# PROSPECH LIMITED
**and its controlled entities**

**A.B.N. 24 602 043 265**

# FINANCIAL REPORT

# FOR THE YEAR
# ENDED 31 DECEMBER 2019

**PROSPECH LIMITED**
**and its controlled entities**

## CONTENTS

# DIRECTORS' REPORT

The Directors present their report together with the financial report of Prospech Limited ('the Company') and its controlled entities ('Prospech' or 'the Group'), for the year ended 31 December 2019 and the auditor's report thereon:

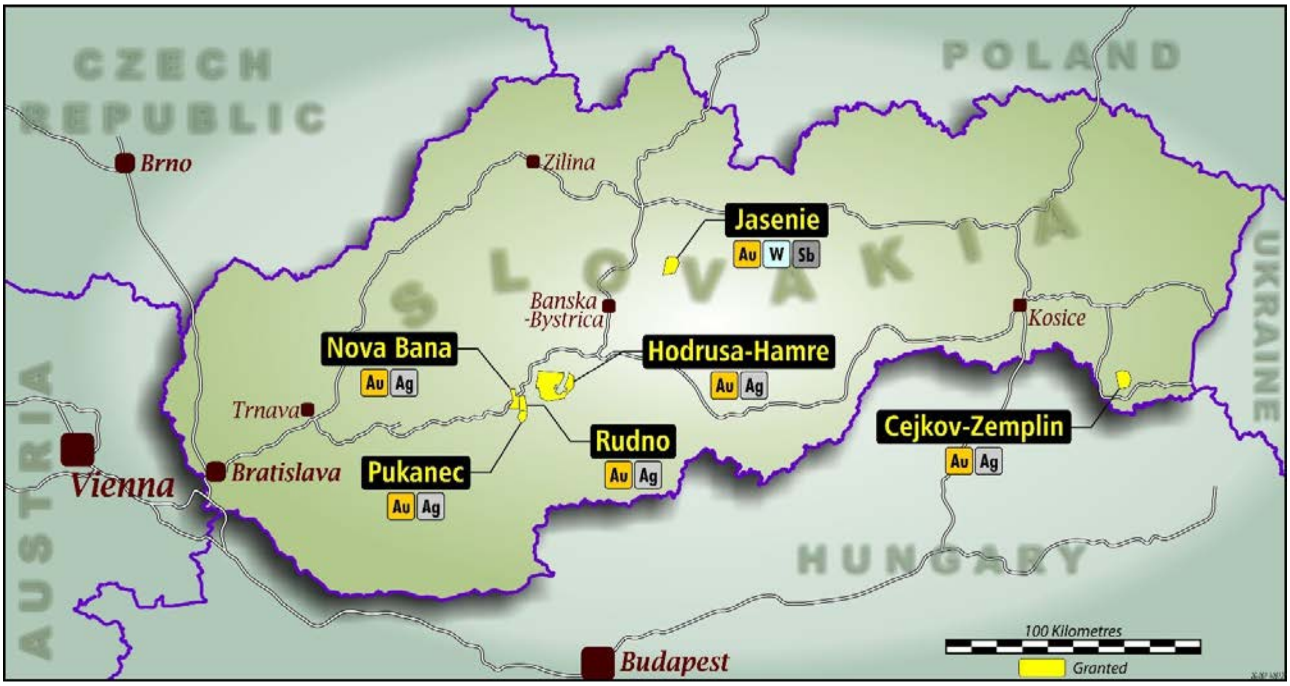
## Principal Activities and Review of Operations

### Introduction

The Company's principal projects are located approximately 180 kilometres east of Bratislava in Slovakia. Adjacent to Austria, Slovakia is a member country of the European Union and the Eurozone and, with modern western-style legislation, a regimented legal system, low wages, low tax rates and a well-educated labour force, is an attractive jurisdiction for foreign investment.

Prospech is the holder of 100% of the following exploration licences which cover an area of approximately 203.67 $km^2$:

- Hodrusa-Hamre (101.92 $km^2$) – multiple gold and silver targets.
- Nova Bana (18.14 $km^2$), Rudno (14.26 $km^2$) and Pukanec (10.71 $km^2$) – gold and silver.
- Jasenie (29.41 $km^2$) – targeting gold, tungsten and antimony.
- Cejkov-Zemplin (29.23 $km^2$) – high grade epithermal gold, silver, lead and zinc.




**Location of the Company's projects.**

Anciently, the target metal was silver, the currency of the day, and more recently, during the Communist era, the targets were industrial base metals, copper, lead, zinc and others. As a result, much of the country, including Prospech's exploration licence areas, has not been subject to modern western exploration methodology or exploitation.

Historic records for the Hodrusa-Hamre mining district and nearby Nova Bana goldfield report more than 1,000 years of historical production, estimated to have totalled 2.4 million ounces of gold, 120 million ounces of silver, 70,000 tonnes of zinc, 55,000 tonnes of lead and 8,000 tonnes of copper.

The Company has continued, at minimal cost, to add to its portfolio of exploration projects within Slovakia. Following the grant of the Jasenie exploration licence in 2017, the Cejkov-Zemplin was granted to the Company in late 2018.

**Executive Summary**

The exploration activities of the Group during the year include the following:

- Completion of a four-hole drill program at Kysla gold-tungsten prospect within the Jasenie project. Results include:

  JADD002 10.3m @ 0.67 g/t Au and 0.25% $WO_3$, (2.59 g/t AuEq[1]) from 57.7m; including
  5.0m @ 1.03 g/t Au and 0.35% $WO_3$, (3.71 g/t AuEq) from 63.0m; and
  7.0m @ 0.18 g/t Au and 0.88% $WO_3$, (6.96 g/t AuEq) from 85.0m; including
  2.0m @ 0.24 g/t Au and 2.46% $WO_3$, (19.18 g/t AuEq) from 89.0m.

  JADD003 2.0m @ 1.33g/t Au and 0.18% $WO_3$, (2.71 g/t AuEq) from 175.0m.

- Initial drilling program for the Kysla prospect generally confirmed the orebody model based on historical drilling and identified a new, previously unidentified mineralised zone. The initial Kysla JORC 2012 compliant Inferred Resource estimate is 2.17 million tonnes at 1.77 g/t Au and 0.24% $WO_3$ (2.95 g/t AuEq) = 124 koz Au and 5,200 tonnes $WO_3$ = 206 koz AuEq[1].

- Completion of 16 BQ diamond core holes at the Kopanice prospect, within the Hodrusa project, using a handheld portable diamond rig, in preparation for subsequent surface drilling. Results include:

  KODD001 1.2m @ 3.12 g/t Au and 146 g/t Ag (4.95 g/t AuEq[2]) from 0.0m.

  KODD004 1.0m @ 12.35 g/t Au and 582 g/t Ag (19.63 g/t AuEq) from 0.0m.

  KODD007 0.8m @ 1.99 g/t Au and 91.4 g/t Ag (3.13 g/t AuEq) from 13.6m.

- Data collation and ionic leach survey have been completed in Cejkov-Zemplin (high grade epithermal gold-silver-lead-zinc) property. The results are being evaluated and will help in generating drill targets in the concealed epithermal system.

- Drilling program at Bauch prospect within Hodrusa project fully permitted and ready to drill. High grade in situ underground gold-silver samples up to 28.3 g/t Au and 582 g/t Ag were previously reported from Bauch zone, which likely represents an extension of the Ignac-Rabenstein epithermal zone to the north.

- Hodrusa and Nova Bana exploration licences have been successfully renewed for another 4 years until 2023.

- Revision of over 80 prospects and incorporating modern exploration results and 3D modelling from 20 of the prospects results in an Exploration Target[3] of:

  15 - 16Mt @ 3 - 8 g/t Au and 100 - 400 g/t Ag for a range of
  1.4 - 4 million ounces Au and 48 - 206 million ounces Ag with
  a weighted grade of 7.3 g/t AuEq.

The corporate activities of the Group during the year include the following:

Completion of two private equity placements at $0.10 per share, raising $500,000 in May-June 2019 and $585,000 in November-December 2019.

**Exploration Activities**

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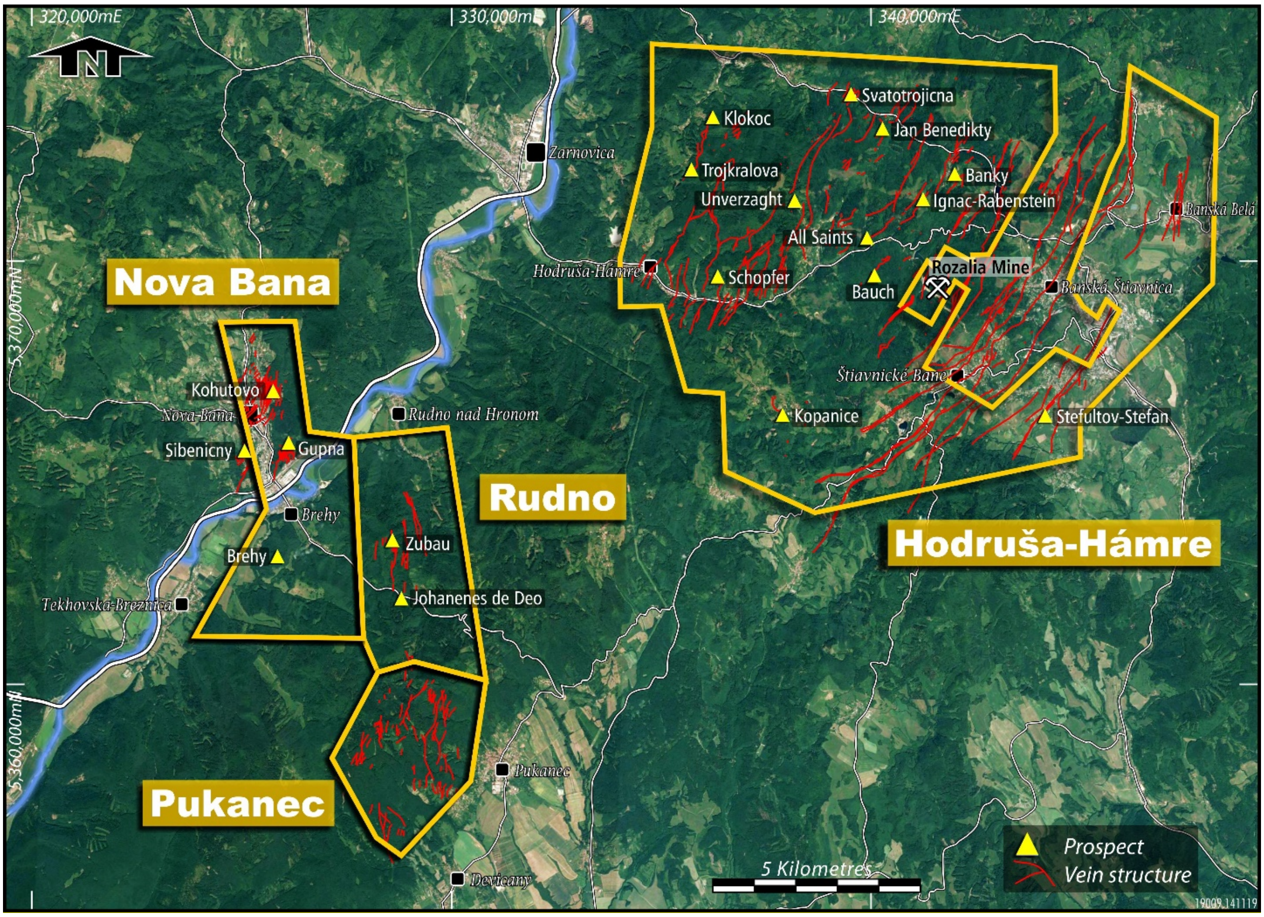
[1] *AuEq = gold equivalent = (Au grade xAu price + W grade x W price)/Au price. Au price = US$3/g and W price = US$300/DMTU*
[2] *AuEq = Au+Ag/80*
[3] An Exploration Target is a statement or estimate of the exploration potential of a mineral deposit in a defined geological setting where the statement or estimate, quoted as a range of tonnes and a range of grade, relates to mineralisation for which there has been insufficient exploration to estimate a Mineral Resource. The potential quantity and grade of the Exploration Target is conceptual in nature, there has been insufficient exploration to estimate a Mineral Resource and it is uncertain if further exploration will result in the estimation of a Mineral Resource.




**Hodrusa, Nova Bana, Rudno and Pukanec project areas.**

**Drilling the Jasenie prospect where a new gold tungsten resource was announced during the year.**

***Hodrusa Project***

***Kopanice prospect (Au-Ag)***

A drilling program at the Kopanice prospect to test near surface mineralisation occurrences was undertaken. The objective of this work was to define a high-grade shoot for refined drill design at depth.

### *Bauch prospect (Au-Ag)*

Two kilometres along strike from Ignac-Rabenstein, assays of up to 28.3 g/t Au and 582 g/t Ag have been returned from rock chip samples taken by the Company.

This target is now permitted for drilling and will, subject to world conditions, be drill tested in the first half of 2020.


**High grade samples recovered from the Bauch prospect, 2km along strike from the Ignac prospect.**

***Schopfer prospect (Au-Ag)***

### Independent Geologist review of Schopfer Exploration Target

The current Schopfer Exploration Target is based on a 3D model in areas of previous production of 1.5 to 2.0g/t Au and 150 to 200 g/t Ag and is based on the following datasets:

- Historical production averages from 1700s to 1947 when production was halted by government.
- Historic production (backs) sampling.
- Underground rock chip sampling.
- Underground and surface drilling completed by Prospech since 2017.
- Underground void modelling surveying by the University of Kosice utilising 3D Laser LIDAR (Light Detection and Ranging) used to adjust and correct historic 3D void model.

An Independent Geologist review of the Schopfer Exploration Target within the zones of sufficient data density has indicated grades averaging 2.5 to 3.5 g/t Au and 300 to 400 g/t Ag for 6.5 to 10.0 g/t AuEq.

A resource estimate over the 1.5km strike length of the Schopfer structure will require additional drilling to be classified as a JORC compliant Inferred Resource.

Resource drilling is planned to convert a portion of the Exploration Target to JORC Inferred Resource status.

***Jasenie Project (Au-W)***

An initial four hole drill program has been completed by Prospech on the Jasenie Au-W JORC Inferred Resource. The drill program, completed towards the end of October 2019, was designed to test an interpreted late gold overprint on the tungsten resource.

JADD001 was stopped short of the target zone due to drilling issues and returned no significant intercept.

JADD002 returned 10.3m @ 2.59 g/t AuEq from 57.7m, including 5.0m @ 3.71 g/t AuEq from 63.0m.

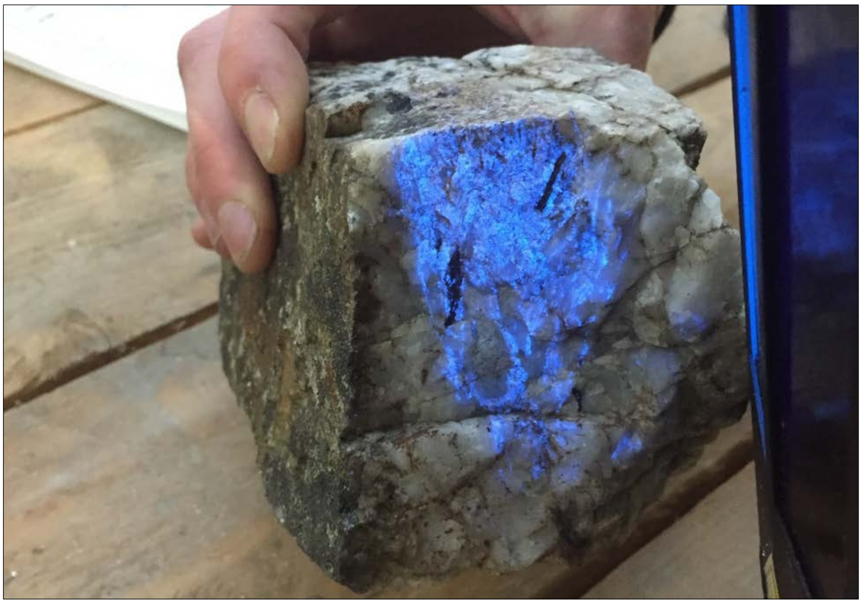
JADD003 returned 2.0m @ 2.71 g/t AuEq from 175.0m and identified a new, previously unidentified mineralised zone returning 7.0m 6.96 g/t AuEq from 85.0m, including 2.0m 19.18 g/t AuEq from 89.0m.

JADD004 returned 0.7m @ 6.33 g/t Au and 0.13% WO3 from 133.3m.

Hole JADD002 resulted in revision of previous interpretation to more steeply stacked mineralised zones and confirmed a previous intercept from 1991 (hole V-100) of 59m (true width interpreted be 70% less) @ 2.38 g/t Au and 0.20% W for 3.22 g/t AuEq from 161.0m.

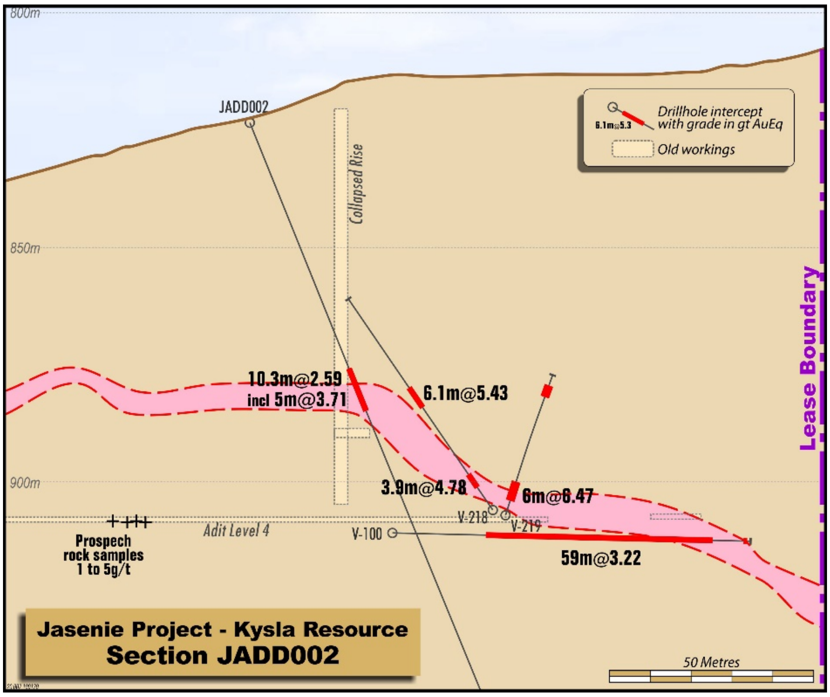
Data collation continues at the Soviansko target which is also within Jasenie Project. Six parallel veins have been mapped within the Soviansko target, an area without any historic mining. Dump sampling by Prospech to date has returned an average of 211 g/t Ag and 7.6% Pb. Completion of 3D modelling will allow selection of possible drill targets.

JADD003 High-grade Tungsten Intersection



**High grade tungsten samples recovered from the Kysla prospect.**

Increased JORC 2012 compliant resource estimates for the Jasenie Project are expected to follow further drilling to extend a 10 metre wide gold zone in the core of the Kysla resource, which has been sampled by the Company with returned grades from three samples averaging 9.61 g/t Au from the central area (Resource Wireframe A2A).




**JADD002 returned 10.3m @ 2.59 g/t AuEq from 57.7m, including 5.0m @ 3.71 g/t AuEq from 63.0m.**

***Cejkov Project (Au-Ag-Pb-Zn)***

Data collation and ionic leach survey have been completed in Cejkov-Zemplin (high grade epithermal gold-silver-lead-zinc) property. The results are being evaluated and will help in generating drill targets in the concealed epithermal system. Recent discovery and collation of previous drilling records include drill holes with significant results to be followed up:

- VS19 2.5m @ 516 g/t Ag, 13.6% Pb and 8.3% Zn
- VS20 2.4m @ 182 g/t Ag, 15.3 % Pb and 16.6% Zn

***Nova Bana Project***

No activity was undertaken on the Nova Bana project during the year. Drill permits are complete for a future Gupna drill program to target the 2016 discovered feeder zone utilising a small track mounted diamond rig to test a near surface 30m wide zone.

***Pukanec and Rudno Projects***

No activity was undertaken at either the Pukanec or Rudno projects during the year.

**Competent Person Statement**

The information in this Report that relates to Exploration Results, Exploration Targets and Mineral Resources is based on information compiled by Mr Jason Beckton, who is a Member of the Australian Institute of Geoscientists. Mr Beckton, who is Managing Director of the Company, has sufficient experience which is 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 Beckton consents to the inclusion in this Report of the matters based on the information in the form and context in which it appears.

**Corporate Activities**

During the year the Company undertook two successful placement offers. The first offer was undertaken in May-June 2019, with the placement closing fully subscribed. 5,000,000 shares were issued at $0.10 per share raising $500,000. The second placement was undertaking in November-December 2019, with 5,850,000 shares being issued at $0.10 per share raising $585,000.

## Directors

The names and particulars of the Directors of the Company at any time during or since the end of the year are:

**Thomas J. Mann - Chairman**

Director since 26 September 2014.

Mr Mann has over 30 years' experience in financial markets and global trade having established a global trading corporation with offices in North America and the Asia-Pacific. Mr Mann is actively involved in capital raising and strategic development initiatives for public and private companies.

**Jason M. Beckton - Director and Chief Executive Officer**

Director since 26 September 2014.

Mr Beckton is a professional geologist with over 20 years' experience in exploration, project development, production and management in Australia and internationally.

He commenced his career with Pancontinental and Goldfields Limited throughout Australia from the early 1990s before moving to a senior role with Gympie Gold in 2001. Subsequently Project Manager for the Palmarejo silver gold project in Mexico and managed the program that grew the resource base from zero to 3.1 million ounces gold equivalent during 2004. More recently, Manager - Chile for Exeter Resource Corporation and led the team in 2007 that was responsible for the commercial discovery at the Caspiche porphyry prospect in the Maricunga gold-copper belt of Chile. Ongoing drilling has resulted in an inferred estimate by Exeter of 41.7 million gold equivalent ounces.

In 2013, Jason founded, and subsequently sold, Redhill Magallanes SpA which is currently drilling the Franceses bulk tonnage copper discovery in Region XII and Redhill Chile (Ibanez) SpA in Region XI.

Mr Beckton is a director of ASX listed company Dark Horse Resources Limited. Mr Beckton is a Non-Executive Director of unlisted Ginguro Gold Pty Ltd, Jamieson Minerals Pty Ltd and Bambra Oy (Finland).

**Peter J. Nightingale - Director**
Director since 26 September 2014.

Mr Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of Chartered Accountants Australia & New Zealand. He has worked as a chartered accountant in both Australia and the USA.

As a director or company secretary Mr Nightingale has, for more than 30 years, been responsible for the financial control, administration, secretarial and in-house legal functions of a number of private and public listed companies in Australia, the USA and Europe including Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L., Mogul Mining N.L., Bolnisi Gold N.L and Cockatoo Coal Limited and Planet Gas Limited (now Sky Metals Limited). He is currently a director of ASX Listed Alpha HPA Limited and Nickel Mines Limited.

**John A. Levings - Director**
Director since 17 May 2016.

Mr Levings gained a Bachelor of Science degree from the University of Tasmania in 1977 and then worked for several years as a field geologist and geophysicist for Anglo American Limited. In 1985, as Chief Geologist for Australian Development Limited (later re-named Normandy Gold Limited), Mr Levings was responsible for the discovery of the high-grade White Devil gold deposit (760,000 ounces of gold at 14.6 grams per tonne) in Tennant Creek. In 1986 Australian Development Limited was the best performing stock on the ASX on the back of this discovery. Relocating to Indonesia, Mr Levings became a founding partner of a successful geological consultancy which was very active during the 1990s. In more recent times, he identified the Romang Island polymetallic opportunity which was acquired by Robust Resources Limited.

John remains a director of Robust Resources Limited which is now an unlisted public company and is a Fellow of the Australasian Institute of Mining and Metallurgy.

**Richard J. Edwards - Company Secretary**
Company Secretary since 26 September 2014.

Mr Edwards graduated with a Bachelor of Commerce degree from the University of New South Wales, is a Fellow of the Governance Institute of Australia, is a member of CPA Australia and holds a Graduate Diploma of Applied Finance and Investment from FINSIA.

Mr Edwards has worked for over fifteen years providing financial reporting and company secretarial services to a range of publicly listed companies in Australia, with a focus on the mining sector. He is currently Company Secretary of ASX-listed Alpha HPA Limited and Nickel Mines Limited.

## Directors' Meetings

The number of Directors' meetings held and number of meetings attended by each of the Directors of the Company, while they were a Director, during the year are:

| **Director** | **Board meetings** | |
|---|---|---|
| | **Held** | **Attended** |
| Thomas J. Mann | 4 | 4 |
| Jason M. Beckton | 4 | 4 |
| John A. Levings | 4 | 4 |
| Peter J. Nightingale | 4 | 4 |

## Directors' Interests

At the date of this report, the beneficial interests of each key management personnel of the Company in the issued share capital of the Company are:

| Key management personnel | Held at 1 January 2019 | Purchased | Held at 31 December 2019 |
|---|---|---|---|
| Thomas J. Mann | 6,300,000 | - | 6,300,000 |
| Jason M. Beckton | 5,256,252 | - | 5,256,252 |
| John A. Levings | 212,500 | 100,000 | 312,500 |
| Peter J. Nightingale | 10,160,004 | 500,000 | 10,660,004 |

At the date of this report, the number of options over ordinary share of each key management personnel of the Company are:

| Key management personnel | Held at 1 January 2019 | Granted | Held at 31 December 2019 |
|---|---|---|---|
| Thomas J. Mann | 4,000,000 | - | 4,000,000 |
| Jason M. Beckton | 5,000,000 | - | 5,000,000 |
| John A. Levings | 2,000,000 | - | 2,000,000 |
| Peter J. Nightingale | 5,000,000 | - | 5,000,000 |

### Unissued Shares Under Option

At the date of this report, unissued ordinary shares of the Company under option are:

| Number of unissued shares | Exercise Price | Expiry Date |
|---|---|---|
| 20,000,000 | $0.25 | 31 December 2020* |

* Options expire on the earlier of their expiry date or termination of the employee's employment.

## Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2019. No dividends have been paid or declared during the year.

## State of Affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Group that occurred during the year ended 31 December 2019 other than as disclosed elsewhere in the financial report or notes thereto.

## Impact of Legislation and Other External Requirements

There were no environmental or other legislative requirements during the year that have significantly impacted the results or operations of the Group.

## Environmental Regulations

The Group's operations are subject to Slovakian environmental regulations in relation to its activities.

The Board of Directors regularly monitors compliance with environmental regulations. The Directors are not aware of any significant breaches of these regulations during the year covered by this report.

### Likely Developments

Information as to likely developments in the operations of the Group and the expected results of those operations in subsequent years has not been included in this report because disclosure of this information would be likely to result in unreasonable prejudice to the Group.

### Indemnification of Officers and Auditors

During or since the end of the year, the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company against a liability incurred by such an officer or auditor. In addition, the Company has not paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

### Events Subsequent to Balance Date

The World Health Organisation categorised COVID-19 as a global pandemic subsequent to the year end. The Directors are currently assessing the risks to the Group's operations following the outbreak of COVID-19 and the consequential impact it could have on the net cash flow performance of the Group, including on those matters outlined in note 2 (Going Concern).

Other than the above, there have been no matters arise in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

### Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 11 and forms part of the Directors' Report for the year ended 31 December 2019.

Signed at Sydney this 31st day of March 2020
in accordance with a resolution of the Board of Directors:

| | |
|---|---|
| **Thomas J. Mann** | **Peter J. Nightingale** |
| **Chairman** | **Director** |

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of Prospech Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Prospech Limited for the financial year ended 31 December 2019 there have been:

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

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

KPMG

KPMG

Adam Twemlow
*Partner*

Brisbane
31 March 2020

## PROSPECH LIMITED
### and its controlled entities

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

| | Notes | 2019 $ | 2018 $ |
|---|---|---|---|
| Administration and consultants' expenses | | **(379,611)** | (515,428) |
| Depreciation expense | | **(16,721)** | (37,566) |
| Results from operating activities | | **(396,332)** | (552,994) |
| | | | |
| Financial income | 4 | **1,697** | 7,388 |
| Financial expense | 4 | **(191)** | (1,347) |
| Net financial income | | **1,506** | 6,041 |
| **Loss before income tax** | | **(394,826)** | (546,953) |
| | | | |
| Income tax expense | 6 | **-** | - |
| | | | |
| **Loss for the year** | | **(394,826)** | (546,953) |
| | | | |
| Other comprehensive income | | | |
| **Items that may be classified subsequently to profit or loss** | | | |
| Exchange differences on translation of foreign operations | | **(77,911)** | 125,182 |
| | | | |
| **Total comprehensive loss for the year** | | **(472,737)** | (421,771) |
| | | | |
| **Earnings per share** | | | |
| Basic and diluted loss per share (cents) | 7 | **(0.49)** | (0.74) |

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

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# PROSPECH LIMITED
## and its controlled entities

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

| | Notes | 31 December 2019 $ | 31 December 2018 $ |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | | **404,266** | 347,822 |
| Trade and other receivables | 5 | **30,406** | 18,277 |
| Prepayments | | **1,930** | 5,881 |
| **Total current assets** | | **436,602** | 371,980 |
| **Non-current assets** | | | |
| Exploration and evaluation expenditure | 8 | **5,180,565** | 4,385,942 |
| Property, plant and equipment | 9 | **23,124** | 40,560 |
| **Total non-current assets** | | **5,203,689** | 4,426,502 |
| **Total assets** | | **5,640,291** | 4,798,482 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **397,063** | 167,517 |
| **Total current liabilities** | | **397,063** | 167,517 |
| **Total liabilities** | | **397,063** | 167,517 |
| **Net assets** | | **5,243,228** | 4,630,965 |
| **Equity** | | | |
| Share capital | 11 | **6,767,823** | 5,682,823 |
| Reserves | 11 | **877,065** | 964,960 |
| Accumulated losses | | **(2,401,660)** | (2,016,818) |
| **Total equity** | | **5,243,228** | 4,630,965 |

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

## PROSPECH LIMITED
**and its controlled entities**

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
## FOR THE YEAR ENDED 31 DECEMBER 2019

| | Notes | Share capital $ | Reserves $ | Accumulated losses $ | Total $ |
|---|---|---|---|---|---|
| **Balance at 1 January 2019** | | **5,682,823** | **964,960** | **(2,016,818)** | **4,630,965** |
| **Total comprehensive income for the year** | | | | | |
| Loss for the period | | **-** | **-** | **(394,826)** | **(394,826)** |
| Total other comprehensive income/(loss) | | **-** | **(77,911)** | **-** | **(77,911)** |
| Total comprehensive loss for the year | | **-** | **(77,911)** | **(394,826)** | **(472,737)** |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of shares | 11 | **1,085,000** | **-** | **-** | **1,085,000** |
| Lapse of options | 11 | **-** | **(9,984)** | **9,984** | **-** |
| **Balance at 31 December 2019** | | **6,767,823** | **877,065** | **(2,401,660)** | **5,243,228** |
| **Balance at 1 January 2018** | | 5,105,323 | 839,778 | (1,469,865) | 4,475,236 |
| **Total comprehensive income for the year** | | | | | |
| Loss for the period | | - | - | (546,953) | (546,953) |
| Total other comprehensive income | | - | 125,182 | - | 125,182 |
| Total comprehensive loss for the year | | - | 125,182 | (546,953) | (421,771) |
| **Transactions with owners, recorded directly in equity** | | | | | |
| Issue of shares | 11 | 577,500 | - | - | 577,500 |
| **Balance at 31 December 2018** | | 5,682,823 | 964,960 | (2,016,818) | 4,630,965 |

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

## PROSPECH LIMITED
### and its controlled entities

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | **$** | **$** |
| **Cash flows from operating activities** | | | |
| Cash payments in the course of operations | | **(207,961)** | (412,877) |
| Interest received | | **1,697** | 4,638 |
| **Net cash used in operating activities** | 14 | **(206,264)** | (408,239) |
| **Cash flows from investing activities** | | | |
| Payments for exploration and evaluation expenditure | | **(802,292)** | (1,024,307) |
| Payments for property, plant and equipment | | **-** | (40,451) |
| **Net cash used in investing activities** | | **(802,292)** | (1,064,757) |
| **Cash flows from financing activities** | | | |
| Issue of shares | | **1,065,000** | 577,500 |
| **Net cash from financing activities** | | **1,065,000** | 577,500 |
| **Net increase in cash and cash equivalents** | | **56,443** | (895,496) |
| Effect of exchange rate adjustments on cash held | | **1** | 2,750 |
| **Cash and cash equivalents at the beginning of the year** | | **347,822** | 1,240,568 |
| **Cash and cash equivalents at the end of the year** | | **404,266** | 347,822 |

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

## NOTE 1 – REPORTING ENTITY

Prospech Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report for the year to 31 December 2019 comprises the Company and its subsidiaries (together referred to as the 'Group'). The Group is a for-profit entity and is involved in exploration for precious metals.

## NOTE 2 – BASIS OF PREPARATION

### Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The financial report of the Group complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board ('IASB').

The financial report was authorised for issue by the Directors on 31 March 2020.

### Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

### Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The functional currency of the Company's subsidiaries Prospech Slovakia s.r.o and Slovenske Kovy s.r.o is Euros.

### Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 2 – Going concern
- Note 8 – Exploration and evaluation expenditure

**NOTE 2 – BASIS OF PREPARATION (Con't)**

The accounting policies set out below have been applied consistently by entities in the Group.

**Going concern**

The consolidated financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

The Group recorded a loss after tax of $394,826 (2018 - $546,953) for the year ended 31 December 2019. At 31 December 2019 the Group had cash and cash equivalents of $404,266 (2018 - $347,822) and net assets of $5,243,228 (2018 - $4,630,965). In addition, the Group used $1,008,556 (2018 - $1,432,546) of cash in operations, including exploration activities, for the year ended 31 December 2019.

The ongoing operations of the Group are dependent upon the Group raising additional funding from shareholders or other parties and the Group reducing expenditure in-line with available funding. The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. These cash flow projections assume operating cash outflows continue at least until 31 March 2021 and the Group raises additional funding from shareholders or other parties to continue planned exploration activities. The Group has successfully raised additional funding in prior years, however such funding is inherently uncertain until secured. In addition, there is currently an uncertain economic outlook as a result of COVID-19.

These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. In the event that the Group does not raise additional funding and significantly reduces expenditure in-line with available funding, it may not be able to continue its operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial report.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES**

**Basis of consolidation**

***Subsidiaries***

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

***Non-controlling interest***

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

***Transactions eliminated on consolidation***

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Where a controlled entity issues shares to minority interests which does not result in loss of control by the Group, any gain or loss arising on the Group's interest in the controlled entity is recognised directly in equity.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Con't)**

**Foreign currency**

***Foreign currency transactions***
Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

***Financial statements of foreign operations***
The assets and liabilities of foreign entities are translated at the foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the foreign currency translation reserve ('FCTR'), a separate component of equity.

Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in the FCTR.

When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

**Financial instruments**

***Non-derivative financial assets***

*Recognition and initial measurement*

The Group initially recognises trade receivables on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Con't)**
**Financial instruments (Cont'd)**

***Non-derivative financial assets (Cont'd)***

On initial recognition, a financial asset is classified as measured at:
- amortised cost;
- fair value through other comprehensive income – equity investment; or
- fair value through profit or loss.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as fair value through profit or loss:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value through OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at fair value through profit or loss. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

| | |
|---|---|
| **Financial assets at amortised cost** | These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss. |
| **Equity instruments at fair value through other comprehensive income** | These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss. |

***Non-derivative financial liabilities***

Financial liabilities are measured at amortised cost. The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. Other financial liabilities comprise loans and borrowings and trade and other payables.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Con't)**

**Impairment**

***Financial assets***

The Group recognises expected credit losses ('ECLs') on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs. At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at fair value through other comprehensive income are credit-impaired.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at fair value through other comprehensive income, the loss allowance is charged to profit or loss and is recognised in other comprehensive income.

The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof.

***Non-financial assets***

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

***Calculation of recoverable amount***

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

***Reversals of impairment***

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Con't)**

**Share capital**

***Transaction costs***

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

***Dividends***

Dividends are recognised as a liability in the period in which they are declared.

**Trade and other payables**

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30 day terms.

**Expenses**

***Net financing income***

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest earned and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payment is established.

**Share based payments**

The Group issues share based payments to its employees. Share based payments are measured at fair value at the date of grant. The fair value at the grant date of the share based payments is expensed on a straight line basis over the vesting period, unless the shares vest immediately in which case the full value of the share based payment is expensed immediately.

**Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs which are directly attributable to the Group's exploration and evaluation and development activities are capitalised in relation to qualifying assets.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Con't)**

**Income tax**

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for:

- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future; and
- the amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

**Goods and services tax**

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

**Employee benefits**

***Wages, salaries, annual leave, sick leave and non-monetary benefits***

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

**Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Con't)**

**Site restoration**

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of disturbed land, and the related expense, is recognised when the land is disturbed.

**Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

***Trade and other receivables***

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

***Non-derivative financial liabilities***

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

**Exploration, evaluation and development expenditure**

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised at cost or fair value, as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the statement of comprehensive income.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mining property and development assets within property, plant and equipment.

**NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (Con't)**

**Changes in significant accounting policies**

*AASB 16 Leases*

AASB 16 replaces existing leases guidance, including AASB 117 Leases. The standard is effective for annual periods beginning on or after 1 January 2019.

AASB 16 introduced a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard (i.e. lessors continue to classify leases as finance or operating leases).

The Group completed an assessment of the impact of applying AASB 16 on the financial statements and no material leases were identified.

| | **2019** | **2018** |
|---|---|---|
| | **$** | **$** |

**NOTE 4 – FINANCIAL INCOME/(EXPENSE)**

| | | |
|---|---|---|
| Interest income | **1,697** | 4,718 |
| Foreign exchange gain/(loss) | **(191)** | 2,670 |
| Interest expense | **-** | (1,347) |
| | **1,506** | 6,041 |

**NOTE 5 – TRADE AND OTHER RECEIVABLES**

| | | |
|---|---|---|
| GST/VAT receivable | **10,406** | 18,277 |
| Share subscription receivable | **20,000** | - |
| | **30,406** | 18,277 |

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **NOTE 6 – INCOME TAX EXPENSE** | | |
| **Current tax expense** | | |
| Current period | **(7,630)** | (82,046) |
| De-recognition of losses | **7,630** | 82,046 |
| Total income tax expense in income statement | **-** | - |
| | | |
| Loss before tax – continuing operations | **(394,826)** | (546,953) |
| Prima facie income tax expense at the Australian tax rate of 30% (2018 – 30%) | **(118,448)** | (164,086) |
| Impact of tax in foreign jurisdiction | **5,638** | 13,011 |
| Increase in income tax expense due to: | | |
| - Non-deductible expenses | **127,366** | 66,032 |
| - Effect of deferred tax assets for tax losses not brought to account | **(14,556)** | 85,040 |
| Income tax expense – current and deferred | **-** | - |
| | | |
| **Deferred tax asset /(liability)** | | |
| Deferred tax assets brought to account | **53,390** | 58,744 |
| Deferred tax liability brought to account | **(53,390)** | (58,744) |
| Total deferred tax asset/(liability) brought to account | **-** | - |
| | | |
| **Unrecognised deferred tax assets** | | |
| Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom. | | |
| Deferred tax asset for tax losses not brought to account | **178,235** | 187,391 |
| Total deferred tax asset not brought to account | **178,235** | 187,391 |

At 31 December 2019, the Group has an unrecognised deferred tax asset for tax losses not brought to account of $130,257 that relate to the Slovakian operations. These tax losses expire after four years.

In accordance with Slovakian tax legislation, the Group capitalises Slovakian exploration costs as ‘complex future expenses’ that are able to be carried forward against future income and are able to be deducted in later years when a taxable income is produced.

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **NOTE 7 – LOSS PER SHARE** | | |
| **Basic and diluted loss per share have been calculated using:** | | |
| Net loss for the year | **(394,826)** | (546,953) |
| | **Nº of shares** | **Nº of shares** |
| **Weighted average number of ordinary shares** | | |
| - Issued ordinary shares at the beginning of the year | **77,814,098** | 72,039,098 |
| - Effect of shares issued on 1 October 2018 | **-** | 1,455,616 |
| - Effect of shares issued in May-June 2019 | **2,739,726** | - |
| - Effect of shares issued in November-December 2019 | **272,466** | - |
| Weighted average number of shares at the end of the year | **80,826,290** | 73,494,714 |

As the Group is loss making, none of the potentially dilutive securities are currently dilutive.

**NOTE 8 – EXPLORATION AND EVALUATION EXPENDITURE**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Reconciliation of the carrying amount is set out below: | | |
| Opening balance | **4,385,942** | 3,211,605 |
| Additions, including impact of FX movements | **794,623** | 1,174,337 |
| Closing balance | **5,180,565** | 4,385,942 |

The ultimate recoupment of these costs is dependent on the successful development and commercial exploitation, or alternatively sale of the respective areas of interest.

## NOTE 9 – PROPERTY, PLANT AND EQUIPMENT

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Motor vehicles** | | |
| Motor vehicles – cost | **72,165** | 73,516 |
| Accumulated depreciation | **(49,041)** | (33,217) |
| Net book value | **23,124** | 40,299 |
| | | |
| **Software** | | |
| Office equipment assets – cost | **25,250** | 25,250 |
| Accumulated depreciation | **(25,250)** | (25,250) |
| Net book value | **-** | - |
| | | |
| **Office equipment** | | |
| Office equipment assets – cost | **2,345** | 2,345 |
| Accumulated depreciation | **(2,345)** | (2,084) |
| Net book value | **-** | 261 |
| Total property, plant and equipment | **23,124** | 40,560 |

**Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below.**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **Motor vehicles** | | |
| Carrying amount at beginning of period | **40,299** | 16,103 |
| Additions | **-** | 41,633 |
| Depreciation | **(16,460)** | (17,846) |
| Exchange movements | **(715)** | 409 |
| Net book value | **23,124** | 40,299 |
| | | |
| **Software** | | |
| Carrying amount at beginning of period | **-** | 18,938 |
| Additions | **-** | - |
| Depreciation | **-** | (18,938) |
| Net Book Value | **-** | - |
| | | |
| **Office equipment** | | |
| Carrying amount at beginning of period | **261** | 1,043 |
| Additions | **-** | - |
| Depreciation | **(261)** | (782) |
| Net book value | **-** | 261 |

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |

### NOTE 10 – TRADE AND OTHER PAYABLES

| | 2019 $ | 2018 $ |
|---|---|---|
| Creditors | **242,063** | 129,184 |
| Accruals | **217,516** | 38,333 |
| | **397,063** | 167,517 |

### NOTE 11 – CAPITAL AND RESERVES

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Number of shares | $ | Number of shares | $ |
| Opening balance – fully paid | **77,814,098** | **5,682,823** | 72,039,098 | 5,105,323 |
| Issue of shares | **10,850,000** | **1,085,000** | 5,775,000 | 577,500 |
| Ordinary shares on issue at 31 December – fully paid | **88,664,098** | **6,767,823** | 77,814,098 | 5,682,823 |

During the year ended 31 December 2019:

- The Company issued 10,850,000 shares, at $0.10 each for cash totalling $1,085,000. At 31 December 2019 there was $20,000 unpaid that was paid subsequent to the end of the year. There were no share issue costs.

During the year ended 31 December 2018:

- The Company issued 5,775,000 shares, at $0.10 each for cash totalling $577,500. There were no amounts unpaid on the shares issued. There were no share issue costs.

There were no amounts unpaid at period end.

## NOTE 11 – CAPITAL AND RESERVES (con't)

### Issue of Options

The Company has an executive option plan that entitles eligible employees including the key management personnel to be granted options in the Company.

No options were issued under the executive option plan during the period ended 31 December 2019.

The terms and conditions of the options held by key management personnel and Prospech staff at 31 December 2019 are as follows:

| Grant date | Expiry date | Vesting date | Exercise price | Fair value of options granted | Total Granted Number | Balance at end of the period Number |
|---|---|---|---|---|---|---|
| 28 November 2016 | 31 December 2020 | 28 November 2016 | $0.25 | $403,790 | 20,000,000 | 20,000,000 |
| | | | | $403,790 | 20,000,000 | 20,000,000 |

During the year, 468,750 options issued to acquire the remaining 19% interest in Slovenske Kovy s.r.o expired unexercised, as a result an amount of $9,984 was transferred from reserves to retained losses.

### Dividends

There were no dividends paid or declared during the year ended 31 December 2019 or 31 December 2018.

### Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares.  All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time.

### Nature and purpose of reserves

***Acquisition reserve***
The acquisition reserve reflects the transaction with the non-controlling interest following the acquisition by the Company of an additional 30% interest in SLOK on completion of tranche 3 on 31 December 2016 and the remaining 19% in October 2017.

***Foreign currency translation reserve***
The foreign currency translation reserve records the foreign currency differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

***Option premium reserve***
The option premium reserve is used to recognise the grant date fair value of options issued but not exercised.

**NOTE 11 – CAPITAL AND RESERVES (con't)**

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Acquisition reserve | **375,578** | 375,578 |
| Foreign currency translation reserve | **97,697** | 175,608 |
| Option premium reserve | **403,790** | 413,774 |
| | **877,065** | 964,960 |
| ***Movements during the period*** | | |
| ***Acquisition reserve*** | | |
| Balance at the beginning of the period | **375,578** | 375,578 |
| Balance at the end of the period | **375,578** | 375,578 |
| ***Foreign currency translation reserve*** | | |
| Balance at the beginning of the period | **175,608** | 50,426 |
| Currency translation difference | **(77,911)** | 125,182 |
| Balance at the end of the period | **97,697** | 175,608 |
| ***Option premium reserve*** | | |
| Balance at the beginning of the period | **413,774** | 413,774 |
| Lapse of options | **(9,984)** | - |
| Balance at the end of the period | **403,790** | 413,774 |

**NOTE 12 – CONTROLLED ENTITIES**

Particulars in relation to controlled entities:

| | Ordinary shares – Group interest | |
|---|---|---|
| | **2019**<br>**%** | **2018**<br>**%** |
| *Parent Entity* | | |
| Prospech Limited | | |
| *Controlled entities* | | |
| Prospech Slovakia s.r.o. | **100** | 100 |
| Slovenske Kovy s.r.o. | **100** | 100 |

- Prospech Slovakia s.r.o. is incorporated in Slovakia.
- Slovenské Kovy s.r.o. is incorporated in Slovakia.

## NOTE 13 – RELATED PARTIES

During the year ended 31 December 2019, Peter Nightingale, a director had an interest in an entity, MIS Corporate Pty Limited, which provided full administrative services, including administrative and accounting staff rental accommodation, services and supplies, to the Group. Fees charged by MIS Corporate Pty Limited during the year amounted to $60,000 (2018 - $60,000). Outstanding amounts at 31 December 2019 total $35,000 (2018 - $nil).

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **NOTE 14 – STATEMENTS OF CASH FLOWS** | | |
| **(a) Reconciliation of cash and cash equivalents** | | |
| Cash and cash equivalents at the end of the period as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheets as follows: | | |
| Bank balances | **404,266** | 347,822 |
| **(b) Reconciliation of net loss from ordinary activities after tax to net cash used in operating activities** | | |
| Loss from ordinary activities after tax | **(394,826)** | (546,953) |
| **Non-cash items** | | |
| Depreciation | **16,721** | 37,566 |
| Foreign exchange loss | **191** | 81 |
| **Changes in assets and liabilities** | | |
| Decrease in trade and other receivables | **7,615** | 9,571 |
| Decrease in prepayments | **3,951** | |
| Increase in trade and other payables | **160,084** | 91,496 |
| **Net cash used in operating activities** | **(206,264)** | (408,239) |

## NOTE 15 – KEY MANAGEMENT PERSONNEL DISCLOSURES

There are no key management personnel of the Company or Group that are not Directors.

Jason Beckton, a Director, was compensated $228,000 (2018 - $192,000) for his services during the year ended 31 December 2019. Outstanding amounts at 31 December 2019 were $57,000 (2018 - $nil).

Thomas Mann, a Director, was compensated $40,000 (2018 - $40,000) for his services during the year ended 31 December 2019. Outstanding amounts at 31 December 2019 were $43,333 (2018 - $3,333).

John Levings, a Director, was compensated $30,000 (2018 - $30,000) for his services during the year ended 31 December 2019. Outstanding amounts at 31 December 2019 were $30,000 (2018 - $5,000).

Peter Nightingale, a Director, was compensated $60,000 (2018 - $60,000) for his services during the year ended 31 December 2019. Outstanding amounts at 31 December 2019 were $70,000 (2018 - $10,000).

**NOTE 15 – KEY MANAGEMENT PERSONNEL DISCLOSURES (Con't)**

No other key management personnel were remunerated for their services during the year ended 31 December 2019. There are no service contracts with key management personnel, and no bonuses or other performance related compensation paid.

**Movement in shares**

| Key management personnel | Held at 1 January 2019 | Purchased | Held at 31 December 2019 |
|---|---|---|---|
| Thomas J. Mann | 6,300,000 | - | 6,300,000 |
| Jason M. Beckton | 5,256,252 | - | 5,256,252 |
| John A. Levings | 212,500 | 100,000 | 312,500 |
| Peter J. Nightingale | 10,160,004 | 500,000 | 10,660,004 |

| Key management personnel | Held at 1 January 2018 | Purchased | Held at 31 December 2018 |
|---|---|---|---|
| Thomas J. Mann | 6,000,000 | 300,000 | 6,300,000 |
| Jason M. Beckton | 5,256,252 | - | 5,256,252 |
| John A. Levings* | 112,500 | 100,000 | 212,500 |
| Peter J. Nightingale | 9,660,004 | 500,000 | 10,160,004 |

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company during the year and there were no material contracts involving director's interests existing at period end.

**Movement in options**

| Key management personnel | Held at 1 January 2019 | Granted | Held at 31 December 2019 |
|---|---|---|---|
| Thomas J. Mann | 4,000,000 | - | 4,000,000 |
| Jason M. Beckton | 5,000,000 | - | 5,000,000 |
| John A. Levings | 2,000,000 | - | 2,000,000 |
| Peter J. Nightingale | 5,000,000 | - | 5,000,000 |

| Key management personnel | Held at 1 January 2018 | Granted | Held at 31 December 2018 |
|---|---|---|---|
| Thomas J. Mann | 4,000,000 | - | 4,000,000 |
| Jason M. Beckton | 5,000,000 | - | 5,000,000 |
| John A. Levings | 2,000,000 | - | 2,000,000 |
| Peter J. Nightingale | 5,000,000 | - | 5,000,000 |

Refer note 11 for the fair value of options granted to key management personnel.

## NOTE 16 – FINANCIAL INSTRUMENTS DISCLOSURE

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, currency risk and interest rate risk. The summaries below present information about the Group's exposure to each of these risks, their objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

**Credit risk**

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of the following assets represent the Group's maximum exposure to credit risk in relation to financial assets:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| Cash and cash equivalents | **404,266** | 347,822 |
| Trade and other receivables | **30,406** | 18,277 |
| | **434,672** | 366,099 |

The Group's maximum exposure to credit risk at the reporting date by geographic region was:

| | | |
|---|---|---|
| Australia | **373,437** | 240,036 |
| Slovakia | **61,235** | 126,063 |
| | **434,672** | 366,099 |

At 31 December 2019, the Group held cash and cash equivalents of $404,266 (2018 - $347,822), which represent its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- based on rating agency Standard & Poor's. Credit risk of trade and other receivables is very low as it consists primarily amounts recoverable from the Australian Taxation Authority and Slovakian taxation authorities.

***Impairment losses***

No impairment has been taken up against the Group's financial assets.

None of the Company's or Group's trade and other receivables are past due.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

**NOTE 16 – FINANCIAL INSTRUMENTS DISCLOSURE (con't)**

The following are the contractual maturities of financial liabilities, including estimated interest payments:

| | Carrying amount $ | Contractual cash flows $ | Less than one year $ | Between one and five years $ | More than five years $ |
|---|---|---|---|---|---|
| **31 December 2019** | | | | | |
| Trade and other payables | **397,063** | **397,063** | **397,063** | - | - |
| | **397,063** | **397,063** | **397,063** | - | - |
| **31 December 2018** | | | | | |
| Trade and other payables | 167,517 | 167,517 | 167,517 | - | - |
| | 167,517 | 167,517 | 167,517 | - | - |

Ultimate responsibility for liquidity management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate funding and monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of expected settlement of financial assets and liabilities.

**Currency risk**

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's functional currency is Australian dollars. The Group is exposed to foreign currency risks due to the fact that the functional currency of its Slovakian operating subsidiaries is in Euros and that it holds a portion of its cash in Euros.

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | **Foreign currency** | **$** | **Foreign currency** | **$** |
| **Euros** | | | | |
| Cash at bank | €33,292 | $53,161 | €70,679 | $114,974 |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date spot rate | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| EUR to AUD | 1.5993 | 1.5805 | 1.5968 | 1.6267 |

The following sensitivity analysis is based on the exchange rate risk exposures at balance date.

For the year ended 31 December 2019, if the exchange rate between the Australian dollar to the Euro had moved, with all other variables held constant, the impact on post-tax loss and equity would have been affected as follows:

**NOTE 16 – FINANCIAL INSTRUMENTS DISCLOSURE (con't)**

Judgement of reasonable possible movements:

| | Post tax loss (Higher)/Lower 2019 $ | Post tax loss (Higher)/Lower 2018 $ | Total equity (Higher)/Lower 2019 $ | Total equity (Higher)/Lower 2018 $ |
|---|---|---|---|---|
| + 10% higher AUD to EUR exchange rate | **4,208** | (3,867) | **4,208** | (3,867) |
| - 5% lower AUD to EUR exchange rate | **(2,104)** | 1,934 | **(2,104)** | 1,934 |

**Interest rate risk**

The Group's income statement is affected by changes in interest rates due to the impact of such changes on interest income and expenses from cash and cash equivalents.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated as cash flow hedges:

| | 2019 $ | 2018 $ |
|---|---|---|
| **Financial Assets** | | |
| Cash and cash equivalents | **404,266** | 347,822 |

***Sensitivity analysis***

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) loss for the year by an immaterial amount.

**Capital management**

The Board's policy is to raise capital sufficient to meet its project earn-in expenditure commitments and advance the exploration program on the Slovakian projects.

The Board ensures costs are not incurred in excess of available funds and will seek to raise additional funding through issues of shares for the continuation of the Group's operation. There were no changes in the Group's approach to capital management during the period.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

**Net fair values of financial assets and liabilities**

The carrying amounts of financial assets and liabilities of the Company and the Group, for the year ended 31 December 2019, approximate their net fair values, given the short time frames to maturity and or variable interest rates.

**NOTE 17 – SUBSEQUENT EVENTS**

The World Health Organisation categorised COVID-19 as a global pandemic subsequent to the year end. The Directors are currently assessing the risks to the Group's operations following the outbreak of COVID-19 and the consequential impact it could have on the net cash flow performance of the Group, including on those matters outlined in note 2 (Going Concern).

Other than the above, there have been no matters arise in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

**NOTE 18 – FINANCIAL REPORTING BY SEGMENTS**

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income earning assets and revenue, interest bearing loans, borrowings and expenses, and corporate assets and expenses. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one year in that geographic region.

**Geographical segments**

For the year ended 31 December 2019, the Group had one segment, being mineral exploration in Slovakia. The Group has one reportable geographical segment as follows:

| | **Slovakia** | **Unallocated** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **31 December 2019** | | | |
| External revenues | - | - | - |
| Reportable segment loss before tax | **62,649** | **332,177** | **394,826** |
| Interest income | **-** | **1,697** | **1,697** |
| Reportable segment assets | **5,266,854** | **373,437** | **5,640,291** |
| Reportable segment liabilities | **105,243** | **291,820** | **397,063** |

| | **Slovakia** | **Unallocated** | **Total** |
|---|---|---|---|
| | **$** | **$** | **$** |
| **31 December 2018** | | | |
| External revenues | - | - | - |
| Reportable segment loss before tax | 144,603 | 402,350 | 546,953 |
| Interest income | 2,784 | 1,854 | 4,638 |
| Reportable segment assets | 4,558,185 | 240,297 | 4,798,482 |
| Reportable segment liabilities | 97,015 | 70,502 | 167,517 |

## NOTE 19 – PARENT ENTITY DISCLOSURES

As at, and throughout the year ended 31 December 2019 the parent entity of the Group was Prospech Limited.

| | 2019 | 2018 |
|---|---|---|
| | $ | $ |
| **Result of the parent entity** | | |
| Net loss | **881,442** | 1,288,617 |
| Total comprehensive loss | **881,442** | 1,288,617 |
| **Financial position of the parent entity at period end** | | |
| Current assets | **373,437** | 240,036 |
| Non-current assets | **1,852,751** | 1,571,260 |
| Total assets | **2,226,188** | 1,811,296 |
| Current liabilities | **291,820** | 70,502 |
| Total liabilities | **291,820** | 70,502 |
| **Net Assets** | **1,934,368** | 1,740,794 |
| **Equity** | | |
| Share capital | **6,767,823** | 5,682,823 |
| Reserves | **403,790** | 413,774 |
| Accumulated losses | **(5,237,245)** | (4,355,803) |
| **Total Equity** | **1,934,368** | 1,740,794 |

At balance sheet date the company has no capital commitments or contingencies.

## NOTE 20 – AUDITOR REMUNERATION

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

| | 2019 | 2018 |
|---|---|---|
| **Statutory Audit** | | |
| *Auditors of the Company* | | |
| Audit of financial reports - KPMG | **61,200** | 64,938 |
| | **61,200** | 64,938 |

# DIRECTOR'S DECLARATION

In the opinion of the Directors of Prospech Limited ('the Company'):

1. (a) the financial statements and notes set out on pages 12 to 37, are in accordance with the Corporations Act 2001, including:

    (i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the year ended on that date; and

    (ii) complying with Australian Accounting Standards, (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

    (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

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

Signed at Sydney this 31st day of March 2020
in accordance with a resolution of the Board of Directors:

**Thomas J. Mann**
**Chairman**

**Peter J. Nightingale**
**Director**

KPMG

# Independent Auditor's Report

## To the shareholders of Prospech Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the ***Financial Report*** of Prospech Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2019;
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Report section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Material uncertainty related to going concern

We draw attention to Note 2, "Going Concern" in the financial report. The conditions disclosed in Note 2, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

## Other Information

Other Information is financial and non-financial information in Prospech Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

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

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Adam Twemlow
*Partner*

Brisbane
31 March 2020