



INTERIM REPORT
31 DECEMBER 2018



DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Your directors present their report on NOVONIX Limited (referred to hereafter as the 'consolidated entity') for the half-year ended 31 December 2018.

DIRECTORS

The following persons were directors of NOVONIX Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

Greg Baynton
Anthony Bellas
Philip St Baker
Robert Cooper
Robert Natter
Andrew Liveris (appointed 1 July 2018)
Dean Price - Alternate for Robert Cooper

PRINCIPAL ACTIVITIES

During the financial half-year, the principal activities of the company included advancing the commercialisation of the PUREgraphite business in Tennessee USA and growing and diversifying the BTS business in Halifax Canada.

REVIEW OF OPERATIONS

The loss for the consolidated entity after providing for income tax amounted to \$5,134,380 (2017: \$4,700,407).

HALF-YEAR HIGHLIGHTS

- PUREgraphite due diligence undertaken ahead of ownership increase to 75% in January 2019.
- Completed manufacturing for first suite of commercial furnaces (acceptance January 2019)
- Received first group of commercial milling equipment, and ordered balance of initial plant
- Planned product trials with multiple global battery makers (trials commenced January 2019)
- Continued product trials in Tennessee facility with US-based beachhead customers
- Evaluated and short-listed industrial properties suitable for scaling the business above 1,000tpa
- Commissioned the NOVONIX pilot battery cell manufacturing facility in Halifax, Canada
- Commenced NOVONIX's internal electrolyte materials R&D program in Halifax
- Continued growth in forward sales for BTS equipment and services, aiming for 30%+ YOY
- R&D partnership signed with Dalhousie University and filed first patent application in December 2018
- Filed US provisional patent for Silicon Infused Graphite for anode material (publication pending)
- Awarded C\$487,693 R&D support grant from Government of Canada (NRC IRAP)
- Andrew Liveris AO formally appointed to the NVX Board in July 2018

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

- A\$5.5m raised through the issue of convertible loan notes in July 2018 to fund working capital as the business transitions into production
- A\$10.9m funding arranged for exercise of PUREgraphite call option (completed January 2019)

OVERVIEW

The first half of FY2019 saw NOVONIX Limited ('NOVONIX' or 'the Company') make good progress advancing the commercialisation of the PUREgraphite business in Tennessee USA and growing and diversifying the NOVONIX BTS business in Halifax Canada.

A priority for the half year was advancing the PUREgraphite business sufficiently and undertaking appropriate due diligence to support the exercise of our call option to increase our ownership of the venture and achieve control ahead of the call option expiry date on 2 February 2019. NOVONIX completed this work, satisfied itself that the PUREgraphite product was market ready, the commercial manufacturing process was sufficiently known and tested, and that the business was sufficiently on track to achieve commercial production and customer sales in calendar year 2019. The Company arranged funding for the call option in December 2018 and completed the transaction in January 2019. NOVONIX now has 75% ownership of the PUREgraphite venture and production rights to 100% of production above 1,000 tpa.

Another significant achievement for the half year was the diversification of the BTS business in Canada to establish a vibrant low-cost battery R&D capability/ecosystem in Halifax comprising a pilot scale battery cell manufacturing facility, an electrolyte R&D laboratory and a battery R&D partnership with Dalhousie University also located in Halifax. This battery R&D capability/ecosystem has already started to generate valuable IP with the filing of a US provisional patent for "Silicon Infused Graphite" for battery anode material, and further innovative and potentially valuable inventions in the pipeline.

PUREgraphite (Tennessee, USA)

The PUREgraphite business is commercialising a **premium grade graphite anode battery material** specifically designed for long-life battery applications such as electric vehicles and battery energy storage systems.

Demand for electric vehicles and battery energy storage is driving demand for long life lithium ion batteries which in turn is driving demand for **premium grade graphite anode battery material**, the target market for our PUREgraphite business.

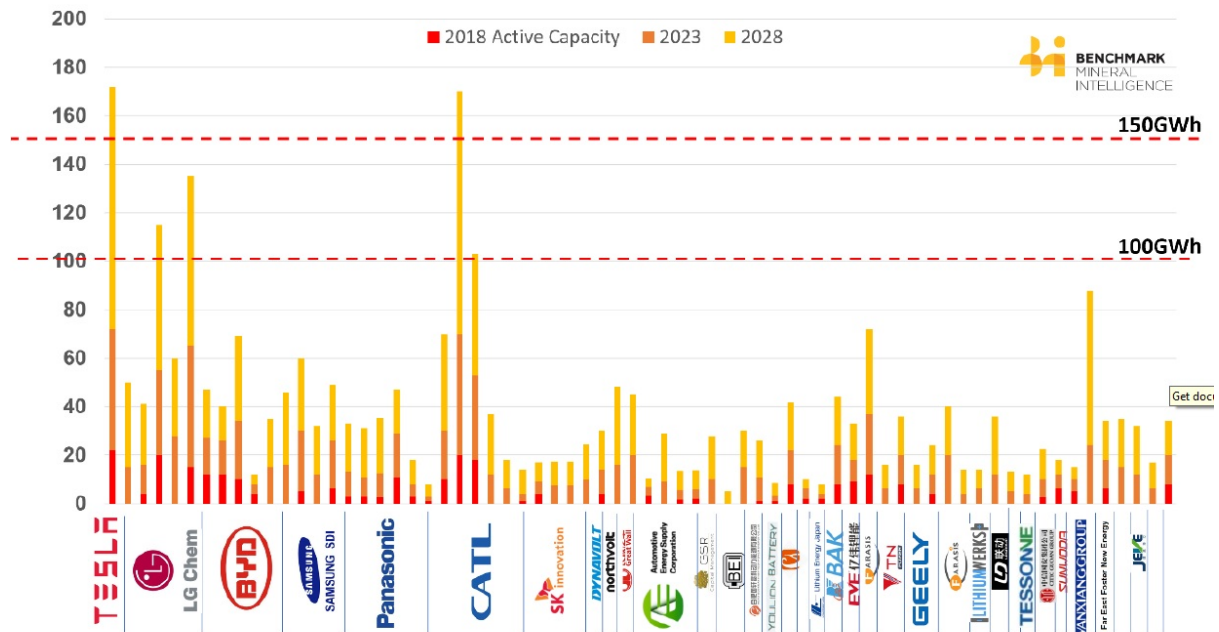
Battery Anode Market dynamics

Global growth in planned lithium ion battery capacity is unprecedented. Benchmark Mineral Intelligence CEO Simon Moores reports that since October 2017, planned lithium ion battery capacity in the pipeline for the period 2019-2028 has risen from 289GWh to 1,549GWh (1.54TWh)*.

He estimates this expanded capacity is the equivalent of 23-24 million sedan-sized electric vehicles. Moores states that this scale will contribute to lithium ion battery production costs going below \$100/kWh - a figure long seen as a tipping point for the adoption of mass market EVs.

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Build out of lithium ion battery capacity from 2018 to 2028



Source: Benchmark Mineral Intelligence

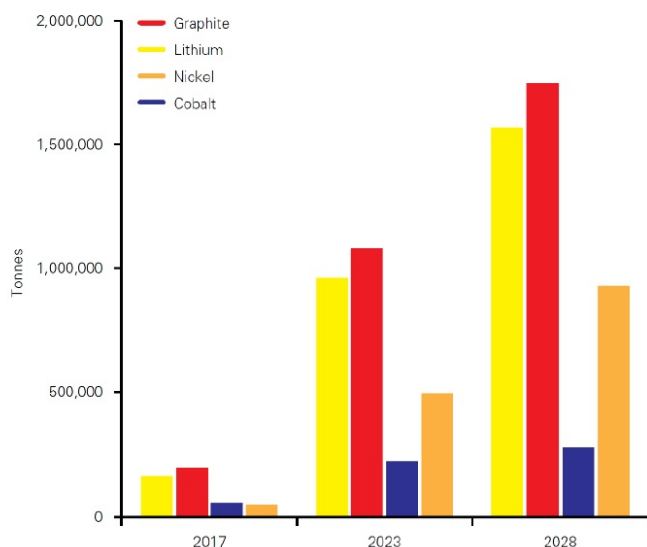
(*Refer written Testimony of Simon Moores, Managing Director, Benchmark Mineral Intelligence on Tuesday 5 February 2019 to US Senate Committee on Energy and Natural Resources Committee)

Moore notes that almost exclusively, these megafactories are being built to make lithium ion battery cells using two chemistries: nickel-cobalt-manganese (NCM) and nickel-cobalt-aluminium (NCA) both of which use graphite on the anode. This means the supply of lithium, cobalt, nickel and manganese to produce the cathode, alongside graphite to produce battery anodes, needs to rapidly evolve for the 21st century. He states that the scaling up of these chemically engineered materials, which are not commodities, is a major challenge for the industry.

The following chart and table produced by Benchmark Minerals Intelligence illustrates the theoretical demand for specialised battery materials associated with the planned battery factories at a 100% utilisation rate.

**DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

**Lithium ion Battery Megafactory Raw Material Demand (tonnes)
at 100% Utilisation Rate**



| MATERIAL | 2017 | 2023 | 2028 |
|----------------|---------|-----------|-----------|
| LITHIUM | 162,752 | 961,351 | 1,570,020 |
| GRAPHITE ANODE | 194,160 | 1,080,360 | 1,747,800 |
| COBALT | 54,354 | 219,679 | 276,401 |
| NICKEL | 48,584 | 494,774 | 928,018 |

Source: Benchmark Mineral Intelligence

This data shows that demand growth for battery materials and specifically premium grade graphite anode battery material (PUREgraphite target market) is potentially 10X in 10 years.

Other important factors that go to the potential of our PUREgraphite business include:

- A small number of companies able to make premium grade graphite anode materials
- Significant intellectual property associated with product design and manufacturing
- Current supply is 100% dominated by China or Asian suppliers using China feedstocks
- There are no established producers of premium grade graphite anode battery material outside Asia
- OEMs are seeking to diversify, bring closer and make more secure their supply chains
- Battery makers are seeking to diversify, bring closer and make more secure their supply chains
- PUREgraphite's product performance benchmarks with the best in the market
- PUREgraphite's manufacturing costs are expected to be highly competitive with the best in the market

PUREgraphite's business plan is to become the first non-Asia based producer of premium grade graphite anode battery material manufactured in the USA using USA sourced feedstock materials.

Our business plan includes first commercial production by 30 June 2019, and then a subsequent ramp up of that production to a forecast 1,000 tpa by the end of the 2019 calendar year.

Our five-year aspirational business plan is to ramp production up to 25,000 tpa by the end of calendar year 2023 and to grow the business significantly beyond that capacity thereafter subject to demand.

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

During the half year PUREgraphite made significant progress including the achievement of a market ready commercial product that can be manufactured competitively in commercial qualities. Achievement of this milestone required significant R&D in product design and manufacturing processes, extensive testing of the product in battery manufacturing plant processes and full battery cell performance testing.

During the period we also completed engineering of commercial manufacturing processes enough to allow ordering of specialised equipment for our first commercial scale production plant. Significant progress was made in the half year in the manufacturing and acceptance testing of this specialised equipment and included the commencement of deliveries of equipment to our facility in Tennessee, USA.

Preparation for the move to 75% of PUREgraphite

A priority for the half year was the due diligence to support the exercise of our "Call Option" to increase our ownership of the PUREgraphite venture and achieve control ahead of its expiry date on 2 February 2019.

NOVONIX completed this work, satisfied itself that the PUREgraphite product was market ready, the commercial manufacturing process was sufficiently known and tested, and the business was sufficiently on track to achieve commercial production and customer sales in calendar year 2019.

NOVONIX also updated internal modelling with the latest information which showed significant enterprise value potential for the PUREgraphite business.

Extensive work was done in the half year to understand the options for funding the exercise of the "Call Option".

These factors combined to support the NOVONIX Board deciding that the exercise of this "Call Option" was a highly compelling investment for NOVONIX and that funding was warranted to ensure the opportunity was secured before it expired on 2 February 2019.

Given the above this "Call Option" was exercised on 31 January 2019 for USD\$5m in accordance with the February 2017 Joint Venture agreement and funded via a short-term bridge loan from the St Baker Energy Innovation Fund to be replaced by three-year convertible notes after shareholder approval which was granted on 8 March 2019.

NOVONIX BTS (Battery Technology Solutions) (Halifax, Canada)

Since acquiring the BTS business in July 2017 we have been actively growing and diversifying the business.

Sales growth

We continue to grow sales of the flagship NOVONIX HPC testing equipment which grew 30% last year and is aiming for another 30% growth this year. The sales growth has been supported by the development and release of a higher powered model of equipment and later this year a lower cost version of the equipment each targeting specific needs in the market.

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

New product developments

We have made good progress advancing our next breakthrough battery testing technology called DTA (Differential Thermal Analysis). This technology will allow battery scientists to non-destructively analyse changes to chemistry within the battery cell over its lifetime which is not possible today. First sales of this new technology are expected to commence in calendar year 2019 with many leading global battery makers, consumer electronics companies, electric vehicle companies and research organisations pre-registering to buy this equipment when we release it.

In-house capabilities increasing rapidly

We have also decided to leverage the outstanding battery science talent within BTS and in the local Halifax area to establish a vibrant low-cost battery R&D capability/ecosystem aimed at developing next generation battery technologies and materials. During the half year we commissioned a pilot battery cell manufacturing facility, set-up an electrolyte R&D laboratory and commenced an internal electrolyte R&D program and commenced a battery R&D partnership with Dalhousie University.

This ecosystem now comprises a pilot scale battery cell manufacturing facility, an electrolyte R&D laboratory and a battery R&D partnership with Dalhousie University also located in Halifax.

This battery R&D capability/ecosystem has already started to generate valuable IP with the filing of a US provisional patent for "Silicon Infused Graphite" and further innovative and potentially valuable inventions in the pipeline. The ecosystem has already organically attracted many new opportunities for NOVONIX to work with other companies assisting them with design and prototyping of battery cells and the development and testing of battery materials.

Our battery testing services side of the business which was virtually non-existent when we acquired the business in 2017 is now coming to life and we are seeing solid growth in demand for our highly specialised battery testing service by leading global companies.

The activities within our BTS business are strategic first and foremost and designed to ensure NOVONIX stays at the forefront of lithium ion battery technology, stays well connected with leading battery makers, developers and users around the world and ensuring we continue to be well positioned for the future.

MOUNT DROMEDARY GRAPHITE PROJECT

As detailed in previous reports, NOVONIX has transitioned the business downstream to focus on battery technologies and advanced battery materials manufacturing (including artificial graphite-based anode materials) resulting in a reduced focus on the Mount Dromedary Natural Graphite Project.

The Mount Dromedary Graphite deposit is a world class natural graphite deposit and as such it is an asset of considerable value and an asset that NOVONIX may divest at an appropriate juncture.

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

SUBSEQUENT EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Since 31 December 2018, the Group has:

- (a) 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 to 75% provides 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.
- (b) Received a short-term loan of \$6,000,000 from the St Baker Energy Innovation Fund. The short-term loan is unsecured and interest-bearing at a rate of 10%. This short-term loan was used to fund the exercise of the PUREgraphite option and has been converted to Loan Notes following Shareholder approval on 8 March 2019.
- (c) Issued 15,000,000 convertible loan notes to St Baker Energy Innovation Fund (a related party of Philip St Baker) and 1,350,000 convertible loan notes to another leading Australian institutional investor to raise \$6,540,000 (\$6,000,000 of this funded via conversion of the short-term loan noted above), following Shareholder approval on 8 March 2019.

The key terms of the loan notes are:

- i. Unsecured loan noted issued at AUD\$0.40 per note;
- ii. Coupon rate of 10% per annum capitalized over a term of 36 months;
- iii. Convertible at the option of the holder on a 1 for 1 basis;
- iv. Redeemable by NOVONIX Limited at any time with 10 business days notice;
- v. The notes are not listed or tradeable; and
- vi. 1 for 1 attaching option, exercisable at \$0.80 per share within three years.

A further 10,000,000 convertible loan notes to St Baker Energy Innovation Fund and 900,000 convertible loan notes to another leading Australian institutional investor, to raise a further \$4,360,000, will be issued on 1 July 2019, subject to Shareholder approval. The loan notes will be issued on the same terms noted above.

- (d) Received a CAD \$500,000 interest-free loan from Atlantic Canada Opportunities Agency (ACOA) Business Development Program to help fund the Group's Nova Scotia based battery cell pilot manufacturing line.
- (e) Issued a total of 15,000,000 share options to certain key management personnel within the Group with an exercise price of \$0.50. The share options are in 10 equal tranches and will vest upon the achievement of increasing sales targets. All options expire on the cessation of employment. 2,500,000 of these share options will be subject to shareholder approval.
- (f) Issued a total of 750,000 options to employees within the Group with an exercise price of \$0.50. The share options vest in three equal tranches on 31 December 2019, 2020 and 2021. All options expire on cessation of employment or termination of services.

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

No other matters or circumstances has arisen since 31 December 2018 that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

A handwritten signature in black ink that reads "Tony Bellas". The signature is written in a cursive style with a long horizontal stroke at the end.

Tony Bellas
Chairman

14 March 2019
Brisbane



Auditor's Independence Declaration

As lead auditor for the review of Novonix Limited for the half-year ended 31 December 2018, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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
14 March 2019

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NOVONIX LIMITED

ABN 54 157 690 830

Half-year financial report

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General information

The financial statements cover NOVONIX Limited as a consolidated entity consisting of NOVONIX Limited and the entities it controlled at the end of, or during, the half-year. The financial statements are presented in Australian dollars, which is NOVONIX Limited's functional and presentation currency.

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

Registered office

c/- McCullough Robertson
Central Plaza Two
Level 11, 66 Eagle Street
Brisbane QLD 4000

Principal place of business

Level 12, 144 Edward Street
Brisbane QLD 4000

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 14 March 2019.

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

| | Notes | Consolidated Half-year | |
|---|-------|------------------------|--------------------|
| | | 2018 | 2017 |
| | | \$ | \$ |
| Continuing operations | | | |
| Revenue | 2 | 721,302 | 885,932 |
| Other income | 2 | 210,710 | 11,727 |
| Cost of goods sold | | (461,147) | (351,247) |
| Administrative and other expenses | | (620,881) | (663,515) |
| Borrowing costs | | (495,062) | (621,683) |
| Depreciation and amortisation expenses | | (161,942) | (49,329) |
| Marketing and project development costs | | (401,953) | (105,643) |
| Share based compensation | | (2,265,888) | (2,515,009) |
| Employee benefits expense | | (907,538) | (606,654) |
| Share of net losses of joint venture | | (751,981) | (667,649) |
| Loss before income tax expense | | (5,134,380) | (4,683,070) |
| Income tax expense | | - | (17,337) |
| Loss from continuing operations | | (5,134,380) | (4,700,407) |
| Other comprehensive income for the period, net of tax | | | |
| Foreign exchange differences on translation of foreign operations | | 57,771 | 25,903 |
| Total comprehensive income for the period | | (5,076,609) | (4,674,504) |
| | | Cents | Cents |
| Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company: | | | |
| Basic earnings per share | 8 | (4.17 cents) | (4.32 cents) |
| Diluted earnings per share | 8 | (4.17 cents) | (4.32 cents) |

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018**

| | Notes | Consolidated | |
|--------------------------------------|-------|---------------------------|--------------------|
| | | 31 December 2018 \$ | 30 June 2018 \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 3,447,280 | 396,224 |
| Trade and other receivables | | 280,915 | 560,231 |
| Other current assets | | 260,557 | 250,986 |
| Inventory | | 833,716 | 646,143 |
| Total current assets | | 4,822,468 | 1,853,584 |
| Non-current assets | | | |
| Property, plant and equipment | 4 | 2,844,277 | 2,441,418 |
| Exploration and evaluation assets | 5 | 13,370,116 | 13,253,083 |
| Investment in Joint Venture | | 10,891,569 | 11,643,550 |
| Intangible assets | | 5,058,525 | 5,027,964 |
| Other assets | | 8,560 | 8,040 |
| Total non-current assets | | 32,173,047 | 32,374,055 |
| Total assets | | 36,995,515 | 34,227,639 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 271,700 | 676,866 |
| Contract liabilities | | 246,085 | 209,278 |
| Borrowings | 6 | 5,396,292 | 86,886 |
| Total current liabilities | | 5,914,077 | 973,030 |
| Non-current liabilities | | | |
| Borrowings | 6 | 1,676,411 | 1,645,776 |
| Total non-current liabilities | | 1,676,411 | 1,645,776 |
| Total liabilities | | 7,590,488 | 2,618,806 |
| Net assets | | 29,405,027 | 31,608,833 |
| EQUITY | | | |
| Contributed equity | 7 | 38,163,405 | 38,163,405 |
| Reserves | | 14,082,748 | 11,152,174 |
| Accumulated losses | | (22,841,126) | (17,706,746) |
| Total equity | | 29,405,027 | 31,608,833 |

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

| Consolidated Group | Reserves | | | | | Total \$ |
|---|-----------------------------|-----------------------------|--|---|---|-------------------|
| | Contributed equity \$ | Accumulated losses \$ | Share based payments reserve \$ | Foreign currency translation reserve \$ | Convertible loan note reserve \$ | |
| Balance at 1 July 2017 | 22,208,494 | (7,383,364) | 2,839,547 | (36) | 2,426,120 | 20,090,761 |
| Loss for the period | - | (4,700,407) | - | - | - | (4,700,407) |
| Other comprehensive income | - | - | - | 25,903 | - | 25,903 |
| Total comprehensive income | - | (4,700,407) | - | 25,903 | - | (4,674,504) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Contributions of equity, net of transaction costs | 15,964,970 | - | - | - | - | 15,964,970 |
| Share-based payments | - | - | 2,515,009 | - | - | 2,515,009 |
| Balance at 31 December 2017 | 38,173,464 | (12,083,771) | 5,354,556 | 25,867 | 2,426,120 | 33,896,236 |
| Balance at 1 July 2018 | 38,163,405 | (17,706,746) | 8,585,446 | 140,608 | 2,426,120 | 31,608,833 |
| Loss for the period | - | (5,134,380) | - | - | - | (5,134,380) |
| Other comprehensive income | - | - | - | 57,771 | - | 57,771 |
| Total comprehensive income | - | (5,134,380) | - | 57,771 | - | (5,076,609) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Equity component of convertible notes, net of transaction costs | - | - | - | - | 606,915 | 606,915 |
| Share-based payments | - | - | 2,265,888 | - | - | 2,265,888 |
| Balance at 31 December 2018 | 38,163,405 | (22,841,126) | 10,851,334 | 198,379 | 3,033,035 | 29,405,027 |

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

| | Notes | Consolidated Half-year | |
|---|-------|------------------------|--------------------|
| | | 2018 | 2017 |
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Receipts from customers (GST inclusive) | | 1,249,739 | 977,884 |
| Payments to suppliers and employees (GST inclusive) | | (2,940,855) | (3,047,860) |
| Interest received | | 3,306 | 1,890 |
| Borrowing costs paid | | (37,350) | (16,510) |
| Government tax incentives received | | 79,204 | - |
| Income taxes paid | | - | (1,365) |
| Net cash outflow from operating activities | | <u>(1,645,956)</u> | <u>(2,085,961)</u> |
| Cash flows from investing activities | | | |
| Payments for exploration assets | | (135,478) | (250,728) |
| Refunds / (payments) for security deposits | | (500) | 6,000 |
| Payments for property, plant and equipment | | (634,840) | (1,478,689) |
| Net cash outflow from investing activities | | <u>(770,818)</u> | <u>(1,723,417)</u> |
| Cash flows from financing activities | | | |
| Proceeds on issue of shares, net of expenses | | - | 5,424,164 |
| Proceeds from issue of loan notes, net of expenses | | 5,461,900 | - |
| Proceeds from borrowings | | 52,749 | 1,546,370 |
| Repayment of borrowings | | (28,067) | (4,309) |
| Net cash inflow from financing activities | | <u>5,486,582</u> | <u>6,966,225</u> |
| Net increase (decrease) in cash and cash equivalents | | 3,069,808 | 3,156,847 |
| Effects of foreign currency | | (760) | 9,910 |
| Cash and cash equivalents at the beginning of the year | | <u>365,592</u> | <u>2,415,124</u> |
| Cash and cash equivalents at the end of the year | 3 | <u>3,434,640</u> | <u>5,581,881</u> |

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 1 Summary of significant accounting policies

These general purpose interim financial statements for the interim half-year reporting period ended 31 December 2018 have been prepared in accordance with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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

a) 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 \$5,134,380 (31 December 2017: \$4,700,407) and net operating cash outflows of \$1,645,956 for the half year ended 31 December 2018 (31 December 2017: \$2,085,961). As at 31 December 2018 the consolidated entity has cash of \$3,447,280 (30 June 2018: \$396,224).

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 company to raise capital as and when necessary;
- the ability of the consolidated entity to meet its cashflow forecasts;
- the successful and profitable growth of the battery materials and testing businesses; and
- the successful exploration and subsequent exploitation of the consolidated entity's tenements.

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 successfully raised \$6,540,000 via the issue of 16,350,000 convertible loan notes as approved by Shareholders on 8 March 2019;
- the consolidated entity will raise a further \$4,360,000 via the issue of 10,900,000 convertible loan notes on 1 July 2019, subject to shareholder approval;

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 1 Summary of significant accounting policies (continued)

- The directors believe there is sufficient cash available following the raise of \$6,540,000, as well as the planned issue of 10,900,000 convertible notes on 1 July 2019 to raise \$4,360,000, subject to shareholder approval, 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.

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.

b) Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

c) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period however there were no retrospective adjustments resulting from adopting the following standards:

- AASB 15 *Revenue from Contracts with Customers*, and
- AASB 9 *Financial Instruments*

AASB 15 *Revenue from Contracts with Customers* – Impact of adoption

NOVONIX has changed the presentation of certain amounts in the balance sheet to reflect the terminology of AASB 15 and AASB 9:

- Contract liabilities in relation to customer deposits paid for sale of goods were previously included in trade and other payables.
- Other current receivables and prepayments were previously presented together with trade receivables but are now presented as other current assets in the balance sheet, to reflect their different nature.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 1 Summary of significant accounting policies (continued)

Revenue from external parties policy effective 1 July 2018

i) Sale of goods

Revenue from sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

ii) Services revenue

Revenue from services is recognised in the accounting period in which the services are rendered.

iii) Other revenue

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

AASB 9 Financial Instruments – Impact of adoption

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 *Financial Instruments* from 1 July 2018 resulted in changes in accounting policies adopted by the Group, which has been detailed in the following narrative. The change in the Group's accounting policies, applied from 1 July 2018, did not impact prior year financial statement balances. Opening balances have not been restated. There has been no impact on the Group's results for the half year ended 31 December 2018.

(a) Classification and measurement

On 1 July 2018 (the date of initial application of AASB 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate AASB 9 categories. There was no impact on the balances in the financial statements resulting from this reclassification.

(b) Impairment of financial assets

The Group's trade and other receivables are subject to AASB 9's new expected credit loss model. The Group has revised its impairment methodology for trade and other receivables and applies the simplified approach to measuring expected credit losses. The simplified approach uses a lifetime expected loss allowance.

The loss allowances for trade and other receivables on 1 July 2018 were equal to the loss allowances as at 30 June 2018. There was no impact on the financial statement balances resulting from the application of AASB 9 methodology.

Individual debts that are known to be uncollectible are written off when identified.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 1 Summary of significant accounting policies (continued)

d) Impact of standards issued but not yet applied by the entity

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.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The group does not intend to adopt the standard before its effective date.

As the consolidated entity does not currently have any non-cancellable operating leases there is not expected to be any impact on the financial statements from applying the new standard.

e) Critical accounting estimates

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

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 transferred to mine properties and 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.

Value of intangible assets relating to acquisitions

The Group has allocated portions of the cost of acquisitions to brand name and technology intangibles, valued using the multi-period excess earnings method. These calculations require the use of assumptions including future customer retention rates and cash flows.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 1 Summary of significant accounting policies (continued)

Impairment of goodwill

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.

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.

Carrying value of investments in joint ventures

At balance date, the Group had a 50% interest in PUREgraphite LLC. It has joint control over that entity but does not have control. Therefore, the investment is classified as a joint venture and is accounted for using the equity method. Refer to note 9 for information on post balance date events that have affected this joint venture.

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.

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 is 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 has resulted in a total net credit of \$127,637 being recorded to share based payments expense for the half year ended 31 December 2018, in respect of the particular share options and performance rights.

The share based payment expense in respect of these share options and performance rights will continue to be recognised over the remaining vesting period based on the revised valuations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 2 Segment and revenue reporting

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.

In the current financial year, the board has identified three operating segments being Battery Testing, Battery Materials and Graphite Exploration and Mining. The Battery Testing segment develops and manufactures battery cell testing equipment, whilst the Battery Materials segment develops and manufactures battery anode materials.

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 related to Corporate bank accounts
- Borrowing costs associated with Loan Notes
- Liability component of Loan notes recorded as borrowings
- 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 HALF-YEAR ENDED 31 DECEMBER 2018**

Note 2 Segment information (continued)

Segment performance

| 2018 | Battery Testing \$ | Battery Materials \$ | Graphite Exploration and Mining \$ | Unallocated \$ | Total \$ |
|---|-----------------------------------|-------------------------------------|---|---------------------------|---------------------|
| Sales of goods revenue | 579,135 | - | - | - | 579,135 |
| Services revenue | 142,167 | - | - | - | 142,167 |
| Other income | 210,462 | - | - | 248 | 210,710 |
| Total group revenue and other income | 931,764 | - | - | 248 | 932,012 |
| Segment net profit / (loss) from continuing operations before tax | (2,207,196) | (888,088) | - | (2,118,696) | (5,213,980) |

| Restated 2017 | Battery Testing \$ | Battery Materials \$ | Graphite Exploration and Mining \$ | Unallocated \$ | Total \$ |
|---|-----------------------------------|-------------------------------------|---|---------------------------|---------------------|
| Sales of goods revenue | 877,725 | - | - | - | 877,725 |
| Services revenue | 8,207 | - | - | - | 8,207 |
| Other income | 10,038 | - | - | 1,689 | 11,727 |
| Total group revenue and other income | 895,970 | - | - | 1,689 | 897,659 |
| Segment net profit / (loss) from continuing operations before tax | (1,608,798) | (979,587) | - | (2,094,685) | (4,683,070) |

Segment assets

| | Battery Testing \$ | Battery Materials \$ | Graphite Exploration and Mining \$ | Unallocated \$ | Total \$ |
|------------------|-----------------------------------|-------------------------------------|---|---------------------------|---------------------|
| 31 December 2018 | 9,174,466 | 10,891,569 | 13,384,144 | 3,545,336 | 36,995,515 |
| 30 June 2018 | 8,826,997 | 11,643,550 | 13,268,598 | 488,494 | 34,227,639 |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

Note 2 Segment information (continued)

Segment liabilities

| | Battery Testing \$ | Battery Materials \$ | Graphite Exploration and Mining \$ | Unallocated \$ | Total \$ |
|------------------|--------------------------|----------------------------|---|-------------------|-------------|
| 31 December 2018 | 2,106,464 | - | - | 5,484,024 | 7,590,488 |
| 30 June 2018 | 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 are carried out in Australia and all segment activities relating to Battery Materials and Battery Testing are carried out in North America.

Note 3 Current assets – Cash and cash equivalents

| | 31 December 2018 \$ | 30 June 2018 \$ |
|--------------|------------------------------------|--------------------------------|
| Cash at bank | 3,447,280 | 396,224 |

Reconciliation to cash flow statement

The above figures are reconciled to the amount of cash shown in the statement of cash flows at the end of the period as follows:

| | | |
|--|------------------|----------------|
| Balances as above | 3,447,280 | 396,224 |
| Bank overdrafts | (12,640) | (30,632) |
| Balance as per the statement of cash flows | <u>3,434,640</u> | <u>365,592</u> |

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

Note 4 Non-current assets – Property, plant and equipment

| | 31 December 2018 | 30 June 2018 |
|--|-----------------------------|-------------------------|
| | \$ | \$ |
| Plant and equipment – at cost | 1,108,907 | 1,036,480 |
| Plant and equipment – accumulated depreciation | (231,195) | (128,605) |
| | <u>877,712</u> | <u>907,875</u> |
| Buildings – at cost | 1,653,167 | 1,197,162 |
| Buildings – accumulated depreciation | (50,504) | (22,963) |
| | <u>1,602,663</u> | <u>1,174,199</u> |
| Land – at cost | <u>363,902</u> | <u>359,344</u> |
| | <u><u>2,844,277</u></u> | <u><u>2,441,418</u></u> |

| | Plant and equipment | Land | Buildings | Total |
|--------------------------------------|--------------------------------|-----------------------|-------------------------|-------------------------|
| | \$ | \$ | \$ | \$ |
| Movements in Carrying Amounts | | | | |
| Balance at 1 July 2018 | 907,875 | 359,344 | 1,174,199 | 2,441,418 |
| Additions | 59,527 | - | 440,813 | 500,340 |
| Depreciation | (99,109) | - | (27,250) | (126,359) |
| Exchange differences | 9,419 | 4,558 | 14,901 | 28,878 |
| | <u>877,712</u> | <u>363,902</u> | <u>1,602,663</u> | <u>2,844,277</u> |
| Balance at 31 December 2018 | <u><u>877,712</u></u> | <u><u>363,902</u></u> | <u><u>1,602,663</u></u> | <u><u>2,844,277</u></u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 5 Non-current assets – Exploration and evaluation assets

| | 31 December 2018 \$ | 30 June 2018 \$ |
|---|---------------------------|-----------------------|
| Exploration and evaluation assets – at cost | 13,370,116 | 13,253,083 |

The capitalised exploration and evaluation assets carried forward above have been determined as follows:

| | |
|---|------------|
| Balance at 1 July 2018 | 13,253,083 |
| Expenditure incurred during the half-year | 117,033 |
| Balance as at 31 December 2018 | 13,370,116 |

The Directors have assessed that for the exploration and evaluation assets recognised at 31 December 2018, the facts and circumstances do not suggest that the carrying amount of an asset may exceed its recoverable amount. In considering this, the Directors have had regard to the facts and circumstances that indicate a need for an impairment as noted in Accounting Standard AASB 6 *Exploration for and Evaluation of Mineral Resources*.

Note 6 Borrowings

| | 31 December 2018 | | | 30 June 2018 | | |
|----------------------------|------------------|-----------------------|-------------|---------------|-----------------------|-------------|
| | Current \$ | Non- Current \$ | Total \$ | Current \$ | Non- Current \$ | Total \$ |
| <i>Secured</i> | | | | | | |
| Bank overdrafts | 12,639 | - | 12,639 | 30,632 | - | 30,632 |
| Bank loans (i) | 56,967 | 1,266,142 | 1,323,109 | 56,254 | 1,277,591 | 1,333,845 |
| Total secured borrowings | 69,606 | 1,266,142 | 1,335,748 | 86,886 | 1,277,591 | 1,364,477 |
| <i>Unsecured</i> | | | | | | |
| Loan notes (ii) | 5,301,941 | - | 5,301,941 | - | - | - |
| Other loans (iii) | 24,745 | 410,269 | 435,014 | - | 368,185 | 368,185 |
| Total unsecured borrowings | 5,326,686 | 410,269 | 5,736,955 | - | 368,185 | 368,185 |
| Total borrowings | 5,396,292 | 1,676,411 | 7,072,703 | 86,886 | 1,645,776 | 1,732,662 |

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 6 Borrowings (continued)

(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 operates. The total available amount under the facility is CAD \$1,330,000 and it has been fully drawn down as at 31 December 2018. 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 \$1,966,566.

(ii) Loan notes

During the half year ended 31 December 2018 9,166,667 convertible loan notes were issued to sophisticated investors at \$0.60 each, raising a total of \$5,500,000. At 31 December 2018 none of these Loan Notes have been converted.

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.

The present value of the liability component at initial recognition was \$4,888,851, with issue costs of \$33,866. The balance of \$611,149 was recognised in equity, with issue costs of \$4,234.

Key Loan Note Terms

- Allowing for early conversion;
- Unsecured loan note issued at AUD\$0.60 per note;
- Coupon 10% per annum capitalised over a term of 13 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 interest on full term;
- Maturity date of 13 months after the date of issue; and
- The notes are not listed or tradeable.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2018**

Note 6 Borrowings (continued)

Reconciliation of movements in loan note liability:

| | 31 December 2018 \$ |
|---|------------------------------------|
| Balance at 1 July 2018 | - |
| Present value of liability component at initial recognition | 4,888,851 |
| Loan note issue costs | (33,866) |
| Interest accrued for the year | <u>446,956</u> |
| Balance at 31 December 2018 | <u>5,301,941</u> |

(iii) Other loans

In December 2017, the group also entered into a contribution agreement with Atlantic Canada Opportunities Agency (ACOA), for CAD\$500,000. As at 31 December 2018 the facility has been fully 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.

(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 loan is interest free. The initial fair value of the ACOA loan was determined using a market interest rate for equivalent borrowings at the issue date. This resulted in a day 1 gain at each drawdown date.

Financing arrangements

The group's undrawn borrowing facilities as at 31 December 2018 totals \$nil (CAD \$nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 6 Borrowings (continued)

Maturities of financial liabilities

As at 31 December 2018, the contractual maturities of the group's non-derivative financial liabilities were as follows:

| Contractual maturities of financial liabilities | Less than 6 months | 6 - 12 months | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total contractual cash flows | Carrying amount |
|---|--------------------|------------------|-----------------------|-----------------------|------------------|------------------------------|------------------|
| At 31 December 2018 | | | | | | | |
| Trade and other payables | 485,285 | - | - | - | - | 485,285 | 485,285 |
| Borrowings | 74,401 | 5,387,729 | 194,164 | 565,232 | 1,761,436 | 7,982,962 | 7,072,703 |
| Total non-derivatives | 559,686 | 5,387,729 | 194,164 | 565,232 | 1,761,436 | 8,468,247 | 7,557,988 |

Note 7 Contributed equity

| | 31 December 2018 Shares | 30 June 2018 Shares | 31 December 2018 \$ | 30 June 2018 \$ |
|----------------------------|----------------------------|------------------------|------------------------|--------------------|
| (a) Share capital | | | | |
| Ordinary shares Fully paid | 123,137,680 | 123,137,680 | 38,163,405 | 38,163,405 |

(b) 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 HALF-YEAR ENDED 31 DECEMBER 2018

Note 8 Earnings per share

| | Consolidated | |
|--|---------------|---------------|
| | 2018 | 2017 |
| | \$ | \$ |
| <i>Earnings per share for loss from continuing operations</i> | | |
| Loss after income tax attributable to the owners of NOVONIX Limited | (5,134,380) | (4,700,407) |
| | <hr/> | <hr/> |
| | Number | Number |
| Weighted average number of shares used in calculating basic and diluted earnings per share | 123,137,680 | 108,783,850 |
| | <hr/> | <hr/> |
| | Cents | Cents |
| Basic earnings per share | (4.17) | (4.32) |
| Diluted earnings per share | (4.17) | (4.32) |

Note 9 Events occurring after the balance sheet date

Since 31 December 2018, the Group has:

- (a) 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 to 75% provides 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.
- (b) Received a short-term loan of \$6,000,000 from the St Baker Energy Innovation Fund. The short-term loan is unsecured and interest-bearing at a rate of 10%. This short-term loan was used to fund the exercise of the PUREgraphite option and has been converted to Loan Notes following Shareholder approval on 8 March 2019.
- (c) Issued 15,000,000 convertible loan notes to St Baker Energy Innovation Fund (a related party of Philip St Baker) and 1,350,000 convertible loan notes to another leading Australian institutional investor to raise \$6,540,000 (\$6,000,000 of this funded via conversion of the short-term loan noted above), following Shareholder approval on 8 March 2019.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

Note 9 Events occurring after the balance sheet date (continued)

The key terms of the loan notes are:

- i. Unsecured loan noted issued at AUD\$0.40 per note;
- ii. Coupon rate of 10% per annum capitalized over a term of 36 months;
- iii. Convertible at the option of the holder on a 1 for 1 basis;
- iv. Redeemable by NOVONIX Limited at any time with 10 business days notice;
- v. The notes are not listed or tradeable; and
- vi. 1 for 1 attaching option, exercisable at \$0.80 per share within three years.

A further 10,000,000 convertible loan notes to St Baker Energy Innovation Fund and 900,000 convertible loan notes to another leading Australian institutional investor, to raise a further \$4,360,000, will be issued on 1 July 2019, subject to Shareholder approval. The loan notes will be issued on the same terms noted above.

- (d) Received a CAD \$500,000 interest-free loan from Atlantic Canada Opportunities Agency (ACOA) Business Development Program to help fund the Group's Nova Scotia based battery cell pilot manufacturing line.
- (e) Issued a total of 15,000,000 share options to certain key management personnel within the Group with an exercise price of \$0.50. The share options are in 10 equal tranches and will vest upon the achievement of increasing sales targets. All options expire on the cessation of employment. 2,500,000 of these share options will be subject to shareholder approval.
- (f) Issued a total of 750,000 options to employees within the Group with an exercise price of \$0.50. The share options vest in three equal tranches on 31 December 2019, 2020 and 2021. All options expire on cessation of employment or termination of services.

No other matters or circumstances has arisen since 31 December 2018 that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *'Interim Financial Reporting'*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

A handwritten signature in black ink that reads "Tony Bellas". The signature is written in a cursive style with a long, sweeping tail on the final letter.

Tony Bellas
Chairman

14 March 2019
Brisbane



Independent auditor's review report to the members of Novonix Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Novonix Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Novonix Limited Group. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Novonix Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Novonix Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty related to going concern

We draw attention to Note 1 in the half year financial report, which indicates that the Group incurred a net loss of \$5,134,380 and net operating cash outflows of \$1,645,956 for the half year ended 31 December 2018. As a result, the Group is dependent on the ability to raise capital as and when necessary. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cause significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers

PricewaterhouseCoopers

Michael Shewan

Michael Shewan
Partner

Brisbane
14 March 2019