehensive income	40
Consolidated balance sheet	41
Consolidated statement of changes in equity	42
Consolidated statement of cash flows	43
Notes to the financial statements	44
Directors' declaration	97

These financial statements are consolidated financial statements for the Group consisting of NOVONIX Limited and its subsidiaries. A list of major subsidiaries is included in note 24.

The financial statements are presented in the Australian currency.

NOVONIX Limited is a Company limited by shares, incorporated and domiciled in Australia.

All press releases, financial reports and other information are available at our website: [www.novonixgroup.com](http://www.novonixgroup.com).

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

	Notes	Consolidated	
		2019	2018
		\$	\$
<b>Continuing operations</b>			
Revenue from contracts with customers	3	1,817,049	2,171,895
Other income	3	3,024,684	231,522
Cost of goods sold		(741,280)	(957,832)
Administrative and other expenses		(1,536,897)	(1,169,031)
Borrowing costs		(1,565,032)	(662,693)
Impairment losses	4	(15,918,925)	-
Depreciation and amortisation expenses		(494,948)	(154,251)
Marketing and project development costs		(1,560,551)	(354,312)
Share based compensation	4	(6,673,510)	(6,315,899)
Employee benefits expense		(2,104,176)	(1,656,613)
Share of net losses of joint ventures	17	(751,981)	(1,442,770)
<b>Loss before income tax expense</b>		(26,505,567)	(10,309,984)
Income tax (expense) benefit	5	383,655	(13,398)
<b>Loss from continuing operations</b>		(26,121,912)	(10,323,382)
<b>Other comprehensive income for the year, net of tax</b>			
<i>Items that may be reclassified to profit or loss</i>			
Foreign exchange differences on translation of foreign operations		809,396	140,644
<b>Total comprehensive loss for the year</b>		(25,312,516)	(10,182,738)
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:</b>			
Basic earnings per share	8	(21.2 cents)	(8.9 cents)
Diluted earnings per share	8	(21.2 cents)	(8.9 cents)

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

	Notes	Consolidated	
		2019	2018
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents (excluding bank overdrafts)	11	6,054,664	396,224
Trade and other receivables	12	683,103	811,217
Inventory	13	1,116,991	646,143
Total current assets		7,854,758	1,853,584
<b>Non-current assets</b>			
Property, plant and equipment	14	5,984,517	2,441,418
Exploration and evaluation assets	15	2,838,749	13,253,083
Investment in Joint Venture	9	-	11,643,550
Intangible assets	16	18,233,245	5,027,964
Other assets		8,630	8,040
Total non-current assets		27,065,141	32,374,055
<b>Total assets</b>		<b>34,919,899</b>	<b>34,227,639</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	1,404,366	676,866
Contract liabilities	18	580,845	209,278
Borrowings	19	4,145,069	86,886
Total current liabilities		6,130,280	973,030
<b>Non-current liabilities</b>			
Borrowings	19	13,016,841	1,645,776
Total non-current liabilities		13,016,841	1,645,776
<b>Total liabilities</b>		<b>19,147,121</b>	<b>2,618,806</b>
<b>Net assets</b>		<b>15,772,778</b>	<b>31,608,833</b>
<b>EQUITY</b>			
Contributed equity	20	38,163,405	38,163,405
Reserves	21	21,438,031	11,152,174
Accumulated losses		(43,828,658)	(17,706,746)
<b>Total equity</b>		<b>15,772,778</b>	<b>31,608,833</b>

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

Consolidated Group	Reserves					Total
	Contributed equity \$	Accumulated losses \$	Share based payments reserve \$	Foreign currency translation reserve \$	Convertible loan note reserve \$	
<b>Balance at 1 July 2017</b>	22,208,494	(7,383,364)	3,589,547	(36)	2,426,120	20,840,761
Loss for the year	-	(10,323,382)	-	-	-	(10,323,382)
Other comprehensive income	-	-	-	140,644	-	140,644
<b>Total comprehensive income</b>	-	(10,323,382)	-	140,644	-	(10,182,738)
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity, net of transaction costs	15,954,911	-	-	-	-	15,954,911
Share-based payments	-	-	4,995,899	-	-	4,995,899
<b>Balance at 30 June 2018</b>	<b>38,163,405</b>	<b>(17,706,746)</b>	<b>8,585,446</b>	<b>140,608</b>	<b>2,426,120</b>	<b>31,608,833</b>
Loss for the year	-	(26,121,912)	-	-	-	(26,121,912)
Other comprehensive income	-	-	-	809,396	-	809,396
<b>Total comprehensive income</b>	-	(26,121,912)	-	809,396	-	(25,312,516)
<b>Transactions with owners in their capacity as owners:</b>						
Contributions of equity, net of transaction costs	-	-	-	-	-	-
Equity component of convertible notes, net of transaction costs	-	-	-	-	2,802,951	2,802,951
Share-based payments	-	-	6,673,510	-	-	6,673,510
<b>Balance at 30 June 2019</b>	<b>38,163,405</b>	<b>(43,828,658)</b>	<b>15,258,956</b>	<b>950,004</b>	<b>5,229,071</b>	<b>15,772,778</b>

*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

		<b>Consolidated</b>	
		<b>2019</b>	<b>2018</b>
Notes		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
	Receipts from customers (GST inclusive)	2,613,477	2,433,227
	Payments to suppliers and employees (GST inclusive)	(6,464,050)	(6,250,532)
	Interest received	4,533	6,734
	Income taxes paid	-	(18,673)
	Payment of borrowing costs	(154,047)	(48,311)
	<b>Net cash outflow from operating activities</b>	<b>(4,000,087)</b>	<b>(3,877,555)</b>
	<b>Cash flows from investing activities</b>		
	Payments for exploration assets	(270,027)	(565,280)
	Net outflow from the acquisition of PUREgraphite LLC	(5,195,171)	-
	Payments for investments in joint ventures	-	(2,561,858)
	Payments / refunds of security deposits	(500)	4,476
	Payments for property, plant and equipment	(1,888,231)	(2,231,602)
	<b>Net cash outflow from investing activities</b>	<b>(7,353,929)</b>	<b>(5,354,264)</b>
	<b>Cash flows from financing activities</b>		
	Proceeds on issue of shares	-	5,580,939
	Proceeds on issue of loan notes (net of expenses)	12,334,899	-
	Payment of capital raising costs	-	(166,834)
	Proceeds from borrowings	4,582,160	1,826,854
	Repayment of borrowings	(56,319)	(31,339)
	<b>Net cash inflow from financing activities</b>	<b>16,860,740</b>	<b>7,209,620</b>
	<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,506,724</b>	<b>(2,022,199)</b>
	Effects of foreign currency	182,348	(27,333)
	Cash and cash equivalents at the beginning of the year	365,592	2,415,124
	<b>Cash and cash equivalents at the end of the year</b>	<b>6,054,664</b>	<b>365,592</b>

*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

#### *Basis of preparation*

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001*, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, 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.

#### *Going concern*

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

As disclosed in the financial report, the consolidated entity achieved a net loss of \$26,037,121 (2018: \$10,323,382) and net operating cash outflows of \$4,000,087 (2018: \$3,877,555) for the year ended 30 June 2019. As at 30 June 2019, the consolidated entity has net current assets of \$1,724,478 (2018: \$880,554). In July 2019, current borrowings of \$4,000,000 were converted to non-current borrowings and equity in the form of convertible loan notes.

The ability of the consolidated entity to continue as a going concern is principally dependent upon one or more of the following:

- the ability of the consolidated entity to meet its cashflow forecasts;
- the ability of the consolidated entity to raise capital as and when necessary; and
- the successful and profitable growth of the battery materials, battery consulting and battery technology businesses.

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

The directors believe that the going concern basis of preparation is appropriate due to the following reasons:

- the consolidated entity has a proven history of successfully raising funds which included Loan Note issuances raising a total of \$12.4 million during the year;
- The directors believe there is sufficient cash available for the consolidated entity to continue operating until it can raise sufficient further capital to fund its ongoing activities.

Should the consolidated entity 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 report.

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

This 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 consolidated entity be unable to continue as a going concern.

The financial statements were authorised for issue by the Directors on 30 September 2019. The Directors have the power to amend and reissue the financial statements.

#### a. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of NOVONIX Limited ('Company' or 'Parent Entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. NOVONIX Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

With limited exceptions, all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the consideration transferred of the acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the profit and loss in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the cash consideration is deferred, the amounts payable in the future are discounted to their present value, as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

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## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### b. Income tax

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

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

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

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

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

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



## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### c. Revenue recognition

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

##### *Sales of Goods*

Revenue for the hardware is recognised at a point in time when the hardware is delivered, the legal title has passed and the customer has accepted the hardware.

##### *Interest*

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

##### *Grant revenue*

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions.

##### *Consulting services*

The consulting division provides battery cell design, implementation and support services under fixed-price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the actual labour hours spent relative to the total expected labour hours.

Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost plus margin.

##### *Other revenue*

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

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### d. Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

#### e. Current and non-current classification

Assets and liabilities are presented in the balance sheet based on current and non-current classification.

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

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

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

#### f. Cash and cash equivalents

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

For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the balance sheet.

#### g. Other receivables

Other receivables are recognised at amortised cost, less any provision for impairment.

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### **h. Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate proportion of variable and fixed overheads. Costs are assigned to individual items of inventory on the basis of weighted average costs.

#### **i. Exploration and evaluation assets**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditures comprise net direct costs and an appropriate portion of related overhead expenditure but do not include overheads or administration expenditure not having a specific nexus with a particular area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

A regular review has been undertaken on each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

An impairment charge is recognised when the Directors are of the opinion that the carried forward net cost may not be recoverable or the right of tenure in the area lapses.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

#### **j. Loan notes**

Loan notes are initially measured at fair value less transaction costs.

Amortised cost is calculated as the amount at which the loan note is measured at initial recognition less principal repayments, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments over the expected life of the financial instrument to the net carrying amount of the financial liability.

Non-derivative financial liabilities, other than financial guarantees, are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### k. Plant and equipment

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

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

Buildings	25 years
Plant and equipment	2 - 10 years

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

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

#### l. Trade and other payables

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

#### m. Employee benefits

##### *Short-term employee benefits*

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

##### *Other long-term employee benefits*

The liability for long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### *Share-based payments*

Equity-settled share-based compensation benefits are provided to employees. Equity-settled transactions are awards of shares, options or performance rights over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is determined using various valuation methods including Black Scholes, Binomial and the Monte Carlo Simulation method that takes into account the exercise price, the term of the performance right, the impact of dilution, the share price at grant date and expect price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance right.

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

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

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

Share-based payment expenses are recognised over the period during which the employee provides the relevant services. This period may commence prior to the grant date. In this situation, the entity estimates the grant date fair value of the equity instruments for the purposes of recognising the services received during the period between service commencement date and grant date. Once the grant date has been established, the earlier estimate is revised so that the amount recognised for services received is ultimately based on the grant date fair value of the equity instruments.

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

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

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### n. Issued capital

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.

#### o. Investments in Joint Venture

Interests in joint ventures are accounted for using the equity method, after initially being recognised at cost (including transaction costs) and adjusted thereafter for the post-acquisition change in the Group's share of net assets of the joint venture. In addition, the Group's share of the profit or loss of the joint venture is included in the Group's profit or loss.

The carrying amount of the investment includes, when applicable, goodwill relating to the joint venture. Any discount on acquisition, whereby the Group's share of the net fair value of the joint venture exceeds the cost of investment, is recognised in profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the Group's interest in the joint venture.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. When the joint venture subsequently makes profits, the Group will resume recognising its share of those profits once its share of the profits equals the share of the losses not recognised.

#### p. Impairment of Non-Financial Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information, including dividends received from subsidiaries, associates or joint ventures deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the assets carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

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

Impairment testing is performed annually for goodwill, intangible assets with indefinite lives and intangible assets not yet available for use.

#### q. Intangible Assets Other than Goodwill

##### Brand Name

Brand names are recognised at fair value on the date of acquisition. They have a finite life and are subsequently carried at cost less any accumulated amortisation and any impairment losses. Brand names are amortised over their useful life of 10 years.

##### Technology

Technology is recognised at fair value on the date of acquisition. It has a finite life and is subsequently carried at cost less any accumulated amortisation and any impairment losses. Technology is amortised over its useful life of 5 years.

#### r. Goodwill

Goodwill acquired on a business combination is initially measured at cost, being the excess of the consideration transferred for the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment, annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired (refer note 10).

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units that are expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Disposed goodwill in this circumstance is measured on the basis of the relative values of the disposed operation and the portion of the cash-generating unit retained.

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## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### s. Borrowing costs

Borrowing costs are recognised in the profit or loss in the period in which they are incurred.

#### t. Foreign Currency Transactions and Balances

##### Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

##### Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

##### Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- Assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- Income and expenses are translated at the average exchange rates for the period; and
- Accumulated losses are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the balance sheet. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.



## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### u. Earnings per share

##### *Basic earnings per share*

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

##### *Diluted earnings per share*

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

#### v. Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the 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 tax authority, are presented as operating cash flows.

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

#### w. New and Amended Accounting Policies Adopted by the Group

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. There has been no material impact on the financial statements by their adoption.

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

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### x. New standards and interpretations not yet adopted

##### **AASB 16 Leases**

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Management has assessed the effects of applying the new standard and it will affect the accounting for the group's operating leases.

As at the reporting date, the group has non-cancellable operating lease commitments of \$1,286,391, see note 29. For these lease commitments the group expects to recognise right-of-use assets of approximately \$1,446,000 on 1 July 2019 and lease liabilities of \$1,446,000. The overall impact on net assets will be nil, and net current assets will be \$170,433 lower due to the presentation of a portion of the liability as a current liability.

The group expects that net profit after tax will decrease by approximately \$56,759 for 2020 as a result of adopting the new rules. Adjusted EBITDA used to measure segment results is expected to increase by approximately \$170,433, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately \$40,201 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

The group does not have any activities as a lessor.

The group will apply the standard from its mandatory adoption date of 1 July 2019. The group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### y. Critical accounting estimates and judgements

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

##### *Exploration and evaluation costs*

Exploration and evaluation costs have been capitalised on the basis that the Group intend to commence commercial production in the future, from which time the costs will be amortised in proportion to the depletion of the mineral resources. Key judgements are applied in considering costs to be capitalised which includes determining expenditures directly related to these activities and allocating overheads between those that are expensed and capitalised.

In addition, costs are only capitalised that are expected to be recovered either through successful development or sale of the relevant mining interest. Factors that could impact the future commercial production at the mine include the level of reserves and resources, future technology changes, which could impact the cost of mining, future legal changes and changes in commodity prices. To the extent that capitalised costs are determined not to be recoverable in the future, they will be written off in the period in which this determination is made.

For FY2019, the Company has recognised an impairment loss of \$10,667,897 relating to the Mt Dromedary graphite mining project. The future development of the Mt Dromedary mine will not occur in the short to medium term given the tonnages of natural graphite required by the PUREgraphite business is unlikely to be sufficient to warrant the development of the mine in that timeframe. As well, a significant portion of graphite used by PUREgraphite will be synthetic graphite, and the natural graphite required at this time can be more cost effectively sourced from other natural graphite producers.

The Mt Dromedary asset remains a strategic asset for the Group, however the Directors have determined that it is appropriate for the carrying value of the Mt Dromedary asset to reflect the exploration and evaluation expenditure incurred since acquisition, and to write off all acquisition related costs which relate to the minority interest acquired by the Group on 29 August 2016 in return for shares in the Company (i.e. scrip-based consideration).

##### *Value of intangible assets relating to acquisitions*

The Group has allocated portions of the cost of acquisitions to technology intangibles, valued using the relief from royalty method. These calculations require the use of assumptions including future revenue forecasts and a royalty rate. Technology is amortised over its useful life of 5 years.

## Note 1 Summary of significant accounting policies (continued)

### y. Critical accounting estimates and judgements (continued)

#### *Impairment of goodwill and identifiable intangible assets*

The Group determines whether goodwill is impaired on an annual basis. This assessment requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated.

For FY2019, the Company has recognised an impairment loss of \$5,251,028 relating to the goodwill and intangible assets of BTS. At the time it was acquired in FY2017, BTS was primarily a producer of battery testing equipment. Consulting services to the energy storage industry began as an adjunct service supporting the equipment supply business operation. The consulting services operation which yields much higher margins, has now become a business line on its own and has grown rapidly over the course of this financial year and, in particular, over the past six months. In the context of this rapid growth and the forward pipeline of consulting work, the consulting services business has become a core operation and is considered to be BTS's strongest growth opportunity. Given the slowing in the rate of growth of sales of testing equipment and the increased relative importance of consulting services, the directors have taken the opportunity to write down the value of the goodwill and identifiable intangible assets relating to the testing equipment supply business.

#### *Share based payment transactions*

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either a binomial or Monte Carlo option pricing model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions, including share price volatility, interest rates and vesting periods would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact the profit or loss and equity.

#### *Revision of Share based payment transactions*

During the prior financial year, share options and performance rights were awarded to certain key management personnel, which were subject to shareholder approval at the 2018 Annual General Meeting (AGM) of shareholders on 22 November 2018.

Per the requirements of AASB 2, a share based payment expense was recognised from the date that the associated services commenced for the respective individuals. This expense was based on the original estimate of the fair value of the share options or performance rights expected to vest.

## Notes to the financial statements for the year ended 30 June 2019

### Note 1 Summary of significant accounting policies (continued)

#### y. Critical accounting estimates and judgements (continued)

Following formal approval by shareholders at the AGM, updated valuations were performed, and the fair value of the share options and performance rights were revised. To ensure the cumulative expense at 31 December 2018 was based on the revised fair value of the share options and performance rights, adjusting entries were recorded to the share based payment expense. As a result of the revised valuations being lower than the original estimates, it resulted in a total net credit of \$127,637 being recorded to share based payments expense for the 6 months ended 31 December 2018, in respect of the particular share options and performance rights.

In the second half of the year, the share based payment expense in respect of these share options and performance rights has been based on the revised valuations, and an expense will continue to be recognised over the remaining vesting period.

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## Notes to the financial statements for the year ended 30 June 2019

### Note 2 Parent information

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

	2019 \$	2018 \$
<b>Balance sheet</b>		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	5,240,110	386,272
Trade and other receivables	73,952	102,221
	<u>5,314,062</u>	<u>488,493</u>
Total current assets	5,314,062	488,493
<b>Non-current assets</b>		
Other receivables	709,194	1,907,132
Plant and equipment	5,042	9,015
Exploration and evaluation assets	2,838,749	13,253,083
Investments	21,938,847	16,257,530
Other assets	7,000	6,500
	<u>25,498,832</u>	<u>31,433,260</u>
Total non-current assets	25,498,832	31,433,260
<b>Total assets</b>	<u>30,812,894</u>	<u>31,921,753</u>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	134,586	312,920
Borrowings	4,000,000	-
	<u>4,134,586</u>	<u>312,920</u>
Total current liabilities	4,134,586	312,920
<b>Non-current liabilities</b>		
Borrowings	10,905,530	-
	<u>10,905,530</u>	<u>-</u>
Total non-current liabilities	10,905,530	-
<b>Total liabilities</b>	<u>15,040,116</u>	<u>312,920</u>
<b>Net assets</b>	<u>15,772,778</u>	<u>31,608,833</u>
<b>EQUITY</b>		
Contributed equity	38,163,405	38,163,405
Reserves	20,488,027	11,011,566
Accumulates losses	(42,878,654)	(17,566,138)
	<u>15,772,778</u>	<u>31,608,833</u>
<b>Total equity</b>	<u>15,772,778</u>	<u>31,608,833</u>
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Total loss and total comprehensive loss	<u>(25,312,516)</u>	<u>(10,159,327)</u>

## Notes to the financial statements for the year ended 30 June 2019

### Note 2 Parent information (continued)

#### Guarantees

NOVONIX Limited has not entered into any guarantees, in the current or previous reporting period, in relation to the debts of its subsidiaries.

#### Contingent liabilities

At 30 June 2019, NOVONIX Limited did not have any contingent liabilities (2018: Nil).

#### Contractual commitments

At 30 June 2019, NOVONIX Limited did not have any contractual commitments (2018: Nil).

### Note 3 Revenue

#### (a) Revenue from contracts with customers

The group derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines and geographical regions:

##### 2019

	Graphite Mining and exploration \$	Battery Technology \$	Battery Materials \$	Total \$
Hardware sales	-	1,461,266	-	1,461,266
Consulting sales	-	355,783	-	355,783
Revenue from external customers	-	1,817,049	-	1,817,049
Timing of revenue recognition				
At a point in time	-	1,461,266	-	1,461,266
Over time	-	355,783	-	355,783
	-	1,817,049	-	1,817,049

##### 2018

	Graphite Mining and exploration \$	Battery Technology \$	Battery Materials \$	Total \$
Hardware sales	-	2,142,679	-	2,142,679
Consulting sales	-	29,216	-	29,216
Revenue from external customers	-	2,171,895	-	2,171,895
Timing of revenue recognition				
At a point in time	-	2,142,679	-	2,142,679
Over time	-	29,216	-	29,216
	-	2,171,895	-	2,171,895

Revenues from external customers come from the sale of battery testing hardware equipment and the provision of battery testing and development consulting services.

## Notes to the financial statements for the year ended 30 June 2019

### Note 3 Revenue (continued)

#### (i) Assets and liabilities related to contracts with customers

The group has recognised the following assets and liabilities related to contracts with customers:

	Notes	2019 \$	2018 \$
Contract liabilities – Hardware sales		580,845	209,278
Total current contract liabilities		<u>580,845</u>	<u>209,278</u>

#### *Revenue recognised in relation to contract liabilities*

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	2019 \$	2018 \$
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period</i>		
Hardware sales	-	-

#### (b) Other income

	2019 \$	2018 \$
Interest received from unrelated parties	4,533	6,734
Grant funding	329,573	122,985
Fair value gain on borrowings	114,106	100,152
Gain on revaluation of equity accounted investment (refer note 9)	2,576,131	-
Other	341	1,651
	<u>3,024,684</u>	<u>231,522</u>



## Notes to the financial statements for the year ended 30 June 2019

### Note 4 Loss for the year

Loss before income tax from continuing operations includes the following specific expenses:

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Share based payments expense <sup>^</sup>		
Performance rights granted	39,025	84,570
Options granted	<u>6,634,485</u>	<u>6,231,329</u>
Total share based compensation expense	<u>6,673,510</u>	<u>6,315,899</u>
Borrowing costs		
Interest accrued on loan notes	1,373,581	604,183
Unwinding of fair value gain	30,113	7,279
Interest accrued on borrowings	<u>161,338</u>	<u>51,231</u>
Total borrowing costs	<u>1,565,032</u>	<u>662,693</u>
Impairment losses		
Exploration and evaluation assets	10,667,897	-
Goodwill	4,812,127	-
Identified intangibles – Brand Name	374,126	-
Identified intangibles - Technology	<u>64,775</u>	<u>-</u>
Total impairment losses	<u>15,918,925</u>	<u>-</u>

<sup>^</sup> Refer to note 25 for further information regarding share-based payments.

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## Notes to the financial statements for the year ended 30 June 2019

### Note 5 Income tax expense

This note provides an analysis of the Group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group's tax position.

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit/(loss) before income tax expense	<u>(26,505,567)</u>	<u>(10,309,984)</u>
Tax at the Australian tax rate of 27.5% (2018: 27.5%)	(7,289,031)	(2,835,246)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Impairment of goodwill	1,323,335	-
Share based payments	1,835,215	1,571,872
Gain on acquisition of PUREgraphite LLC (Note 9)	(540,987)	-
Share of results of joint venture	206,795	396,762
Borrowing costs	377,735	-
Other non-deductible amounts	(24,234)	(23,137)
Difference in overseas tax rate	(90,888)	(28,636)
Adjustments for current tax of prior periods	(93,052)	75,329
Adjustment to deferred tax assets and liabilities for tax losses and temporary differences not recognised	<u>3,911,457</u>	<u>856,454</u>
Income tax expense / (benefit)	<u>(383,655)</u>	<u>13,398</u>
<b>(b) Tax losses</b>		
Unused tax losses for which no deferred tax asset has been recognised	<u>15,128,752</u>	<u>4,971,560</u>
Potential tax benefit	<u>4,122,864</u>	<u>1,407,910</u>
<b>(c) Tax expense (income) recognised directly in equity</b>		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:		
Deferred tax: Share issue costs	<u>-</u>	<u>-</u>

## Notes to the financial statements for the year ended 30 June 2019

### Note 5 Income tax expense

	Consolidated	
	2019	2018
	\$	\$
<b>(d) Deferred tax assets</b>		
The balance comprises temporary differences attributable to:		
Tax losses	4,351,897	2,737,891
Exploration and evaluation assets	1,433,506	-
Business capital costs	49,212	70,747
Accrued expenses	17,067	16,571
<b>Total deferred tax assets</b>	<b>5,851,682</b>	<b>2,825,209</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	(558,061)	(1,417,299)
Deferred tax assets not recognised	(5,293,621)	(1,407,910)
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>
<b>(e) Deferred tax liabilities</b>		
The balance comprises temporary differences attributable to:		
Exploration and evaluation assets	-	1,236,560
Intangibles	328,885	132,115
Property plant and equipment	186,851	48,366
Prepayments	143	258
Unrealised exchange on borrowings	42,182	-
<b>Total deferred tax liabilities</b>	<b>558,061</b>	<b>1,417,299</b>
Set-off of deferred tax liabilities pursuant to set-off provisions	(558,061)	(1,417,299)
<b>Net deferred tax liabilities</b>	<b>-</b>	<b>-</b>

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.

#### *Offsetting within tax consolidated entity*

NOVONIX Limited and its wholly-owned Australian subsidiaries have applied the tax consolidation legislation which means that these entities are taxed as a single entity. As a consequence, the deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

## Notes to the financial statements for the year ended 30 June 2019

### Note 6 Key Management Personnel Compensation

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

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

	Consolidated	
	2019	2018
	\$	\$
Short-term employee benefits	1,221,114	1,115,546
Post-employment benefits	45,641	44,063
Share-based compensation	6,145,904	3,522,837
Total KMP compensation	<u>7,412,659</u>	<u>4,682,446</u>

#### Short-term employee benefits

These amounts include fees and benefits paid to the non-executive Chairman as well as all salary, paid leave benefits and fringe benefits paid to Executive Directors.

#### Post-employment benefits

These amounts are the current-year's superannuation contributions made during the year.

#### Share-based payments

These amounts represent the expense related to the participation of KMP in equity-settled benefit schemes as measured by the fair value of the options, performance rights and shares granted on grant date.

Further information in relation to KMP remuneration can be found in the Directors report.

### Note 7 Auditor's Remuneration

	Consolidated	
	2019	2018
	\$	\$
Remuneration of the auditor for:		
- Auditing or reviewing the financial report	148,200	129,492
	<u>148,200</u>	<u>129,492</u>

## Notes to the financial statements for the year ended 30 June 2019

### Note 8 Earnings per share

	2019 Cents	2018 Cents
<b>(a) Basic earnings per share</b>		
Total basic earnings per share attributable to the ordinary equity holders of the Company	<u>(21.2 cents)</u>	<u>(8.9 cents)</u>
<b>(b) Diluted earnings per share</b>		
Total diluted earnings per share attributable to the ordinary equity holders of the Company	<u>(21.2 cents)</u>	<u>(8.9 cents)</u>
<b>(c) Reconciliations of earnings used in calculating earnings per share</b>		
	2019 \$	2018 \$
<i>Basic earnings per share</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	<u>(26,121,912)</u>	<u>(10,323,382)</u>
<i>Diluted earnings per share</i>		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	<u>(26,121,912)</u>	<u>(10,323,382)</u>
<b>(d) Weighted average number of shares used as the denominator</b>		
	2019 Number	2018 Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	<u>123,219,872</u>	<u>115,901,777</u>

### (e) Information concerning the classification of securities

#### *Options and rights*

Options and rights on issue during the year are not included in the calculation of diluted earnings per share because they are antidilutive for the year ended 30 June 2019. These options and rights could potentially dilute basic earnings per share in the future. Details relating to options and rights are set out in note 25.

### Note 9 Business Combination

On 2 February 2017, Novonix Limited entered into a binding term sheet with Coulometrics LLC ("Coulometrics") to form an incorporated joint venture (PUREgraphite) to develop and commercialise high purity battery grade graphite material for the electric vehicle and other energy storage markets. Novonix contributed USD\$10million for a 50% interest while Coulometrics contributed the equivalent in "Intellectual Property" which is recognised as the rights and exclusivity to the technical process and knowledge of Edward Buiel, founder of Coulometrics, relating to the unique development and commercialisation of high purity battery grade graphite material.

## Notes to the financial statements for the year ended 30 June 2019

### Note 9 Business Combination (continued)

In the binding term sheet between Novonix and Coulometrics, Novonix had a call option which gave them the option to acquire an additional 25% of PUREgraphite for USD\$5million exercisable at any time within two years. This option was exercised on 31 January 2019 and a further USD\$5million was paid to Coulometrics.

On 30 May 2019, Coulometrics conceded its remaining 25% interest in PUREgraphite to Novonix for no consideration. The reason was that it was not commercially viable for Coulometrics to contribute further funds to PUREgraphite, due to terms of the agreement allowing Novonix to profit from all revenue generated by the company in excess of 1,000 tonnes per annum. The result of this ownership transfer has had no bearing or implications on the exclusivity of Coulometrics technology and know-how in relation to the development and commercialisation of high purity battery grade graphite material.

The transaction has been accounted for as a step-up acquisition, being a disposal of the Group's existing 50% equity accounted investment in PUREgraphite at its fair value in exchange for the acquisition of 100% interest in PUREgraphite. As a result, a gain of \$2,576,131 was recognised at the time of the business combination which represented the difference between the fair value of the 50% equity interest and the carrying value of the equity accounted investment.

The details of the business combination are as follows:

<b>Fair value of consideration transferred</b>	<b>\$</b>
Amount settled in cash	
Cash consideration (USD\$10,000,000)	13,291,330
Cash consideration – 31 January 2019 (additional 25%) (USD\$5,000,000)	7,075,279
	<hr/>
<b>Total purchase consideration</b>	<b>20,366,609</b>
	<hr/>
<b>The fair values of the assets and liabilities of the PUREgraphite LLC, acquired as at the date of acquisition, are as follows:</b>	<b>\$</b>
Cash and cash equivalents	1,880,108
Inventories	1,649
Plant and equipment	913,821
Intangible assets: Technology	1,268,785
Deferred tax liabilities	(266,445)
	<hr/>
Identifiable net assets acquired	3,797,918
Goodwill on acquisition	16,568,691
	<hr/>
<b>Net asset acquired</b>	<b>20,366,609</b>
	<hr/>

## Notes to the financial statements for the year ended 30 June 2019

### Note 9 Business Combination (continued)

The consideration payable for the combination effectively included a premium for the right of exclusive use of any excess capacity of the company to the production of graphite anode material greater than 1,000 tonnes per annum and to exploit the company's intellectual property and know-how in so doing which has resulted in goodwill of \$16,568,691. The full value of goodwill and client intangibles is not expected to be tax deductible for tax purposes.

#### *Acquisition costs*

Acquisition-related costs amounting to \$129,345 are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income, as part of administrative and other expenses.

#### *Revenue and profit / (loss) contribution*

The acquired business contributed net loss after tax of \$1,541,643 (USD \$1,085,511) to the Group for the period 1 February 2019 to 30 June 2019. If the acquisition had occurred on 1 July 2018, PUREgraphites contribution to consolidated loss for the year ended 30 June 2019 would have been \$3,318,584 (USD \$2,336,700).

#### *Purchase consideration – cash outflow:*

Outflow of cash to acquire subsidiary, net of cash acquired:

<b>Purchase consideration</b>	\$
Cash consideration	20,366,609
Less: cash consideration in prior periods	(13,291,330)
Less: cash balances acquired	(1,880,108)
Outflow of cash in FY2019 – investing activities	<u>5,195,171</u>

## Notes to the financial statements for the year ended 30 June 2019

### Note 10 Impairment testing of goodwill

For the purposes of impairment testing, the cash generating unit has been defined as the business to which the goodwill relates where individual cash flows can be ascertained for the purposes of discounting future cash flows.

	<b>Consolidated</b>	
	<b>2019</b>	2018
<i>The carrying amount of goodwill allocated to the cash generating unit</i>	<b>\$</b>	<b>\$</b>
NOVONIX Battery Testing Services Inc	-	4,547,547
PUREgraphite LLC	17,122,101	-
Total carrying amount of goodwill	17,122,101	4,547,547

The Company has recognised an impairment loss of \$4,812,127 (refer note 16) relating to the goodwill of NOVONIX Battery Testing Services Inc. The carrying amount of the CGU was considered to be in excess of its recoverable amount and therefore an impairment loss has been recognised. This loss is included in Impairment losses in the statement of profit or loss.

The recoverable amount of the PUREgraphite LLC cash generating unit is based on Fair Value Less Costs to Sell, with this being determined with reference to the recent purchase price. The directors do not believe there has been an event that would adversely impact the fair value since the acquisition.

### Note 11 Cash and cash equivalents

	<b>Consolidated</b>	
	<b>2019</b>	2018
	<b>\$</b>	<b>\$</b>
Cash at bank	6,054,664	396,224
	6,054,664	396,224

#### *Reconciliation to cash flow statement*

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the financial year as follows:

	<b>2019</b>	2018
	<b>\$</b>	<b>\$</b>
Balances as above	6,054,664	396,224
Bank overdrafts (see note 19 below)	-	(30,632)
Balance per statement of cash flows	6,054,664	365,592



## Notes to the financial statements for the year ended 30 June 2019

### Note 12 Trade and other receivables

	Consolidated	
	2019	2018
	\$	\$
Trade debtors	556,937	560,231
Other receivables	126,166	250,986
Total current trade and other receivables	683,103	811,217

#### Credit risk

The Group has no significant concentration of credit risk with respect to any counterparties or on a geographical basis. Amounts are considered as “past due” when the debt has not been settled, with the terms and conditions agreed between the Group and the customer to the transaction.

From 1 July 2018 the Group now assess impairment on trade and other receivables using the simplified approach of the expected credit loss (ECL) model under AASB 9. Due to the minimal history of bad debt write-offs and strong credit approval processes, the Group have determined that the incorporation of the ECL model will not have a material effect on impairment as at 30 June 2019.

The balance of receivables that remain within initial trade terms are considered to be of high credit quality.

### Note 13 Inventory

	Consolidated	
	2019	2018
	\$	\$
Components and stores	641,080	335,413
Finished goods – at cost	475,911	310,730
	1,116,991	646,143

#### *Amounts recognised in profit or loss*

Inventories recognised as an expense during the year ended 30 June 2019 amounts to \$741,280 (2018: \$957,832). These were included in cost of sales.

## Notes to the financial statements for the year ended 30 June 2019

### Note 14 Property, plant and equipment

	Land \$	Buildings \$	Plant and equipment \$	Total \$
<b>At 30 July 2017</b>				
Cost	-	-	206,528	206,528
Accumulated depreciation	-	-	(56,146)	(56,146)
Net book amount	-	-	150,382	150,382
<b>Year ended 30 June 2018</b>				
Opening net book amount	-	-	150,382	150,382
Additions	359,344	1,197,162	825,184	2,381,690
Exchange differences	-	(234)	(1,148)	(1,382)
Depreciation charge	-	(22,729)	(66,543)	(89,272)
Closing book amount	359,344	1,174,199	907,875	2,441,418
<b>At 30 June 2018</b>				
Cost	359,344	1,197,162	1,036,480	2,592,986
Accumulated depreciation	-	(22,963)	(128,605)	(151,568)
Net book amount	359,344	1,174,199	907,875	2,441,418
<b>Year ended 30 June 2019</b>				
Opening net book amount	359,344	1,174,199	907,875	2,441,418
Additions	-	495,206	2,241,257	2,736,463
Acquisition of subsidiary	-	-	913,821	913,821
Exchange differences	20,907	66,695	218,466	302,095
Assets written off	-	-	(90,540)	(90,540)
Depreciation charge	-	(61,380)	(261,333)	(318,740)
Closing book amount	380,251	1,674,720	3,929,546	5,984,517
<b>At 30 June 2019</b>				
Cost	380,251	1,762,019	4,437,493	6,579,763
Accumulated depreciation	-	(87,299)	(507,947)	(595,246)
Net book amount	380,251	1,674,720	3,929,546	5,984,517

## Notes to the financial statements for the year ended 30 June 2019

### Note 15 Exploration and evaluation assets

	Consolidated	
	2019	2018
	\$	\$
Exploration and evaluation assets – at cost	<u>2,838,749</u>	<u>13,253,083</u>
The capitalised exploration and evaluation assets carried forward above have been determined as follows:		
Balance at the beginning of the year	13,253,083	12,663,397
Expenditure incurred during the year	253,563	589,686
Impairment losses	<u>(10,667,897)</u>	<u>-</u>
Balance at the end of the year	<u>2,838,749</u>	<u>13,253,083</u>

For FY2019, the Company has recognised an impairment loss of \$10,667,897 relating to the Mt Dromedary graphite mining project. The future development of the Mt Dromedary mine will not occur in the short to medium term given the tonnages of natural graphite required by the PUREgraphite business is unlikely to be sufficient to warrant the development of the mine in that timeframe. As well, a significant portion of graphite used by PUREgraphite will be synthetic graphite, and the natural graphite required at this time can be more cost effectively sourced from other natural graphite producers.

The Mt Dromedary asset remains a strategic asset for the Group, however the Directors have determined that it is appropriate for the carrying value of the Mt Dromedary asset to reflect the exploration and evaluation expenditure incurred since acquisition, and to write off all acquisition related costs which relate to the minority interest acquired by the Group on 29 August 2016 in return for shares in the Company (i.e. scrip-based consideration).

The Directors have assessed that for the exploration and evaluation assets remaining recognised at 30 June 2019, the facts and circumstances do not suggest that the carrying amount of an asset may exceed its recoverable amount.

## Notes to the financial statements for the year ended 30 June 2019

### Note 16 Intangible assets

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Goodwill	17,037,297	4,547,547
Brand name	-	398,216
Technology	1,195,948	82,201
	<u>18,233,245</u>	<u>5,027,964</u>

	<b>Goodwill</b>	<b>Brand name</b>	<b>Technology</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at the beginning of the year	4,547,547	398,216	82,201	5,027,964
Acquisition of subsidiary	16,568,691	-	1,268,785	17,837,476
Impairments	(4,812,127)	(374,126)	(64,775)	(5,251,028)
Exchange differences	733,186	21,952	39,903	795,041
Amortisation	-	(46,042)	(130,166)	(176,208)
	<u>17,037,297</u>	<u>-</u>	<u>1,195,948</u>	<u>18,233,245</u>

For FY2019, the Company has recognised an impairment loss of \$5,251,028 relating to the goodwill and intangibles of BTS. At the time it was acquired in FY2017, BTS was primarily a producer of battery testing equipment. Consulting services to the energy storage industry began as an adjunct service supporting the equipment supply business operation. The consulting services operation which yields much higher margins, has now become a business line on its own and has grown rapidly over the course of this financial year and, in particular, over the past six months. In the context of this rapid growth and the forward pipeline of consulting work, the consulting services business has become a core operation and is considered to be BTS's strongest growth opportunity. Given the slowing in the rate of growth of sales of testing equipment and the increased relative importance of consulting services, the directors have taken the opportunity to write down the value of the goodwill and identifiable intangible assets relating to the testing equipment supply business.

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense in the statement of profit or loss. Goodwill has an indefinite useful life.

## Notes to the financial statements for the year ended 30 June 2019

### Note 17 Trade and other payables

	Consolidated	
	2019	2018
	\$	\$
Unsecured liabilities:		
Trade payables	1,307,707	331,794
Sundry payables and accrued expenses	96,659	554,350
	<u>1,404,366</u>	<u>886,144</u>

### Note 18 Contract liabilities

	Consolidated	
	2019	2018
	\$	\$
Contract liabilities – Hardware sale contracts	580,845	209,278
	<u>580,845</u>	<u>209,278</u>

### Note 19 Borrowings

	2019			2018		
	Current	Non-Current	Total	Current	Non-Current	Total
	\$	\$	\$	\$	\$	\$
<i>Secured</i>						
Bank overdrafts	-	-	-	30,632	-	30,632
Bank loans (i)	57,807	1,295,835	1,353,642	56,254	1,277,591	1,333,845
Total secured borrowings	<u>57,807</u>	<u>1,295,835</u>	<u>1,353,642</u>	<u>86,886</u>	<u>1,277,591</u>	<u>1,364,477</u>
<i>Unsecured</i>						
Loan notes (ii)	-	10,905,530	10,905,530	-	-	-
Other loans (iii)	4,087,262	815,476	4,902,738	-	368,185	368,185
Total unsecured borrowings	<u>4,087,262</u>	<u>11,721,006</u>	<u>15,808,268</u>	<u>-</u>	<u>368,185</u>	<u>368,185</u>
Total borrowings	<u>4,145,069</u>	<u>13,016,841</u>	<u>17,161,910</u>	<u>86,886</u>	<u>1,645,776</u>	<u>1,732,662</u>

#### (i) Secured liabilities and assets pledged as security

In December 2017, the group entered into a loan facility to purchase commercial land and buildings in Nova Scotia from which the Battery Testing Services business will operate. The total available amount under the facility is CAD \$1,330,000 and it has been fully drawn down as at 30 June 2019. The full facility is repayable in monthly instalments, commencing 15 December 2017 and ending 15 November 2042.

The bank loan is secured by first mortgages over the group's freehold land and buildings.

The carrying amounts of non-financial assets pledged as security for current and non-current borrowings is \$2,054,971 (2018: \$1,540,675) (refer note 14).

## Notes to the financial statements for the year ended 30 June 2019

### Note 19 Borrowings (continued)

#### (ii) Loan notes

During the financial year 26,416,667 convertible loan notes were issued to sophisticated investors. 17,250,000 loan notes were issued on 12 March 2019 at \$0.40 each and 9,166,667 loan notes were issued on 10 August 2018 at \$0.60 each, raising a total of \$12,400,000. At 30 June 2019 there are 26,416,667 Loan Notes outstanding.

Since year end, a further 10,000,000 loan notes have been issues at \$0.40 each.

The initial fair value of the convertible loan note portion of the bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date.

The liability is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognised in shareholders' equity, net of income tax, and not subsequently remeasured.

Loan notes converted during the year have been recognised at the carrying value for the proportion of the debt converted as at the date of conversion.

#### Key Loan Note Terms - \$0.40 face value

- Number of loan notes issued: 17,250,000
- Allowing for early conversion;
- Unsecured loan note issued at AUD\$0.40 per note;
- Coupon 10% per annum capitalised over a term of 36 months;
- Convertible at the option of the holder on 1 for 1 basis;
- Redeemable by NOVONIX at any time (with 10 business days notice), subject to payment of interest on full term;
- Maturity date of 36 months after the date of issue; and
- The notes are not listed or tradeable.
- 1 for 1 attaching option, exercisable at \$0.80 per share with three years to expiry.

#### Key Loan Note Terms - \$0.60 face value

- Number of loan notes issued: 9,166,667
- Allowing for early conversion;
- Unsecured loan note issued at AUD\$0.60 per note;
- Coupon 10% per annum capitalised over a term of 24 months;
- Convertible at the option of the holder on 1 for 1 basis;
- Redeemable by NOVONIX at any time (with 5 business days notice), subject to payment of the first 13 months interest plus accrued interest if redeemed after 13 months
- Maturity date of 24 months after the date of issue; and
- The notes are not listed or tradeable.

## Notes to the financial statements for the year ended 30 June 2019

### Note 19 Borrowings (continued)

	2019	2018
	\$	\$
Reconciliation of movements in loan note liability:		
	-	9,216,621
Balance at the beginning of the year		
Present value of liability component	9,582,684	-
Loan note issue costs	(50,735)	-
Interest accrued for the year	1,373,581	604,183
Loan notes converted during the year	20	(9,820,804)
	<u>10,905,530</u>	<u>-</u>
Balance at the end of the year		

#### (iii) Other loans

In June 2019, the group entered into a short term loan agreement with the St Baker Energy Innovation Fund for \$4,000,000 at an interest rate of 10% per annum. The loan funds converted into 10,000,000 loan notes following shareholder approval, which was obtained on 31 July 2019.

In December 2017, the group also entered into a contribution agreement with Atlantic Canada Opportunities Agency (ACOA), for CAD\$500,000. As at 30 June 2019, CAD\$450,000 of the facility has been drawn down. The funding is to assist with expanding the market to reach new customers through marketing and product improvements. The facility is repayable in monthly instalments commencing 1 September 2019.

In October 2018, the group entered into another contribution agreement with Atlantic Canada Opportunities Agency (ACOA), for CAD\$500,000. As at 30 June 2019, CAD\$500,000 of the facility has been drawn down. The funding is to assist in establishing a battery cell manufacturing facility. The facility is repayable in monthly instalments commencing 1 April 2020.

#### (iv) Fair value

For all borrowings, other than the ACOA loan noted at (iii) above, the fair values are not materially different to their carrying amounts, since the interest payable on those borrowings is either close to current market rates or the borrowings are of a short-term nature.

The ACOA loans are interest free. The initial fair value of the ACOA loans were determined using a market interest rate for equivalent borrowings at the issue date. This has resulted in a day 1 gain of \$100,152 in FY2018 (December 2017 loan) and a day 1 gain of \$114,106 in FY2019 (October 2018 loan).

## Notes to the financial statements for the year ended 30 June 2019

### Note 20 Contributed equity

	2019 Shares	2018 Shares	2019 \$	2018 \$
<b>(a) Share capital</b>				
Ordinary shares				
Fully paid	128,137,680	123,137,680	38,163,405	38,163,405

#### (b) Ordinary share capital

Date	Details	Note	Number of Shares	Issue Price	\$
1 July 2017	Balance		98,636,031		22,208,494
July to Nov 2017	Conversion of convertible notes	(c)	17,139,788		9,820,804
4 July 2017	Sign on bonus payment	(d)	1,000,000	\$0.72	720,000
6 Nov 2017	Placement shares	(e)	2,854,286	\$1.40	3,996,000
20 Dec 2017	Placement shares	(f)	1,507,575	\$0.66	995,000
29 Dec 2017	Exercise of options	(g)	2,000,000	\$0.30	600,000
	Share issue costs		-		(176,893)
30 June 2018	Balance		123,137,680		38,163,405
24 June 2019	Exercise of options	(g)	5,000,000	-	-
30 June 2019	Balance		128,137,680		38,163,405

#### (c) Convertible loan notes

	2019 Number	2018 Number
Balance at the beginning of the reporting period	-	17,139,788
Issue of convertible loan notes - \$0.40 each	17,250,000	-
Issue of convertible loan notes - \$0.60 each	9,166,667	-
Convertible loan notes converted	-	(17,139,788)
Balance at the end of the year	26,416,667	-

The key terms of the loan notes are set out in note 19(ii).

Convertible loan notes are compound financial instruments. The present value of the liability component at initial recognition was \$9,531,949 (Loan notes \$0.40: \$5,170,660; Loan notes \$0.60: \$4,361,289). The balance of \$2,802,951 was recognised in equity (Loan notes \$0.40: \$1,702,340; Loan notes \$0.60: \$1,100,611).



## Notes to the financial statements for the year ended 30 June 2019

### Note 20 Contributed equity (continued)

#### (d) Sign-on bonus

C Burns and D Stevens were both paid sign-on bonuses per their contracts. The sign-on bonuses consisted of cash payments of CAD\$500,000 to each of them and the issue of 500,000 ordinary shares in NOVONIX Limited to each of them.

#### (e) Issue to sophisticated investors

The issue of 2,854,286 fully paid ordinary shares to sophisticated investors at an issue price of \$1.40 cash.

#### (f) Issue to director and future director

The issue of 1,507,575 fully paid ordinary shares to Admiral Robert Natter and Mr Andrew Liveris at an issue price of \$0.66 cash.

#### (g) Exercise of options

On 29 December 2017, Philip St Baker exercised 2,000,000 options at an exercise price of \$0.30 each.

On 24 June 2019, Philip St Baker exercised 5,000,000 options at an exercise price of \$0.30 each. The Company provided a loan of \$1,500,000 to Mr St Baker for the purpose of funding the exercise of 5,000,000 options (refer note 28). The loan is limited in recourse over the shares issued on exercise of the options, and the Company has placed a holding lock over the shares to secure repayment. These shares have been treated as treasury shares, and the limited recourse loan has been accounted for as a modification to a share based payment, by way of extension of the expiry date of the options. Share capital will be increased when the loan is repaid.

#### (h) Capital 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.

## Notes to the financial statements for the year ended 30 June 2019

### Note 21 Reserves

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Share-based payment reserve	15,258,956	8,585,446
Foreign currency translation reserve	950,004	140,608
Convertible loan note reserve	5,229,071	2,426,120
	<u>21,438,031</u>	<u>11,152,174</u>

#### (a) Share-based payment reserve

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
Share-based payment reserve	<u>15,258,956</u>	<u>8,585,446</u>
Movements:		
Balance 1 July 2018	8,585,446	3,589,547
Cash settled share-based payments*	-	(600,000)
Equity settled sign-on bonus (note 20(d))	-	(750,000)
Equity settled share-based payments	<u>6,673,510</u>	<u>6,345,899</u>
Balance 30 June 2019	<u>15,258,956</u>	<u>8,585,446</u>

\* During the prior financial year, the directors exercised their discretion and settled 666,667 vested performance rights in cash instead of shares.

The share-based payment reserve records items recognised as expenses on valuation of director, employee and contractor options and performance rights.

#### (b) Foreign currency translation reserve

	<b>Consolidated</b>	
	<b>2019</b>	<b>2018</b>
	\$	\$
<b>Foreign currency translation reserve</b>	<u>950,004</u>	<u>140,608</u>
Movements:		
Balance 1 July 2018	140,608	(36)
Exchange differences on translation of foreign operations	<u>809,396</u>	<u>140,644</u>
Balance 30 June 2019	<u>950,004</u>	<u>140,608</u>

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

## Notes to the financial statements for the year ended 30 June 2019

### Note 21 Reserves (continued)

(c) Convertible loan note reserve	Consolidated	
	2019 \$	2018 \$
<b>Convertible loan note reserve</b>	<b>5,229,071</b>	<b>2,426,120</b>
Movements:		
Balance 1 July 2018	2,426,120	2,426,120
Equity component of loan notes issued during the year (note 19)	2,817,316	-
Loan note issue costs	(14,365)	-
Balance 30 June 2019	<b>5,229,071</b>	<b>2,426,120</b>

Convertible loan notes are compound financial instruments.

The present value of the liability component of the loan notes issued in March 2019, at initial recognition, was \$5,170,660. The balance of \$1,702,340 was recognised in the convertible note reserve. In discounting the loan notes to present value to determine the equity proportion of the compound financial instrument, NOVONIX adopted an effective interest rate of 24.5% pa.

The present value of the liability component of the loan notes issued in August 2018, at initial recognition, was \$4,361,289. The balance of \$1,100,611 was recognised in the convertible note reserve. In discounting the loan notes to present value to determine the equity proportion of the compound financial instrument, NOVONIX adopted an effective interest rate of 25.6% pa.

## Notes to the financial statements for the year ended 30 June 2019

### Note 22 Operating segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (Chief Operating Decision Makers) in assessing performance and determining the allocation of resources. The Company is managed primarily on an operational basis. Operating segments are determined on the basis of financial information reported to the Board.

The board has identified three operating segments being Graphite Exploration and Mining, Battery Technology and Battery Materials. The Battery Materials segment develops and manufactures battery anode materials and the Battery Technology segment develops battery cell testing equipment and carried out research and development in battery development. In the prior year the Battery Technology segment was named Battery Testing.

#### Basis of accounting for purposes of reporting by operating segments

##### a. Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief operating decision makers with respect to operating segments, are determined in accordance with accounting policies that are consistent with those adopted in the annual financial statements of the Group.

##### b. Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of the economic value from the asset. In most instances, segment assets are clearly identifiable on the basis of their nature and physical location.

##### c. Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

##### d. Unallocated items

The following items for revenue, expenses, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Interest income
- Corporate administrative and other expenses
- Income tax expense
- Corporate share-based payments
- Corporate marketing and project development expenses

## Notes to the financial statements for the year ended 30 June 2019

### Note 22 Operating segments (continued)

#### e. Segment information

##### Segment performance

2019	Graphite Exploration and Mining \$	Battery Technology \$	Battery Materials \$	Unallocated \$	Total \$
Segment revenue	-	1,817,049	-	-	1,817,049
Other income	-	443,679	2,576,131	341	3,020,151
Interest revenue	-	-	-	4,533	4,533
Total income	-	2,260,728	2,576,131	4,874	4,841,733
Segment net profit / (loss) from continuing operations before tax	(10,667,897)	(9,109,713)	(470,476)	(6,257,481)	(26,505,567)

2018	Graphite Exploration and Mining \$	Battery Technology \$	Battery Materials \$	Unallocated \$	Total \$
Segment revenue	-	2,171,895	-	-	2,171,895
Other income	-	224,788	-	-	224,788
Interest revenue	-	221	-	6,513	6,734
Total income	-	2,396,904	-	6,513	2,403,417
Segment net profit / (loss) from continuing operations before tax	-	(2,880,961)	(2,046,262)	(5,382,761)	(10,309,984)

##### Segment assets

2019	Graphite Exploration and Mining \$	Battery Technology \$	Battery Materials \$	Unallocated \$	Total \$
Segment assets	2,850,794	5,354,006	21,386,941	5,328,158	34,919,899

## Notes to the financial statements for the year ended 30 June 2019

### Note 22 Operating segments (continued)

	Graphite Exploration and Mining \$	Battery Technology \$	Battery Materials \$	Unallocated \$	Total \$
<b>2018</b>					
Segment assets	13,268,598	8,826,997	11,643,550	488,494	34,227,639

#### *Segment liabilities*

	Graphite Exploration and Mining \$	Battery Technology \$	Battery Materials \$	Unallocated \$	Total \$
<b>2019</b>					
Segment liabilities	-	2,809,998	1,279,125	15,057,999	19,147,121

	Graphite Exploration and Mining \$	Battery Testing \$	Battery Materials \$	Unallocated \$	Total \$
<b>2018</b>					
Segment liabilities	-	2,292,265	-	326,541	2,618,806

#### *Geographical Segments*

For the purposes of segment reporting, all segment activities relating to Graphite Exploration and Mining is carried out in Australia and all segment activities relating to Battery Materials and Testing is carried out in North America.

## Notes to the financial statements for the year ended 30 June 2019

### Note 23 Cash flow information

#### Reconciliation of profit / (loss) after income tax to net cash outflow from operating activities

	Consolidated	
	2019	2018
	\$	\$
<b>Profit / (loss) for the period</b>	(26,121,912)	(10,323,382)
Adjustments for		
Share based payments	6,673,510	6,345,899
Share based payments settled in cash	-	(600,000)
Borrowing costs	1,405,456	611,462
Fixed assets written off	90,477	
Foreign exchange gain / loss	(174,990)	(50,069)
Gain on acquisition of subsidiary	(2,576,131)	
Share of net loss of joint venture	751,981	1,442,770
Fair value gain on borrowings	(114,106)	(100,152)
Impairment losses	15,918,925	-
Amortisation expense	494,948	154,251
Income tax expense	(273,939)	(3,911)
Change in operating assets and liabilities:		
(Increase)/decrease in other operating assets	(672,354)	(739,487)
Increase in trade creditors	288,424	(124,515)
Increase in other operating liabilities	309,624	(490,421)
Net cash outflow from operating activities	<u>(4,000,087)</u>	<u>(3,877,555)</u>

## Notes to the financial statements for the year ended 30 June 2019

### Note 23 Cash flow information (continued)

#### (a) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each period presented.

#### Net debt

	2019 \$	2018 \$
Cash and cash equivalents	6,054,664	396,224
Borrowings – repayable within one year (including overdraft)	(4,145,069)	(86,886)
Borrowings – repayable after one year	(13,016,841)	(1,645,776)
<b>Net debt</b>	<b>(11,107,246)</b>	<b>(1,336,438)</b>
Cash and cash equivalents	6,054,664	396,224
Gross debt – fixed interest rates	(15,808,268)	(368,185)
Gross debt – variable interest rates	(1,353,642)	(1,364,477)
<b>Net debt</b>	<b>(11,107,246)</b>	<b>(1,336,438)</b>

	Liabilities from financing activities			Total \$
	Cash/bank overdraft \$	Borrowings due within 1 year	Borrowing due after 1 year \$	
<b>Net debt as at 1 July 2017</b>	<b>2,415,124</b>	<b>(9,216,621)</b>	-	<b>(6,801,497)</b>
Cashflows	(2,049,532)	(56,254)	(1,745,928)	(3,851,714)
Conversion of loan notes	-	9,216,621	-	9,216,621
Other non-cash movements	-	-	100,152	100,152
<b>Net debt as at 30 June 2018</b>	<b>365,592</b>	<b>(56,254)</b>	<b>(1,645,776)</b>	<b>(1,336,438)</b>
Cashflows	5,689,072	(3,964,813)	(574,917)	1,149,342
Conversion/proceeds of loan notes	-	-	(10,905,530)	(10,905,530)
Other non-cash movements	-	(124,002)	109,382	(14,620)
<b>Net debt as at 30 June 2019</b>	<b>6,054,664</b>	<b>(4,145,069)</b>	<b>(13,016,841)</b>	<b>(11,107,246)</b>



## Notes to the financial statements for the year ended 30 June 2019

### Note 24 Interests in subsidiaries

#### Information about Principal Subsidiaries

The Group's material subsidiaries at 30 June 2019 are set out in the following table. Unless otherwise stated, each entity has share capital consisting solely of ordinary shares that are held by the Group, and the proportion of ownership interest held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of entity	Place of business / country of incorporation	Ownership interest held of the group		Principal activities
		2019 %	2018 %	
MD South Tenements Pty Ltd	Australia	100%	100%	Graphite exploration
Novonix Battery Testing Services Inc	Canada	100%	100%	Battery testing services.
Novonix Corp	USA	100%	100%	Investment
PUREgraphite LLC	USA	100%	50%	Battery materials development

### Note 25 Share-based payments

#### OPTIONS

A summary of movements of all options issued is as follows:

	Number	Weighted Average Exercise Price
<b>Options outstanding as at 1 July 2017</b>	<b>13,450,000</b>	\$0.51
Granted	7,275,000	\$0.70
Granted – Subject to shareholder approval	2,450,000	\$0.94
Exercised	(2,000,000)	\$0.30
<b>Options outstanding as at 30 June 2018</b>	<b>21,175,000</b>	\$0.64
Granted	33,710,000	\$0.69
Granted – Subject to shareholder approval	17,500,000	\$0.50
Forfeited	(365,000)	\$0.65
Exercised	(5,000,000)	\$0.30
<b>Options outstanding as at 30 June 2019</b>	<b>67,020,000</b>	\$0.65

The weighted average remaining contractual life of options outstanding at year end was 5.5 years (2018: 4.00 years).

## Notes to the financial statements for the year ended 30 June 2019

### Note 25 Share-based payments (continued)

Details of options awarded during the financial year are as follows:

- a. On 24 May 2019, 16,000,000 share options were awarded to directors and executives to take up ordinary shares at an exercise price of \$0.50 each. 15,000,000 of these options were subject to shareholder approval which was received on 31 July 2019. The options vest in two equal tranches on achievement of PUREgraphite customer engagement milestones. The vesting dates in the table below represent the current estimate of when the vesting conditions will be met. The options hold no voting or dividend rights and are not transferable.

The fair value of these was calculated using a binomial option pricing model applying the following inputs:

	Shareholder approval required		Shareholder approval not required	
	Tranche 1	Tranche 2	Tranche 1	Tranche 2
Number	7,500,000	7,500,000	500,000	500,000
Exercise price	\$0.50	\$0.50	\$0.50	\$0.50
Award date	24/05/2019	24/05/2019	24/05/2019	24/05/2019
Grant date	31/07/2019	31/07/2019	24/05/2019	24/05/2019
Exercise date	01/07/2020	01/07/2022	01/07/2020	01/07/2022
Expiry date	30/07/2024	30/07/2024	30/07/2024	30/07/2024
Vesting date	30/06/2020	30/06/2022	30/06/2020	30/06/2022
Volatility	86.0%	86.0%	85.0%	85.0%
Dividend yield	0%	0%	0%	0%
Risk-free interest rate	1.0%	1.0%	1.87%	1.87%
Fair value at grant date	\$0.3335	\$0.3509	\$0.3154	\$0.3368
Total fair value of options granted	\$2,501,250	\$2,631,750	\$157,700	\$168,400

- b. On 28 September 2018, 2,000,000 share options were awarded to Robert Natter. These options were subject to shareholder approval which was obtained at the 2018 Annual General Meeting of shareholders on 22 November 2018. The terms of the options are set out in the table below. The options hold no voting or dividend rights and are not transferable.

The fair value of these options was \$390,050. This value was calculated using a binomial option pricing model applying the following inputs:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4
Number of options	500,000	500,000	500,000	500,000
Exercise price	\$0.70	\$0.90	\$1.20	\$1.40
Award date	28/09/2018	28/09/2018	28/09/2018	28/09/2018
Grant date	22/11/2018	22/11/2018	22/11/2018	22/11/2018
Expiry date	29/08/2023	29/08/2023	29/08/2023	29/08/2023
Vesting date	22/11/2018	29/08/2019	29/08/2020	29/08/2021
Volatility	77.1%	77.1%	77.1%	77.1%
Dividend yield	0%	0%	0%	0%
Risk-free interest rate	3.25%	3.25%	3.25%	3.25%
Fair value at grant date	\$0.2250	\$0.2046	\$0.1810	\$0.1695

## Notes to the financial statements for the year ended 30 June 2019

### Note 25 Share-based payments (continued)

- c. On 13 March 2019, 750,000 share options were granted to employees and contractors of the group. The terms of the options are set out in the table below. The options hold no voting or dividend rights and are not transferable. The fair value of these options was \$394,475. This value was calculated using a binomial option pricing model applying the following inputs:

	Tranche 1	Tranche 2	Tranche 3
Number of options	250,000	250,000	250,000
Exercise price	\$0.50	\$0.50	\$0.50
Grant date	13/03/2019	13/03/2019	13/03/2019
Expiry date	13/03/2029	13/03/2029	13/03/2029
Vesting date	31/12/2019	31/12/2020	31/12/2021
Volatility	81.03%	81.03%	81.03%
Dividend yield	0%	0%	0%
Risk-free interest rate	1.96%	1.96%	1.96%
Fair value at grant date	\$0.5081	\$0.5265	\$0.5433

- d. On 2 November 2018, 210,000 share options were granted to employees to take up ordinary shares at an exercise price of \$0.55 each. All options vest on 18 October 2020 and expire on 2 November 2023. The options hold no voting or dividend rights and are not transferable. The fair value of these options was \$70,875. This value was calculated using a binomial option pricing model applying the following inputs:

Exercise price	\$0.55
Grant date	02/11/2018
Expiry date	02/11/2023
Vesting date	18/10/2020
Volatility	79.23%
Dividend yield	0%
Risk-free interest rate	3.25%
Fair value at grant date	\$0.3375

- e. On 6 December 2018, 40,000 share options were granted to employees to take up ordinary shares at an exercise price of \$0.55 each. All options vest on 5 December 2020 and expire on 6 December 2023. The options hold no voting or dividend rights and are not transferable. The fair value of these options was \$9,244. This value was calculated using a binomial option pricing model applying the following inputs:

Exercise price	\$0.55
Grant date	06/12/2018
Expiry date	06/12/2023
Vesting date	05/12/2020
Volatility	78.90%
Dividend yield	0%
Risk-free interest rate	3.04%
Fair value at grant date	\$0.2311

## Notes to the financial statements for the year ended 30 June 2019

### Note 25 Share-based payments (continued)

- f. On 13 March 2019, 15,000,000 share options were awarded to employees of the group, 2,500,000 of these are subject to shareholder approval which will be sought at the 2019 Annual General Meeting of Shareholders. The terms of the options are set out in the table below. The options hold no voting or dividend rights and are not transferable. The options vest in 10 tranches on achievement of progressive PUREgraphite sales milestones. The vesting dates in the table below represent the current estimate of when the vesting conditions will be met.

The fair value of these options was \$8,475,450. This value was calculated using a binomial option pricing model applying the following inputs:

	Tranche 1	Tranche 2	Tranche 3	Tranche 4	Tranche 5	Tranche 6	Tranche 7	Tranche 8	Tranche 9	Tranche 10
Number of options	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Exercise price	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50
Award date	13/03/2019	13/03/2019	13/03/2019	13/03/2019	13/03/2019	13/03/2019	13/03/2019	13/03/2019	13/03/2019	13/03/2019
Expiry date	13/03/2029	13/03/2029	13/03/2029	13/03/2029	13/03/2029	13/03/2029	13/03/2029	13/03/2029	13/03/2029	13/03/2029
Vesting date	30/06/2021	30/06/2022	31/03/2023	30/06/2023	28/02/2024	31/03/2024	31/05/2024	30/06/2024	31/01/2025	28/02/2025
Volatility	81.03%	81.03%	81.03%	81.03%	81.03%	81.03%	81.03%	81.03%	81.03%	81.03%
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Risk-free interest rate	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%	1.96%
Fair value at grant date	\$0.5353	\$0.5502	\$0.5598	\$0.5629	\$0.5700	\$0.5706	\$0.5722	\$0.5728	\$0.5780	\$0.5785

1,250,000 options in each tranche had a grant date of 13 March 2019 (12,500,000 in total). The remaining 250,000 options from each tranche (2,500,000 in total) are subject to shareholder approval which will be sought at the 2019 AGM. The share based payment expense recognised in relation to the 2,500,000 options is based on an estimate of the fair value of the options at the award date. A revised revaluation of the 2,500,000 options will be obtained following receipt of shareholder approval.

## Notes to the financial statements for the year ended 30 June 2019

### Note 25 Share-based payments (continued)

- g. On 17 June 2019 the Company entered into a loan agreement for \$1,500,000 with Mr St Baker for the purpose of funding the exercise of 5,000,000 options (exercise price \$0.30, expiring 30 June 2019). The loan is limited in recourse over the shares issued on exercise of the options, and the Company has placed a holding lock over the shares to secure repayment. The loan is interest free and has a term of 5 years, with early repayment if Mr St Baker ceases to be a director or employee of the Company. For accounting purposes, the granting of the loan has been treated as a modification of the original option terms to extend the expiry date of the options by 5 years, to the repayment date of the loan.

The fair value of the modification of these options was calculated to be \$900,000 using a binomial option pricing model and represents the difference between the value of option at the date of modification (17 June 2019) with an expiry date of 30 June 2019, and the value of the option at the date of modification with an expiry date of 30 June 2024.

This value was calculated using a binomial option pricing model applying the following inputs:

	Existing option at modification date	Modified option at modification date
Exercise price	\$0.30	\$0.30
Grant date	17/06/2019	17/06/2019
Expiry date	30/06/2019	17/06/2024
Vesting date	17/06/2019	17/06/2019
Volatility	63.4%	82.5%
Dividend yield	0%	0%
Risk-free interest rate	1.46%	1.07%
Fair value at grant date	\$0.1102	\$0.2902

## Notes to the financial statements for the year ended 30 June 2019

### Note 25 Share-based payments (continued)

#### PERFORMANCE RIGHTS

A summary of movements of all performance rights issued is as follows:

	Number
<b>Performance rights outstanding as at 1 July 2017</b>	<b>1,562,500</b>
Granted	750,000
Exercised	(666,667)
Expired	-
<b>Performance rights outstanding as at 30 June 2018</b>	<b>1,645,833</b>
Granted	1,750,000
<b>Performance rights outstanding as at 30 June 2019</b>	<b>3,395,833</b>

### Note 26 Events after the reporting date

Since the end of the financial year the NOVONIX Limited has:

- issued 10,000,000 unsecured convertible loan notes to the St Baker Energy Innovation Fund at \$0.40 each on the conversion of a short-term loan of \$4,000,000 which was unsecured and interest bearing at a rate of 10%. The loan notes have a coupon interest rate of 10% per annum capitalised over a term of 36 months;
- granted 2,500,000 options to an employee on the same terms as those set out in note 26(f); and
- following shareholder approval on 31 July 2019, granted 15,000,000 options to directors;

### Note 27 Related party transactions

During the financial year:

- Philip St Baker was paid rent totalling \$76,896 (USD\$52,000), for the use of property owned by Mr St Baker in Colorado, USA. Mr St Baker's salary has been adjusted to reflect the additional benefit Mr St Baker is receiving.
- 15,000,000 unsecured loan notes with a face value of \$0.40 were issued to the St Baker Energy Innovation Fund, a related party of Mr St Baker, on the terms set out in note 19. Prior to issue of the loan notes, the St Baker Energy Innovation Fund provided the Company with a \$6,000,000 short-term unsecured loan bearing interest at a rate of 10%. Following shareholder approval on 8 March 2019 for the loan notes, the short-term loan was converted to loan notes.
- In June 2019, a \$4,000,000 short term loan was provided to the Company by the St Baker Energy Innovation Fund (refer note 27).
- On 17 June 2019 the Company entered into a loan agreement for \$1,500,000 with Mr St Baker for the purpose of funding the exercise of 5,000,000 options (exercise price \$0.30, expiring 30 June 2019). The loan is limited in recourse over the shares issued on exercise of the options,

## Notes to the financial statements for the year ended 30 June 2019

### Note 27 Related party transactions (continued)

and the Company has placed a holding lock over the shares to secure repayment. The loan is interest free and has a term of 5 years, with early repayment if Mr St Baker ceases to be a director or employee of the Company. For accounting purposes, the granting of the loan has been treated as a modification of the original option terms to extend the expiry date of the options by 5 years, to the repayment date of the loan. A share based payment expense of \$900,000 was recognised which reflects the incremental fair value of the modified option.

There were no other related party transactions during the financial year. For details of disclosures relating to key management personnel, refer to Note 6.

### Note 28 Commitments

#### (a) Exploration commitments

	Consolidated	
	2019	2018
	\$	\$
Commitments for payments under exploration permits in existence at the reporting date but not recognised as liabilities payable	5,000	10,000

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.

#### (b) Non-cancellable operating leases

The group leases a warehouse under a non-cancellable operating lease.

	Consolidated	
	2019	2018
	\$	\$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	242,481	-
Later than one year but not later than five years	1,043,910	-
Later than five years	-	-
	1,286,391	-

## Notes to the financial statements for the year ended 30 June 2019

### Note 29 Financial risk management

This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

The Group's financial instruments consist mainly of deposits with banks and accounts receivable and payable.

The totals for each category of financial instruments, measured in accordance with AASB 139: *Financial Instruments: Recognition and Measurement* as detailed in the accounting policies to these financial statements, are as follows:

	Consolidated	
	2019	2018
Notes	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	6,054,664	396,224
Trade and other receivables	601,778	766,757
<b>Total financial assets</b>	<u>6,656,442</u>	<u>1,162,981</u>
<b>Financial liabilities</b>		
Trade and other payables	1,341,827	626,896
Borrowings	17,161,910	1,732,662
<b>Total financial liabilities</b>	<u>18,503,737</u>	<u>2,359,558</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.

#### Market risk

Market risk is the risk that the change in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The Group is not exposed to market risks other than interest rate risk.

#### Foreign currency risk

Exposure to foreign currency risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

With instruments being held by overseas operations, fluctuations in the US dollar and the Canadian dollar may impact on the Group's financial results.



## Notes to the financial statements for the year ended 30 June 2019

### Note 30 Financial risk management (continued)

The following table shows the foreign currency risk as on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

The group's exposure to foreign currency risk at the end of the reporting period, expressed in Australian dollars, was as follows:

	2019 USD \$	2018 USD \$
Cash at bank	559,305	22,838
Trade receivables	232,417	556,972
Borrowings	-	12,913
Trade payables	919,415	133,343

#### Cash flow and fair value interest rate risk

The group's main interest rate risk arises from long-term borrowings with variable rates, which expose the group to cash flow interest rate risk. During 2019, the group's borrowings at variable rates were denominated in Canadian dollars.

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 / (loss) for the year would have been \$60,547 (2018: \$3,656) lower/higher, as a result of higher/lower interest income from cash and cash equivalents.

#### 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 'AAA' 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).

#### Liquidity risk

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

## Notes to the financial statements for the year ended 30 June 2019

### Note 30 Financial risk management (continued)

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.

All financial assets and financial liabilities mature within one year.

#### *Financing arrangements*

The group has no undrawn borrowing facilities as at 30 June 2019.

#### *Maturities of financial liabilities*

As at 30 June 2019, the contractual maturities of the group's non-derivative financial liabilities were as follows:

<b>Contractual maturities of financial liabilities</b>	<b>Less than 6 months</b>	<b>6 - 12 months</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Over 5 years</b>	<b>Total contractual cash flows</b>	<b>Carrying amount</b>
<b>At 30 June 2019</b>							
Trade and other payables	1,341,827	-	-	-	-	1,341,827	1,341,827
Borrowings	4,134,574	124,438	291,861	16,977,549	1,903,439	23,431,861	17,161,910
<b>Total non-derivatives</b>	<b>5,476,401</b>	<b>124,438</b>	<b>291,861</b>	<b>16,977,549</b>	<b>1,903,439</b>	<b>24,773,688</b>	<b>18,503,737</b>

## Directors' declaration


### In the Directors' opinion:

- (a) the financial statements and notes set out on pages 39 to 96 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with 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.

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

The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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



A Bellas  
Director

Brisbane, 30 September 2019



## *Independent auditor's report*

To the members of Novonix Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Novonix Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *What we have audited*

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

#### *Independence*

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 (including Independence Standards)* (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.

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### *Material uncertainty related to going concern*

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of \$26.1m and net operating cash outflows of \$4.0m during the year ended 30 June 2019. The ability of the Group to continue as a going concern depends upon a number of matters including the ability of the consolidated entity to raise capital as and when necessary, and the successful and profitable growth of the battery materials and battery technology businesses. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group is an integrated developer and supplier of materials, equipment and services for the global lithium-ion battery industry with operations in the USA and Canada. The Group also owns a natural graphite deposit in Queensland, Australia. The regional finance functions report to the Group finance function in Brisbane, Australia, where consolidation is performed.



### *Materiality*

- For the purpose of our audit we used overall Group materiality of \$0.35m, which represents approximately 1% of the Group's total assets.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose total assets as the benchmark because, whilst the Group is profit oriented, the Group has significant assets relating to the investments made in North America and the graphite deposit, and the Group has yet to reach a level of commercial production whereby a profit based metric would be deemed most appropriate.



- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable asset related thresholds.

### Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The accounting processes are structured around the Group finance function located in Brisbane. Our audit procedures were mostly performed at the head office in Brisbane, and we also conducted a site visit to the PUREgraphite facility in Chattanooga, Tennessee and attended an inventory count at the Group’s facility in Nova Scotia, Canada.
- Where necessary, we involved experts to assist us with certain aspects of our audit, including from our valuations team.

### 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 for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

In addition to the matters 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 the key audit matter
<p><b>Accounting for the PUREgraphite business combination</b> (Refer to note 9)</p> <p>On 31 January 2019, the Group gained control of the entity PUREgraphite LLC (“PUREgraphite”).</p> <p>We determined that the accounting for the business combination was a key audit matter due to the material value of the transaction, the nature of the net assets acquired, the goodwill arising on the acquisition, and the level of judgement involved in the Purchase Price Allocation (“PPA”) calculations.</p>	<p>Our procedures in relation to the accounting for the business combination included, amongst others:</p> <ul style="list-style-type: none"> <li>• Comparing the consideration paid to bank statements and purchase agreements</li> <li>• Obtaining purchase agreements to assess the acquisition date</li> <li>• Testing, on a sampling basis, acquired tangible asset balances to supporting documents, including bank statements and purchase invoices</li> <li>• Assessing, in conjunction with our valuations experts, the valuation methodology for the recognition of identifiable assets, including</li> </ul>

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<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b><i>Impairment assessment of the Group's goodwill</i></b> <i>(Refer to note 10)</i></p> <p>At 30 June 2019, the Group recognised \$17.1m of goodwill, relating to the acquisition of PUREgraphite.</p> <p>As required by Australian Accounting Standards, at 30 June 2019, the Group performed an impairment assessment over the goodwill balances by using discounted cash flow models.</p> <p>The result was that the goodwill associated with the acquisition of Novonix Battery Testing Services Inc. ("BTS") was fully impaired, resulting in an impairment of \$4.8m being recognised.</p> <p>No impairment charge was recorded by the Group in relation to the PUREgraphite goodwill.</p> <p>Given the level of judgement involved in estimating the key assumptions in the valuation model (including forecast performance, growth rates and discount rates), the materiality of the goodwill recognised on the Group's balance sheet, and the quantum of the impairment loss recognised, we determined that this was a key audit matter.</p>	<p>technology intangible assets</p> <ul style="list-style-type: none"> <li>Assessing the mathematical accuracy of the Group's calculation of the resulting goodwill arising on the PPA calculation</li> <li>Assessing the accuracy and completeness of business combination disclosures in the financial statements.</li> </ul> <p>Our procedures in relation to the impairment assessment of goodwill included, amongst others:</p> <ul style="list-style-type: none"> <li>Assessing the appropriateness of the Group's determination of its CGUs</li> <li>Testing the mathematical accuracy of the underlying calculations in the Group's discounted cash flow valuation models</li> <li>Comparing the cash flow forecasts used in the models to the Board approved forecasts</li> <li>Evaluating the key assumptions in the cash flow models, including long term growth rates and discount rates</li> <li>Performing sensitivity analysis to assess the impact of reasonably possible changes in the assumptions in the valuation models, including the discount rate and growth rates</li> <li>Considering indicators of fair value less costs to sell.</li> </ul> <p>We also compared the Group's net assets as at 30 June 2019 of \$15.8m to its market capitalisation of \$56.4m at 30 June 2019, and noted the \$40.6m of implied headroom in the comparison.</p>
<p><b><i>Carrying value of exploration and evaluation assets</i></b> <i>(Refer to note 15)</i></p> <p>At 30 June 2019, the Group holds capitalised exploration and evaluation assets of \$2.8m relating to the Mount Dromedary natural graphite deposit. During the year, an impairment loss of \$10.7m was recognised.</p> <p>As required by Australian Accounting Standards, the</p>	<p>Our procedures in relation to assessing the carrying value of exploration and evaluation assets included, amongst others:</p> <ul style="list-style-type: none"> <li>Evaluating the Group's assessment of impairment indicators, including enquiries with key operational, finance and management personnel to develop an understanding of the current status of the</li> </ul>

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Group assessed whether there were any indicators of impairment. Per AASB 6 <i>Exploration for and Evaluation of Mineral Resources</i>, relevant indicators of impairment of exploration and evaluation assets include, amongst others:</p> <ul style="list-style-type: none"> <li>• Rights to explore have expired;</li> <li>• Unsuccessful exploration activities;</li> <li>• The carrying amount of the asset is unlikely to be recovered in full from successful development or by sale.</li> </ul> <p>The impairment was considered a key audit matter due to the financial significance of the exploration and evaluation asset, and the judgment required in assessing the impairment recognised.</p>	<p>project and future exploration intentions</p> <ul style="list-style-type: none"> <li>• Testing whether the Group retained right of tenure for its exploration licence areas by obtaining licence status maintained by the relevant government authority</li> <li>• Evaluating external reports prepared in relation to exploration licence areas, which included the results of exploration activities</li> <li>• Assessing other available information, such as press releases made by the Group regarding the status of the development project and future plans</li> <li>• Assessing the reasonableness of the methodology and value of the impairment loss recognised during the year.</li> </ul>
<p><b><i>Measurement and recognition of share based payment transactions</i></b> <i>(Refer to note 25)</i></p> <p>For the year ended 30 June 2019, the Group recognised share based payment expenses totalling \$6.7m.</p> <p>Accounting for share based payment transactions requires judgement in determining the fair value of the equity instruments on grant date and assessing the vesting period over which the share based payment expense should be recognised. There is also judgement in assessing the likelihood and timing of specific performance hurdles being met.</p> <p>The measurement and recognition of share based payment transactions was deemed to be a key audit matter due to the level of judgement involved, the magnitude of the share based payment expenses and the contribution of share based payment expenses to the overall remuneration received by key management personnel.</p>	<p>Our procedures in relation to the measurement and recognition of share based payment transactions included, amongst others:</p> <ul style="list-style-type: none"> <li>• For grants of new options during the year: <ul style="list-style-type: none"> <li>○ Obtaining formal documents detailing the relevant terms and conditions of the grants</li> <li>○ Assessing the calculation of the fair value of the options on grant date</li> <li>○ Assessing whether the assumption that any applicable performance conditions will be met is consistent with management forecasts</li> </ul> </li> <li>• Recalculating the expense for the year ended 30 June 2019 based on the grant date fair value, the Group’s assumptions for the expected number of options or performance rights to vest, and the vesting period, with reference to the terms and conditions stated in the relevant documentation</li> <li>• Assessing the accuracy and completeness of related disclosures in the financial statements as at 30 June 2019.</li> </ul>





### *Other information*

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

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

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### *Responsibilities of the directors for the financial report*

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

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

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### *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 the 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/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

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## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 21 to 33 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Novonix Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

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### *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.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Michael Shewan', with a long horizontal flourish extending to the right.

Michael Shewan  
Partner

Brisbane  
30 September 2019

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## Shareholder information

The shareholder information set out below was applicable as at 20 September 2019.

### A Distribution of equity securities

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

	Class of equity security
	Ordinary shares
1 - 1,000	348
1,001 – 5,000	635
5,001 – 10,000	311
10,001 – 100,000	446
100,001 and over	107
	<b>1,847</b>

There were 367 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	Ordinary shares	
	Number held	% of issued shares
Allegro Capital Nominees Pty Ltd	29,395,160	22.94
Washington H Soul Pattinson and Company Limited	16,028,818	12.51
Philip St Baker & Peta St Baker	9,976,903	7.79
Philip St Baker	5,000,000	3.90
Carpe Diem Asset Management Pty Ltd	4,523,811	3.53
Maria Bellas	2,750,000	2.15
David Andrew Stevens	2,609,948	2.04
George Chapman	2,083,335	1.63
Mutual Trust Pty Ltd	2,007,574	1.57
Apollan Pty Ltd	1,824,499	1.42
John Christopher Burns	1,765,968	1.38
HSBC Custody Nominees (Australia) Limited – A/c 2	1,708,332	1.33
Argo Investments Limited	1,250,000	0.98
Jamie Pherous	1,249,999	0.98
J P Morgan Nominees Australia Limited	1,216,154	0.95
Loch Explorations Pty Ltd	1,169,354	0.91
Starline Rentals Pty Ltd	1,169,354	0.79
W.A. Halpin Investments Pty Ltd	930,068	0.73
Halpin Family Super Pty Ltd	783,871	0.61
Madgrund Pty Ltd	730,496	0.57
<b>Total</b>	<b>88,174,644</b>	<b>68.71</b>

### Unquoted equity securities

	Number of issue	Number of holders
Performance rights	3,395,833	5
Share options	77,060,000	33
Loan notes	36,416,667	15

\* No person holds 20% of more of these securities.

### Holders of more than 20% of unquoted share options on issue

	Number held	% of total on issue
St Baker Energy Innovation Fund	25,000,000	32.4%

### Holders of more than 20% of unquoted performance rights on issue

	Number held	% of total on issue
Philip St Baker	1,895,833	55.8%

### Holders of more than 20% of unquoted loan notes on issue

	Number held	% of total on issue
St Baker Energy Innovation Fund	25,000,000	68.6%

## C Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
<b>Ordinary shares</b>		
Allegro Capital Nominees Pty Ltd	29,395,160	22.94%
Philip St Baker & Peta St Baker	14,976,903	11.69%
Brickworks and its subsidiaries Washington H. Soul Pattinson and Company Limited and Exco Resources Limited.	16,028,818	12.51%

## D Voting rights

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

- Ordinary shares: On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- Performance rights: No voting rights
- Share options: No voting rights
- Loan notes: No voting rights