

APPENDIX 4D
Deterra Royalties Limited

(ACN 641 743 348)

24 February 2021

ASX: DRR

RESULTS FOR ANNOUNCEMENT TO THE MARKET¹

This statement includes the consolidated results of the Deterra Royalties Limited for the Interim Period ended 31 December 2020 (H1 FY21) on a statutory basis. On 14 December 2020 ASIC granted relief to Deterra Royalties in respect of the requirement (according to Section 323D(5) of the Corporations Act) that, for reporting purposes, the first half year for a company is the first six months after incorporation. The relief allows the Company to align its reporting requirements and release one half-year report as if the period 15 June 2020 to 31 December 2020 were the first financial half-year of the Company.

The half-year report should be read in conjunction with the Deterra Royalties Pre-quotation Disclosure (22 October 2020). No comparative period statutory results are available given the Company was incorporated on 15 June 2020.

Report for the half year ended 31 December 2020	\$'000
Revenue from ordinary activities	53,859
Profit/(loss) from ordinary activities after tax attributable to members	33,341
Net profit/(loss) after tax attributable to members	33,341
Interim dividend – fully franked (cents per share)	2.45
Record date for determining entitlements to the dividend	17 March 2021
Payment date	31 March 2021
Net tangible assets per share as at 31 Dec 2021 (cents per share)	0.1

Dividends – Further information on dividends paid or recommended is provided in Section 7 of the Directors' Report.

Details of entities over which control has been gained or lost during the period – Further information is provided in Section 6 of the Directors' Report.

This document was approved and authorised for release by Deterra's Managing Director.

Ian Gregory
Company Secretary

¹ This page and the accompanying 47 pages comprise the half-year end financial information given to the Australian Securities Exchange (ASX) under Listing Rule 4.2A.3.

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24 February 2021

ASX: DRR

Interim Financial Report for the period to 31 December 2020

Deterra Royalties Limited (ASX: DRR) (**Deterra** or **Company**) is pleased to release its first Interim Results for the period 15 June 2020 to 31 December 2020.

Highlights:

- Successful execution of demerger and ASX listing of Deterra
 - Board and management team now fully in place
 - Implemented lean corporate structure with outsourced functional support
 - Modest working capital facility in place
- Business model delivering strong financial performance
 - Revenue of \$53.9 million with an NPAT of \$33.3 million (including transaction costs)
 - Underlying EBITDA of \$47.8 million at an Underlying EBITDA margin of 97%
 - Interim Dividend of 2.45 cents per share (fully franked) equal to 100% of Post-demerger Period NPAT declared
- Developing royalty revenue growth options
 - MAC South Flank now 90 per cent complete with production scheduled to commence mid 2021
 - Yalyalup and Wonnerup North approvals should extend life of these assets
 - Commenced identification and evaluation of new royalty business opportunities

Key Points of Note:

\$ million, unless otherwise stated	Total	Pre-demerger¹	Post-demerger¹
Royalty Revenue	53.9	29.3	24.6
Underlying EBITDA	47.8	24.4	23.4
Underlying EBITDA Margin	97%	100%	95%
Net Profit After Tax (NPAT)	33.3	20.4	12.9
Dividend – interim (cps) ²	6.31	3.86	2.45
Dividend as % NPAT	100%	100%	100%

¹The terms Pre-demerger Period and Post-demerger Period are used to denote the beneficial economic ownership of the assets and allocation of liabilities rather than calendar dates (due to overlapping time periods). Please see DRR Interim Period Results report for definition.

² Dividend per share is calculated on the Group's profit after tax for the pre-demerger period as if the current number of shares on issue of 528,462,101 was in place during this time.

Deterra's Managing Director, Julian Andrews, commented on the interim period results:

"It is pleasing to have completed the demerger process and to have successfully established the Deterra business. This result showcases the quality of the royalty assets in our portfolio, and in particular the Mining Area C royalty, and the ability to distribute 100% of net profits of \$12.9 million as dividends so shortly after our demerger.

"Mining Area C's South Flank expansion is on track to produce first ore by the middle of this year. Our shareholders will receive direct benefit from the significant growth in production without exposure to capital costs for the project.

"This inherent growth in the portfolio also allows us to be patient in pursuing other opportunities to grow the business. We have a focused and capable team in place to seek out opportunities to add to and diversify our royalty portfolio in a disciplined way."

Overview of Financial Performance:

This first Interim Financial Report covers the period of 15 June 2020 to 31 December 2020. During this period, Deterra successfully completed a demerger from its former parent company, Iluka Resources Limited.

The NPAT of the consolidated entity for the interim period amounted to \$33.3 million and included:

- Pre-demerger Period NPAT of \$20.4 million, paid as a dividend to Iluka on 30 October 2020;
- Post-demerger Period NPAT³ of \$12.9 million, retained by Deterra.

Royalty revenue for the interim period was \$53.9 million. This includes \$53.3 million in royalties from Mining Area C and associated adjustments (detailed below) and \$0.6 million from the Yoongarillup and Wonnerup assets.

Operating expenses for the two months from 2 November 2020 amounted to \$1.1 million. This remains in line with the annual pro-forma cost estimates of \$6.9 million⁴. Transaction expenses of \$4.6 million is below the pro-forma transaction costs of up to \$6.0 million⁴.

Underlying EBITDA for the period was \$47.8 million at an Underlying EBITDA Margin of 97%. This margin demonstrates the simplicity and scalability of the royalty business model.

Dividend:

The Board has resolved to pay a fully franked, interim dividend to eligible Deterra Shareholders of \$12.9 million or 2.45 cents per share. This amounts to 100% of Post-demerger Period NPAT, consistent with the Deterra's previously announced intent.

The total dividend for the period covered by this Interim Financial Report is \$33.3 million, or 6.31 cents per share. This includes a \$20.4 million or 3.86 cents per share dividend already paid to Iluka, by way of an intercompany settlement, for royalty income earned by Deterra for the Pre-demerger Period, less certain demerger related expenses.

³ Includes demerger and transaction expenses as agreed between Deterra and Iluka. See the Demerger Booklet (Deterra Royalties Limited), published by Iluka Resources on 10 September 2020 for details of separation agreements.

⁴ As presented in the Demerger Booklet (Deterra Royalties Limited), published by Iluka Resources on 10 September 2020.

Royalty Asset Overview:

Deterra will seek to maximise value and transparency around our portfolio of six royalty assets. A brief update on each royalty is shown below:

Mining Area C - The Group receives a 1.232% royalty, paid quarterly on Australian denominated FOB revenue from the sale of material produced in the Mining Area C (MAC) royalty area. An additional, one-off capacity payment of A\$1 million per million dry metric tonnes is payable on any increase in annual mine production, determined for the period ending 30 June.

Royalty revenue for the Interim Period was \$53.3 million, comprising:

- December 2020 quarter revenue of \$24.4 million;
- September 2020 quarter revenue of \$24.1 million; and
- Demerger-related adjustment to receivables for the June 2020 quarter of \$4.8 million

The US\$3.6 billion South Flank expansion project is now 90% complete and remains on track for first production in the middle of the 2021 calendar year.⁵

Other Royalties – Royalty revenue of \$0.6 million for the Interim Period was derived from other royalties held over Western Australian mineral sands operations run by Doral and by Tronox.

Deterra owns two royalty agreements over mineral leases operated by Doral Mineral Sands Pty Ltd. With the Yoongarillup mine in decommissioning⁶, it is anticipated that production will be replaced by the development of the Yalyalup mine 6km northeast of the existing operation, subject to remaining environmental approvals.

Deterra also owns a royalty agreement over mineral leases operated by Tronox through its subsidiary Cable Sands Pty Ltd. The Wonnerup complex of mines has been in production since 2013. All environmental and regulatory approvals for Stage 1 Wonnerup North Project are in place with the final Stage 2 approvals are nearing completion.⁷

Deterra owns royalty agreements over two non-operating leases currently owned by St Ives Gold and Sheffield Resources. No mining activity is anticipated on these leases in the immediate future.

This document was approved and authorised for release by Deterra's Managing Director.

Ian Gregory
Company Secretary

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⁵ BHP Operational Review for the half year ended 31 December 2020.

⁶ Doral, company website.

⁷ Tronox, Company Website - Western Operations Fact Sheet.

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DETERRA ROYALTIES LIMITED

ABN 88 641 743 348

INTERIM FINANCIAL REPORT

for the period from 15 June 2020

to 31 December 2020

DETERRA ROYALTIES LIMITED

ABN 88 641 743 348

Interim Financial Report for the period from 15 June 2020 to 31 December 2020

Contents	Page
Corporate Directory	1
Directors' Report	2
Auditor's Independence Declaration	11
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	12
Condensed Consolidated Statement of Financial Position	13
Condensed Consolidated Statement of Changes in Equity	14
Condensed Consolidated Statement of Cash Flows	15
Notes to the Condensed Consolidated Financial Statements	16
Directors' Declaration	38
Independent Auditor's Review Report	39

Corporate Directory

Board Members

Jennifer Seabrook (Non-Executive Chair)
Graeme Devlin (Non-Executive Director)
Joanne Warner (Non-Executive Director)
Adele Stratton (Non-Executive Director)
Julian Andrews (Managing Director and
Chief Executive Officer)

Share Registry

Computershare Investor Services Pty Ltd
Level 11, 172 St George's Terrace
Perth WA 6000

GPO Box D182
Perth WA 6840

Telephone:

1300 733 043 (within Australia)

+61 3 9415 4801 (outside Australia)

Joint Company Secretaries

Brendan Ryan
Ian Gregory

Auditors

PricewaterhouseCoopers
15/125 St Georges Terrace Perth WA 6000
Telephone: +61 8 9238 3000

Principal Place of Business & Registered Office

Level 5, 216 St Georges Terrace
Perth WA 6000
Telephone: +61 8 6277 8880

Securities Exchange Listing

Australian Securities Exchange
(Home branch: Perth, Western Australia)
ASX Code: **DRR**

Website

www.deterraroyalties.com

Directors' Report

Your directors submit their report on the consolidated entity consisting of Deterra Royalties Limited (Deterra) and the entities it controlled (the "Group" or the "consolidated entity") during the interim period from 15 June 2020 (date of incorporation) to 31 December 2020. The consolidated financial statements are presented in Australian dollars, which is Deterra Royalties' functional and presentation currency.

In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

1. Directors

The names of directors who held office during or since the end of the interim period and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Jennifer Seabrook	Non-Executive Chair (Appointed 15 June 2020)
Julian Andrews	Managing Director and Chief Executive Officer (Appointed 15 June 2020)
Graeme Devlin	Non-Executive Director (Appointed 16 October 2020)
Joanne Warner	Non-Executive Director (Appointed 16 October 2020)
Adele Stratton	Non-Executive Director (Appointed 15 June 2020)

2. Joint Company Secretaries

Brendan Ryan	Chief Financial Officer & Joint Company Secretary (Appointed 21 October 2020)
Ian Gregory	Joint Company Secretary (Appointed 21 October 2020)
Nigel Tinley	Company Secretary (Appointed 15 June 2020, resigned 21 October 2020)

3. Principal Activities

Deterra Royalties Limited is an Australian company listed on the Australian Securities Exchange (ASX code: DRR). The Group's principal activity is the management and growth of a portfolio of royalty assets across bulk commodities, base, precious and battery metals, and energy. The existing portfolio includes the major asset of the Mining Area C royalty plus five smaller royalties including Yoongarillup/Yalyalup, Wonnerup, Eneabba and St Ives.

4. Reporting Period

Deterra has been granted relief by the Australian Securities and Investments Commission (ASIC) from the requirements to comply with section 323D(5) of the Corporations Act 2001 (Cth) (Corporations Act) for Deterra's first financial half-year. Section 323D(5) of the Corporations Act requires, for reporting purposes, that the first half-year for a company is the first six months since incorporation, which in Deterra's case was from 15 June 2020 to 14 December 2020. The ASIC relief, which was granted on 14 December 2020, allowed Deterra to align its reporting requirements and release one half-year report as if the period 15 June 2020 to 31 December 2020 was the first financial half-year of Deterra. A copy of the ASIC instrument (ASIC Instrument 20-1158) was attached to Deterra's ASX announcement dated 15 December 2020 and is available at www.asx.com.au.

5. Operating Results

During the period covered by this Interim Financial Report (15 June 2020 to 31 December 2020), Deterra Royalties Limited (Deterra) and its controlled entities (Deterra Royalties (MAC) Limited and Deterra Royalties Holdings Pty Ltd) were demerged from their former parent company, Iluka Resources Limited (Iluka).

In describing the period covered by this Interim Financial Report, the terms Pre-demerger Period and Post-demerger Period are used to denote the beneficial economic ownership of the assets and allocation of liabilities during these periods, rather than strict adherence to calendar dates. These terms are defined as follows:

Directors' Report

- Pre-demerger Period – Represents the period where Iluka Resources Limited retained all beneficial economic interests and liabilities related to the royalty asset portfolio. This includes all royalty revenues through the quarter ended 30 September 2020, and all operating expenses (as agreed in the separation deed⁹) prior to demerger of the Deterra entity on 2 November 2020.
- Post-demerger Period – Represents the period from which Deterra Resources Limited receives all beneficial economic interests and liabilities to the royalty asset portfolio. This includes all royalty revenues from quarter started 1 October 2020, and all operating expenses (as agreed in the separation deed) from the demerger of the Deterra Resources Limited entity on 2 November 2020.

The profit of the consolidated entity after income tax for the period covered by this Interim Financial Report was \$33,341,000. Under the terms of the demerger, Iluka received a dividend of \$20,393,000 for the Pre-demerger Period which was paid on 30 October 2020. The balance of \$12,948,000 in earnings was retained by Deterra. This amount relates to the Post-demerger Period and includes one-off demerger implementation and transaction costs.

6. Review of Operations

During the period covered by this Interim Financial Report, the financial position and performance of the Group was particularly affected by a series of transactions designed to transfer a portfolio of six existing royalty assets from Iluka Resources Limited (Iluka) to Deterra Royalties Limited (Deterra), and the subsequent demerger of Deterra as a separate entity listed on the Australian Stock Exchange.

The transactions during the period covered by this Interim Financial Report include:

- On 15 June 2020, a new company, Deterra Royalties Limited (Deterra), was incorporated. For the period between 15 June to 30 June the Company was dormant with no royalty assets or revenues attributable to the entity.
- On 24 June 2020, a new company, Deterra Royalties Holdings Pty Ltd, was incorporated as wholly owned subsidiary of Deterra. Deterra Royalties Holdings Pty Ltd holds the St Ives royalty asset.
- On 30 June 2020, Deterra acquired 100% of the share capital of Deterra Royalties (MAC) Limited (DRML) from Iluka for a consideration of \$24,405,000 (See note 14). The purchase consideration included payment for estimated royalty revenues for the quarter ended 30 June 2020 (net of expected tax liabilities) and the Royalty portfolio. DRML holds a portfolio of five royalty assets.
- On 30 October 2020, Deterra paid a final Pre-demerger Period dividend of \$20,393,000 to its 100% shareholder, Iluka, in relation to earnings from royalties for the quarter ended 30 September 2020, plus a top-up payment for differences in the quarter ended 30 June 2020.
- On 1 November 2020 Deterra executed a share split by splitting its existing single share into 528,462,101 shares.
- On 2 November 2020 Deterra and its controlled entities (Deterra Royalties (MAC) Limited and Deterra Royalties Holdings Pty Ltd) demerged from Iluka and was listed on the Australian Stock Exchange under the code DRR.

The outcome of the demerger process was to create Deterra, a listed entity on the ASX that owns a portfolio of royalty assets, including entitlement to all royalty earnings for the Post-demerger Period, as illustrated in Figure 1.

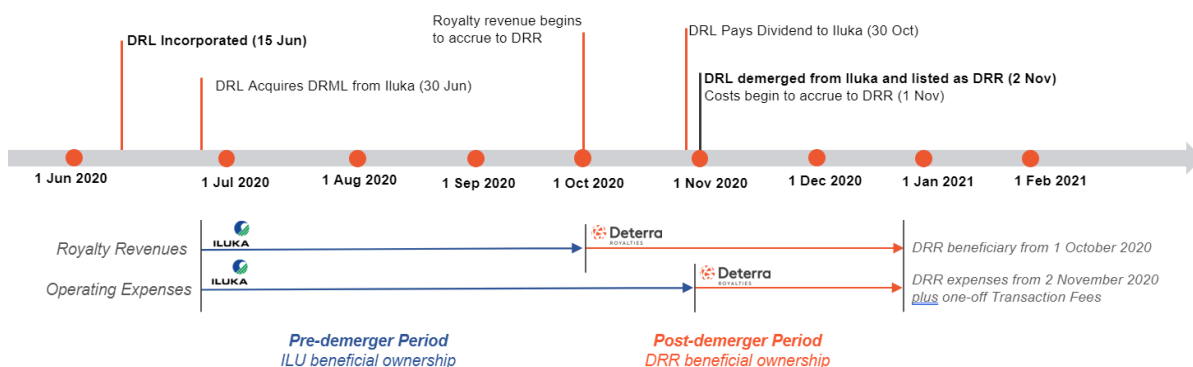


Figure 1. Timeline of key demerger events

⁹ Iluka, Demerger Booklet <https://www.asx.com.au/asxpdf/20200910/pdf/44mhf7p4q4j8lh.pdf> for information on the terms.

Directors' Report

Acquisition of Deterra Royalties (MAC) Limited

Deterra Royalties (MAC) Limited owns a portfolio of five royalties, of which the major asset is a royalty over Mining Area C. Mining Area C is an iron ore mine located in the Pilbara region of Western Australia. The mine is majority-owned and operated by BHP.

Cash consideration of \$24,405,000 was paid for the acquisition of Deterra Royalties (MAC) Limited, leading to the recognition of the following acquired assets:

	\$'000
The fair value of identifiable assets and liabilities recognised as a result of the acquisition are as follows:	
Royalty receivable – June 2020 royalty	15,195
Intangible assets - Royalty	9,210
Net assets acquired at 30 June 2020	24,405

Directors' Report

Statement of profit or loss	Pre-demerger Period	Post-demerger Period	Total per financial report
	\$'000	\$'000	\$'000
MAC royalty	24,067	24,382	48,449
MAC royalty Pre-demerger Adjustment	4,848	-	4,484
Other royalties	351	211	562
Total Royalty revenue	29,266	24,593	53,859
Expenses	(116)	(5,997)	(6,113)
Valuation gain on acquired receivable	6,512	-	6,512
Profit before tax	35,662	18,596	54,258
Income tax expense from acquired receivable	(6,512)	-	(6,512)
Income tax expense	(8,757)	(5,648)	(14,405)
Total income tax expense	(15,269)	(5,648)	(20,917)
Net Profit After Tax (NPAT)	20,393	12,948	33,341
Other comprehensive profit for the period, net of tax	-	-	-
Total comprehensive profit for the period	20,393	12,948	33,341
Total and continuing earnings per share:			
Basic earnings per share (\$)	0.0386	0.0245	0.0631
Diluted earnings per share (\$)	0.0386	0.0245	0.0631

Statement of cashflows	Pre-demerger Period	Post-demerger Period	Total per financial report
	\$'000	\$'000	\$'000
Cash Flows from Operating Activities			
Receipts from customers	50,974	-	50,974
Payments to suppliers and employees (inclusive of GST)	-	(2,372)	(2,372)
Payment of demerger expenses	-	(4,637)	(4,637)
Interest received	-	3	3
Interest expense	-	(37)	(37)
Tax paid	(15,292)	-	(15,292)
Net cash inflow/(outflow) from operating activities	35,682	(7,043)	28,639
Cash Flows from Investing Activities			
Payments for property, plant, and equipment	-	(32)	(32)
Payment for asset acquisition	(24,405)	-	(24,405)
Net cash outflow from investing activities	(24,405)	(32)	(24,437)

Directors' Report

Statement of cashflows (continued)	Pre-demerger Period	Post-demerger Period	Total per financial report
	\$'000	\$'000	\$'000
Cash Flows from Financing Activities			
Proceeds from issue of shares	-	-	-
Dividend paid to shareholder	(20,393)	-	(20,393)
Proceeds from borrowings	9,500	7,000	16,500
Payment of borrowing establishment fee	(120)	-	(120)
Payment of lease liability	-	(1)	(1)
Net cash (outflow)/inflow from financing activities	(11,013)	6,999	(4,014)
Net increase/(decrease) in cash and cash equivalents	264	(76)	188
Cash and cash equivalents at the start of the period	-	264	-
Cash and cash equivalents at the end of the period	264	188	188

7. Dividends Paid or Recommended

Deterra's intent is to pay semi-annual dividends (franked to the maximum extent possible) at a target dividend payout ratio of 100 per cent of net profit after tax (NPAT). Payment of dividends and dividend policy is determined by the Deterra Board at its discretion and may change over time.

The total dividend declared for the period covered by this Interim Financial Report is \$33,341,000 represents a payout of 100 per cent of NPAT.

A dividend of \$20,393,000, was declared and paid to Iluka on 30 October 2020, reflecting the intercompany settlement for royalty income earned for the Pre-demerger Period less certain demerger related expenses. A dividend of \$12,948,000 (2.45c/share) was declared and will be paid on 31 March 2021. This fully franked dividend to Deterra shareholders, represents 100% of NPAT attributable to the Post-demerger Period.

8. Events Occurring after the Reporting Date

Key events that occurred after the reporting date include:

- The declaration of a fully franked interim dividend by the Board of Directors of 2.45c per share which is equal to \$12,948,000.

9. Likely Developments and Expected Results of Operations

The Group's strategy is to maximise the value of the existing royalty portfolio, while seeking to grow the portfolio in a way that creates additional value for shareholders.

Deterra has participated in detailed due diligence on several prospective opportunities since demerger. It is anticipated that the Group will continue to investigate additional opportunities to grow the value and diversify the existing royalty portfolio. We anticipate Business Development expenditure to increase in the second half of the 2021 financial year.

Directors' Report

Deterra will continue to steward the commercial agreements over our portfolio of six royalty assets discussed below:

Mining Area C - Deterra owns contractual rights over the Mining Area C (MAC) royalty area. The Group receives a 1.232% royalty, payable quarterly in arrears, on Australian denominated FOB revenue from the sale of material produced at MAC, plus an additional one-off annual capacity payment of A\$1 million per million dry metric tonne for any increase in annual mine production, determined for the period ending 30 June.

Mining Area C is one of four BHP hubs within its Western Australian Iron Ore (WAIO) business, producing 60 million wmtpa of iron ore in 2019 (100 per cent basis) and consists of two major mining areas, North Flank and South Flank. The North Flank has been in production since 2003; and South Flank is currently under development and is expected to produce circa 80 million¹⁰ wmtpa, replacing volumes from BHP's Yandi mine, (outside the MAC Royalty Area), as it reaches the end of its economic life in the early-to-mid 2020s¹¹. The combined MAC mining hub, is expected to operate for over 30 years¹².

In its recent operational review, BHP commented that the US\$3.6 billion (100 per cent basis) South Flank expansion project is now 90% complete and remains on schedule and budget for first production in the middle of the 2021 calendar year¹³.

Mining Area C production for the December 2020 quarter was 13.6 million wet metric tonnes (100% basis).¹⁴ The Production in the March 2021 quarter may be impacted by continued Mining Area C and South Flank tie-in activity.

Yoongarillup / Yalyalup Mineral Sands Mines - Deterra owns two royalty agreements over mineral leases near Busselton in Western Australia, currently being operated by mineral sand producer Doral Mineral Sands Pty Ltd. The Yoongarillup site is currently in decommissioning phase¹⁵ with sales limited to stockpiled product. It is anticipated that development of the Yalyalup mine (over which Deterra retains a royalty) 6km north-east of the existing operations will replace current production. The Environmental Protection Authority has recommended approval of the Yalyalup operation¹⁶ subject to certain conditions.

Wonnerup Mineral Sands - Deterra owns a royalty agreement over mineral leases near Busselton in Western Australia, currently being mined by Tronox through its subsidiary Cable Sands Pty Ltd. The Wonnerup complex of mines has been in production since 2013, with the Wonnerup North mine facilitating continuity of operations following the completion of mining at Wonnerup and Wonnerup South¹⁷. All environmental and regulatory approvals for Wonnerup North Stage 1 are in place with the final Stage 2 approvals nearing completion.¹⁸

St Ives Gold Project - Deterra owns a royalty agreement over certain mineral leases near Kambalda currently operated by St Ives Gold. No mining activity is anticipated on these leases in the immediate future.

Eneabba Project - Deterra owns a royalty agreement over certain mineral leases 200km north of Perth in Western Australia, owned by Sheffield Resources. No development of this project is anticipated in the immediate future.

10. Environmental Regulation

Deterra seeks to incorporate Environmental, Social and Governance (ESG) principles into all components of its daily operations, investment evaluation processes and long-term strategy.

¹⁰ Wood Mackenzie, Iron Ore Markets and Asset Review, June 2020 – Deterra Demerger Booklet (10 September 2020)

¹¹ BHP, 2019 Annual Report

¹² BHP, Mining Area C Mine Closure Plan, October 2017

¹³ BHP, Half Year Operational Review HY End 31 Dec 2020 [210120_bhpopperationalreviewforthehalfyearended31december2020.pdf](#)

¹⁴ BHP, Half Year Operational Review HY End 31 Dec 2020 [210120_bhpopperationalreviewforthehalfyearended31december2020.pdf](#)

¹⁵ Doral, Company Website www.doral.com.au/mineral-sands

¹⁶ EPA, Jan 2021 - <https://www.epa.wa.gov.au/media-statements/epa-recommends-environmental-approval-yalyalup-sand-mine>

¹⁷ Tronox, Company Website - Western Operations Fact Sheet

¹⁸ Tronox, Company Website - Western Operations Fact Sheet

Directors' Report

To deliver sustainable value to its investors and, consistent with that aim, Deterra has adopted an ESG Investment Policy¹⁹ to guide the company's consideration of ESG issues in its investment decision-making process. Consistent with the ESG investment policy, Deterra will seek to fully understand potential sustainability risks and opportunities to better inform its ongoing operations, strategy and investment decisions.

11. Information on Directors and Joint Company Secretaries

Jennifer SeabrookNon-Executive Chair

Qualifications

BCom, FCA, FAICD

Experience

As Chair of Deterra, Ms Seabrook brings over 30 years of corporate experience across capital markets, mergers and acquisitions and accounting advisory roles and several non-executive directorships for listed, unlisted and federal and state government corporations.

Ms Seabrook is currently a non-executive director of BGC Australia Group Companies and Australian Rail Track Corporation. Selected previous directorships include Iluka Resources, MMG Limited, Export Finance & Investment Corporation and IRESS Limited. Ms Seabrook was a non-executive director of Iluka Resources from 2008 until her retirement from the Board in April 2020 and was a member of ASIC's External Advisory Group from 2010 to 2013 and the Takeovers Panel from 2000 to 2012.

Julian AndrewsManaging Director & Chief Executive Officer

Qualifications

BCom (Hons), PhD, CFA, GAICD

Experience

Mr Andrews, as Managing Director and Chief Executive Officer brings over 20 years of experience in broad project finance, capital raising and mergers and acquisitions across the mining, energy and chemicals industry landscape.

Prior to his appointment as Managing Director, Mr Andrews was Head of Strategy, Planning and Business Development at Iluka Resources and previously held various roles at Wesfarmers, including General Manager Business Development and Chief Financial Officer in Wesfarmers Chemicals, Energy & Fertilisers division. He began his career in strategy consulting with PricewaterhouseCoopers Canada and worked in project finance and corporate advisory in the USA before returning to Perth in 2004.

Graeme DevlinNon-Executive Director

Qualifications

BAppSc, MBA, GAICD

Experience

Mr Devlin is Chair of the Audit and Risk Committee and brings to Deterra a deep and varied set of experiences from his business development, operational, investment evaluation and structured finance roles within BHP Group, Rio Tinto and CRA Limited.

Prior to his retirement, he served as BHP's head of acquisitions and divestments from 2009 to 2016. During this time at BHP, Mr Devlin led the transformation of BHP's capital investment decision making rigour, capability and processes. He was instrumental in the identification, evaluation and execution of transactions which led to a fundamental reshaping of BHP's core asset portfolio including the demerger of South32 in 2015.

¹⁹ Deterra, Company Website - [Environmental, Social and Governance Investment Policy \(deterraroyalties.com\)](https://www.deterraroyalties.com)

Directors' Report

Joanne Warner

Non-Executive Director

Qualifications
Experience

BAppSc (Hons), DPhil, MAICD

Dr Warner is Chair of the People and Performance Committee and brings extensive asset management experience including eight years as Head of Global Resources at Colonial First State Global Asset Management.

Currently Dr Warner is a Non-Executive Director of First Quantum Minerals, a globally diversified TSX-listed base metals group and Geo40 Limited. Her broad mining and energy sector experience includes visits to over 450 mining and resource assets across over 30 countries.

Adele Stratton

Non-Executive Director (Iluka Nominee)

Qualifications
Experience

BA (Hons), FCA, GAICD

Ms Stratton brings to Deterra deep finance, operations, and commercial experience as Chief Financial Officer and Head of Development at Iluka Resources and her 20 years' experience working in both professional practice and public listed companies.

Ms Stratton is a qualified Chartered Accountant who commenced her career with KPMG, spending seven years in the assurance practice both in the UK, and Australia. Prior to joining Iluka Resources, she worked in a number of finance roles at Rio Tinto Iron Ore in Perth.

Brendan Ryan

CFO & Joint Company Secretary

Qualifications
Experience

BE (Hons), MBA

Mr Ryan joined Deterra as Chief Financial Officer and joint Company Secretary. He brings over 25 years of senior level commercial and operational experience in the global mining sector. Most recently he has served as Chief Financial Officer and Chief Business Development Officer at Boart Longyear, an ASX listed global drilling services company.

During his thirteen years with Rio Tinto, Mr Ryan held several senior roles including Global Head of Business Evaluation from 2012 to 2015. He has also led Rio Tinto Copper and Diamonds business development team and held project roles focussed on the delivery of new investment opportunities. Mr Ryan began his career in engineering and operations roles at Shell / Anglo American in Queensland, Australia.

Ian Gregory

Joint Company Secretary

Qualifications
Experience

BBus, FGIA, FCGI, MAICD

Mr Gregory performs the joint Company Secretary role for Deterra and brings over 30 years' experience in the provision of company secretarial, governance and business administration services. His experience includes ASX listed companies in the exploration, mining, oil and gas, banking, and insurance industries.

Prior to founding his Company Secretarial business in 2005, Mr Gregory was the Company Secretary of IBJ Australia Bank Ltd Group and the Griffin Coal Mining Group of companies. Mr Gregory is a past member and Chairman of the Western Australian Branch Council of Governance Institute of Australia (GIA) and has also served on the National Council of GIA.

Directors' Report

12. 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 page 10.

13. Rounding of Amounts

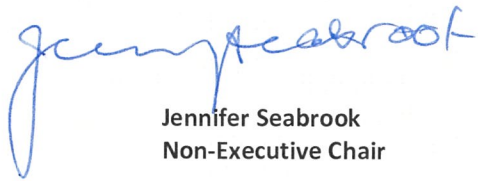
The Group is of a kind referred to ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report and financial reports. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with the instrument.

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



Julian Andrews
Managing Director

Perth, Western Australia
23 February 2021



Jennifer Seabrook
Non-Executive Chair

Perth, Western Australia
23 February 2021



Auditor's Independence Declaration

As lead auditor for the review of Deterra Royalties Limited for the period 15 June 2020 to 31 December 2020, 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 Deterra Royalties Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Ian Campbell', is written over a light grey horizontal line.

Ian Campbell
Partner
PricewaterhouseCoopers

Perth
23 February 2021

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Period from 15 June 2020 to 31 December 2020

	Note	Consolidated 2020 \$'000
Royalty revenue	3	53,859
Depreciation and amortisation		(170)
Business development		(90)
Operating expenses		(1,139)
Demerger expenses		(4,637)
Operating profit before finance cost		47,823
Net finance income/(costs)	4	(78)
Net foreign exchange gains/(losses)		1
Valuation gain on acquired receivable	14	6,512
Profit before tax		54,258
Income tax expense	5	(20,917)
Net Profit After Tax		33,341
Other comprehensive profit for the period, net of tax		-
Total comprehensive profit for the year		33,341
Total and continuing earnings per share:		
Basic earnings per share (\$)	19	0.0631
Diluted earnings per share (\$)	19	0.0631

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2020

	Note	2020 \$'000
Current Assets		
Cash and cash equivalents	7b	188
Trade and other receivables	7a	25,092
Income tax receivable		363
Prepayments		1,114
Total Current Assets		26,757
Non-Current Assets		
Royalties intangible assets	8	9,055
Property, plant, and equipment		29
Right-of-use assets		332
Deferred tax	6	-
Total Non-Current Assets		9,416
Total Assets		36,173
Current Liabilities		
Trade and other payables	7c	382
Provision for annual leave		11
Lease liability		65
Borrowings	7d	-
Income tax liabilities		-
Total Current Liabilities		458
Non-Current Liabilities		
Lease liability		279
Borrowings	7d	16,386
Deferred tax	6	5,987
Total Non-Current Liabilities		22,652
Total Liabilities		23,110
Net Assets		13,063
Equity		
Share capital	9	-
Share-based payment reserve		115
Retained Earnings		12,948
Total Equity		13,063

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

Condensed Consolidated Statement of Changes in Equity

For the Period from 15 June 2020 to 31 December 2020

	Share Capital	Retained Earnings	Share-based payment reserve	Total Equity
	\$'000	\$'000	\$'000	\$'000
Balance at 15 June 2020	-	-	-	-
Profit for the period	-	33,341	-	33,341
Total comprehensive income/(loss) for the period	-	33,341	-	33,341
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares	-	-	-	-
Share-based payments	-	-	115	115
Dividend declared/paid	-	(20,393)	-	(20,393)
Balance at 31 December 2020	-	12,948	115	13,063

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

Condensed Consolidated Statement of Cash Flows

For the Period from 15 June 2020 to 31 December 2020

	Note	2020 \$'000
Cash Flows from Operating Activities		
Receipts from customers		50,974
Payments to suppliers and employees (inclusive of GST)		(2,372)
Payment of demerger expenses		(4,637)
Interest received		3
Interest expense		(37)
Tax paid		(15,292)
Net cash inflow from operating activities	10	28,639
Cash Flows from Investing Activities		
Payments for property, plant, and equipment		(32)
Payment for asset acquisition	14	(24,405)
Net cash outflow from investing activities		(24,437)
Cash Flows from Financing Activities		
Proceeds from issue of shares		-
Dividend paid to shareholder		(20,393)
Proceeds from borrowings		16,500
Payment of borrowing establishment fee		(120)
Payment of lease liability		(1)
Net cash outflow from financing activities		(4,014)
Net increase in cash and cash equivalents		188
Cash and cash equivalents at the start of the period		-
Cash and cash equivalents at the end of the period	7b	188

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

Contents of the notes to the financial statements

1. Significant changes in the current reporting period

How numbers are calculated:

2. Segment information
3. Royalty revenue
4. Net finance income/(cost)
5. Income tax expense
6. Deferred tax
7. Financial assets and financial liabilities
8. Royalty intangible assets
9. Share Capital
10. Cash flow information

How we manage risk

11. Critical estimates and judgements
12. Financial risk management
13. Capital management

Group structure

14. Acquisition of Royalty Interests
15. Interests in subsidiaries

Unrecognised items

16. Commitments and contingencies
17. Subsequent events

Further details

18. Share-based payments
19. Earnings per share
20. Summary of significant accounting policies

1. Significant Changes in the Current Reporting Period

During the period covered by this Interim Financial Report, the financial position and performance of the Group was particularly affected by a series of transactions designed to transfer a portfolio of five existing royalty assets from Iluka to Deterra and the subsequent demerger of Deterra as a separate entity listed on the Australian Stock Exchange.

The transactions during the period covered by this Interim Financial Report include:

- On 15 June 2020, a new company, Deterra, was incorporated. For the period between 15 June to 30 June the Company was dormant with no royalty assets or revenues attributable to the entity.
- On 24 June 2020, a new company, Deterra Royalties Holdings Pty Ltd, was incorporated as wholly owned subsidiary of Deterra. Deterra Royalties Holdings Pty Ltd holds the St Ives royalty interest.
- On 30 June 2020, Deterra acquired 100% of the share capital of Deterra Royalties (MAC) Limited (DRML) from Iluka for a consideration of \$24,405,000 (See note 14). The purchase consideration included payment for estimated royalty revenues for the quarter ended 30 June 2020 (net of expected tax liabilities) and the Royalty portfolio.
- On 30 October 2020, Deterra paid a final Pre-demerger Period dividend of \$20,393,000 to its 100% shareholder, Iluka Resources Limited, in relation to earnings from royalties for the quarter ended 30 September 2020, plus a top-up payment for differences in the quarter ended 30 June 2020.
- On 1 November 2020 Deterra executed a share split by splitting its existing single share into 528,462,101 shares.

- On 2 November 2020 Deterra and its controlled entities (Deterra Royalties (MAC) Limited and Deterra Royalties Holdings Pty Ltd) demerged from Iluka and was listed on the Australian Stock Exchange under the code DRR.

The outcome of the demerger process was to create Deterra, a listed entity on the ASX that owns a portfolio of royalty assets, including entitlement to all royalty earnings for the Post-demerger Period.

For a detailed discussion about the performance and financial position, please refer to our operating and financial review on pages 2 to 6.

How the numbers are calculated:

This section provides additional information about those individual line items in the financial statement that the directors consider most relevant in the context of the operation of the Group, including:

- Accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with the particular type of transaction
 - Analysis and subtotal, including segment information
 - Information about estimates and judgements made in relation to particular items
2. Segment information
 3. Royalty revenue
 4. Net finance income/(cost)
 5. Income tax expense
 6. Deferred tax
 7. Financial assets and liabilities
 8. Royalty intangible assets
 9. Share capital
 10. Cash flow information

2. Segment Information

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

The Group is organised into a single operating segment, being royalty arrangements in Australia.

3. Royalty Revenue

	Consolidated 2020 \$'000
MAC royalty	53,297
Other royalties	562
Total Royalty revenue	53,859

a) Royalty revenue

The revenue of the Group comprises mainly royalty revenue. For royalty interests, commodities are sold to customers under contracts that are established by the operator of each mining property on which the royalty interest is held. The Group recognises revenue from these sales when control over the commodity transfers to the customer. This transfer of control generally occurs when the operator of the mining property on which the royalty interest is held physically delivers the commodity to the customer. At this point in time, the risks and rewards of ownership have transferred to the customer and the Company has an unconditional right to payment.

Revenue from royalty arrangements is measured at the transaction price agreed in the royalty arrangement with the operator of each mining property less deductions that vary based on the terms of each royalty arrangement.

4. Net Finance Income/(Cost)

	Consolidated 2020 \$'000
Finance Income	
Interest on bank deposits	4
Total finance income	4
Finance Cost	
Finance Costs – Leases	(1)
Revolving credit facility fees and interest	(81)
Total finance costs	(82)
Total Net Finance Income/(Costs)	(78)

a) Interest income

Interest income is accrued on a time basis, by reference to the carrying value and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

b) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets which take more than 12 months to prepare for their intended use.

5. Income Tax Expense

	Consolidated 2020 \$'000
(a) Income tax expense	
<i>Current tax</i>	
Current income tax on profits for the period	14,930
Total Current income tax	14,930
<i>Deferred tax</i>	
Decrease/(increase) in deferred tax assets	(1,490)
(Decrease)/increase in deferred tax liabilities	7,477
Total deferred tax expense/(benefit)	5,987
Income tax expense	20,917
(b) Numerical reconciliation of income tax expense to prima facie tax payable	
Profit from continuing operations before income tax expense	54,258
Tax at the tax rate of 30%	16,277
<i>Tax effect of amounts which are not deductible in calculating taxable income:</i>	
Non-deductible expenses	81
Tax effect of valuation gain on acquired receivable	(1,953)
<i>Other permanent differences between taxable income and accounting profit:</i>	
Tax payable on acquired receivable (refer note 14)	6,512
Income tax expense	20,917

The income tax expense or benefit represents the sum of current and deferred income taxes.

Current tax assets and liabilities for the current and prior year are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current year's taxable income. The tax rates and tax laws used are those that are enacted or substantively enacted by the reporting date in the countries where the group operates and generates taxable income.

6. Deferred Tax

	2020 \$'000
Deferred tax assets	
<i>The balance comprises temporary differences attributable to:</i>	
Provisions and accruals	19
Lease liabilities	103
Demerger expenses	1,368
Gross deferred tax assets	1,490
Amount offset to deferred tax liabilities pursuant to set-off provision	(1,490)
Net deferred tax assets	-
Deferred tax liability	
<i>The balance comprises temporary differences attributable to:</i>	
Right-of-use assets	99
Royalty receivable	7,378
Other	-
Gross deferred tax liabilities	7,477
Amounts offset to deferred tax assets pursuant to set-off provision	(1,490)
Net deferred tax liabilities	5,987
Reconciliation of deferred tax balance	
Balance as at 1 July	-
Deferred tax expense/(benefit) for the period	5,987
Closing balance	5,987

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit or loss; or are associated with investments and loans in controlled entities and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability settled, based on tax rates (and laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity and not in the income statement.

Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off tax assets against tax liabilities and the deferred tax assets and liabilities relate to the same taxation authority.

7. Financial Assets and Financial Liabilities

The Group holds the following financial instruments:

		2020 \$'000
Financial assets		
Financial assets at amortised cost		
Trade and other receivables	7(a)	25,092
Cash and cash equivalents	7(b)	188
Financial liabilities		
Liabilities at amortised cost		
Trade and other payables	7(c)	382
Borrowings	7(d)	16,386
Lease liabilities		344

a) Trade and other receivables

		2020 \$'000
Current		
Royalty receivable		24,593
GST receivable		498
Other receivables		1
		25,092

Trade and other receivables principally comprise amounts relating to royalties receivable. The Directors consider that the carrying amount of trade and other receivables is approximately their fair value.

Trade receivables are held in order to collect the contractual cash flows and are initially measured at the transaction price agreed in the royalty agreement. Impairment losses are recognised based on lifetime expected credit losses in profit or loss.

Other receivables are held in order to collect the contractual cash flows and accordingly are measured at initial recognition at fair value, which ordinarily equates to cost and are subsequently measured at cost less impairment due to their short-term nature.

b) Cash and cash equivalents

	2020 \$'000
Operating bank account	188
Total cash & cash equivalents	<u>188</u>

Cash and cash equivalents comprise cash on hand which are subject to an insignificant risk of changes in value.

c) Trade and other payables

	2020 \$'000
<i>Current</i>	
Trade payables	223
Accrued expenses	141
Others	18
Total current trade & other payables	<u>382</u>

The Directors consider that the carrying amount of trade and other payables approximates their fair value. All amounts are considered short term, and none are past due.

The amounts represent liabilities for goods and services provided to the company prior to the end of financial year which are unpaid. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

Trade payables are not interest bearing and are stated at their fair value on initial recognition. After initial recognition these are measured at amortised cost using the effective interest method.

d) Borrowings

	2020 \$'000
Revolver Facility Agreement	16,500
Deferred borrowings costs	(114)
Total	<u>16,386</u>

Interest bearing liabilities are initially recognised at fair value less directly attributable transaction costs, with subsequent measurement at amortised cost using the effective interest rate method. Under the amortised cost method, the difference between the amount initially recognised and the redemption amount is recognised in profit or loss over the period of the borrowings on an effective interest basis.

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

(i) *Revolving Cash Advance Facility Agreement*

Interest bearing bank facilities are initially recognised at fair value, net of directly attributable transaction costs. Transaction costs are recognised in the income statement on a straight line basis over the term of the facility.

The table below details the facility expiries:

A\$ million	Total facility	Facility Expiry			
		2021	2022	2023	2024
At 31 December 2020	\$40m	-	-	\$40m	-

Undrawn funds of the Revolving Cash Advance Facility at 31 December 2020 were \$23.5 million.

Subsequent to the reporting date, as part of its capital management process, the Group elected to fully repay the drawn down amount of its non-current loan facility (\$16.5 million). The repayment of the drawn down amount was at the discretion of the Group and does not impact the availability of the facility for future drawdowns until the expiry date.

(ii) *Interest rate exposure*

Of the above interest bearing liabilities, \$16.5 million is subject to an effective weighted average floating interest rate of 1.49%. The contractual repricing date of all the floating rate interest bearing liabilities at the balance date is within one year.

(iii) *Financial covenants*

Under the term of the facility agreement, the Group is required to comply with certain financial covenants typical of a facility and business of this nature, including covenants that relate to the ratio of Earnings before Interest, Taxation and Depreciation and Amortisation (“EBITDA”) to Net Finance Expense and the ratio of Net Debt to EBITDA. The covenants are tested at specific intervals and the Group remains in compliance with all covenants.

8. Royalty Intangible Assets

The Group's intangibles comprise royalty interests.

	2020 \$'000
Gross carrying amount	
Opening balance	-
Additions through asset acquisition	9,210
Closing balance	9,210
Amortisation	
Opening balance	-
Amortisation charge	(155)
Closing balance	(155)
Carrying Amount 31 December 2020	9,055

Royalties are initially measured at cost, including any transaction costs.

The Group considers the substance of a royalty to be economically similar to holding a direct interest in the underlying mineral asset. Existence risk (the commodity physically existing in the quantity demonstrated), production risk (that the operator can achieve production and operate a commercially viable project), timing risk (commencement and quantity produced, determined by the operator) and price risk (returns vary depending on the future commodity price, driven by future supply and demand and foreign exchange rates) are all risks which the Group participates in on a similar basis to an owner of the underlying mineral licence. Furthermore, there is only a right to receive cash to the extent there is production and there are no interest payments, minimum payment obligations or means to enforce production or guarantee repayment. These are accounted for as intangible assets under AASB 138.

Amortisation of intangible assets

The Group's royalty intangible assets are amortised on a straight-line basis over the life of mine, upon the commencement of production at the underlying mining operation.

The Group's royalty intangible assets were amortised as follows during the period:

Royalty interest	Carrying value 31 December 2020 \$'000	Acquisition value \$'000	Estimated life of mine	Remaining life of mine
<i>Mining Area C</i>	9,055	9,210	360 months	354 months

9. Share Capital

	Number of Shares	\$	Total \$
Ordinary shares at 15 June 2020	1	1	1
Share split – effective 1 November 2020	528,462,100	-	-
Ordinary shares at 31 December 2020	528,462,101	1	1

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

The Company executed a share split on 1 November 2020 to split the share into 528,462,101 shares in preparation of the demerger from Iluka Resources Limited on 2 November 2020.

10. Cash Flow Information

	Consolidated 2020 \$'000
Reconciliation of cash flows from operating activities with profit from ordinary activities after income tax:	
Profit for the year	33,341
Adjusted for non-cash items:	
Depreciation	15
Amortisation	155
Share-based payment	115
Annual leave provision	11
Interest income accrued	(1)
Interest expense accrued	44
Finance costs on lease liabilities	1
Unrealised foreign exchange loss	(1)
Valuation gain on acquired receivable	(6,512)
Deferred tax expense/(benefit)	5,987
Changes in assets and liabilities:	
(Increase)/Decrease in trade and other receivables	(3,384)
(Increase)/Decrease in prepayments	(1,114)
Increase/(Decrease) in trade and other payables	345
Increase/(Decrease) in tax payable	(363)
Net cash inflows from operating activities	28,639

Managing risk:

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance:

11. Critical estimates, judgements, and errors
12. Financial risk management
13. Capital management

11. Critical Estimates and Judgements

The preparation of financial statements requires the use of accounting estimates which, by definition seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies. This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be sensitive to changes in estimates and assumptions. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the financial statements. In addition, this note also explains where there have been actual adjustments this year as a result of an error and of changes to previous estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and judgements may differ from the related actual results and may have a significant effect on the carrying amount of assets and liabilities within the next financial year and on the amounts recognised in the financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

i. Acquisition of Royalty Interest

On 30 June 2020, Deterra Royalties Limited (DRL) acquired Deterra Royalties (MAC) Limited (DRML).

Judgement was applied to determine whether the acquisition of DRML by DRL should be treated as an asset acquisition or a business combination under AASB 3 *Business Combinations*.

The Group treated the acquisition as an asset acquisition and more information about the significant judgements and estimates made are disclosed in note 14.

12. Financial Risk Management

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

a) Credit risk

Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. Credit risk arises from cash and cash equivalents and receivables. The Group closely monitors its financial assets and maintains its cash deposits in a high-quality financial institution with a minimum A-/A3 credit rating.

As at 31 December 2020, the Group is unaware of any information which would cause it to believe that these financial assets are not fully recoverable.

b) Liquidity risk

Liquidity risk is the risk of loss from not having access to sufficient funds to meet both expected and unexpected cash demands. The Group manages its exposure to liquidity risk through prudent management of its financial position, including maintaining sufficient cash on hand or undrawn credit facilities. The Group has in place a planning and budgeting process to help determine the funds required to support the Group's normal operating requirements on an ongoing basis. Management continuously monitors and reviews both actual and forecast cash flows.

13. Capital Management

The Group defines capital as the total equity attributable to common shareholders. Capital is managed by the Group's management and governed by the Board of Directors. The Group is not subject to any externally imposed capital requirements and relevant financial covenants are disclosed in note 7(d)(iii).

Group structure:

This section provides information that will help users understand how the group structure affects the financial position and performance of the Group as a whole. In particular, there is information about changes to the structure that occurred during the year.

A list of significant subsidiaries is provided in note 16.

- 14. Asset acquisition
- 15. Interest in Subsidiaries

14. Acquisition of Royalty Interests

On 30 June 2020, Deterra Royalties Limited (Deterra) acquired Deterra Royalties (MAC) Limited (DRML). DRML holds a portfolio of five royalty instruments, the most material of which is a royalty interest in Mining Area C, an iron ore mine located in the Pilbara region of Western Australia. The mine is majority-owned and operated by BHP.

The acquisition of DRML by Deterra has been treated as an asset acquisition, rather than a business combination. This was on the grounds that the transaction met the “concentration test” within AASB 3 *Business Combinations*. The cost of the acquisition has therefore been allocated to the assets and liabilities acquired.

	2020 \$'000
The cost of the acquisition was attributed to the following assets and liabilities:	
Royalty receivable	15,195
Intangible assets - Royalty	9,210
Net assets acquired at 30 June 2020	24,405
Purchase consideration	
Cash paid	24,405

The royalty receivable arises from the estimate of royalties earned for the period from 1 April 2020 to 30 June 2020, that were subsequently received by DRML in July 2020 (after the acquisition by Deterra). Royalties are taxable upon receipt and therefore the right to receive the royalty also carries with it a future obligation to pay those taxes.

Accounting standards do not permit the recognition of deferred tax liabilities as part of asset acquisition accounting. Instead, the allocation of the cost of the acquisition to the royalty receivable (\$15,195,000) incorporates a discount to reflect the fact that Deterra is obligated to pay the future tax liability (expected tax obligation of \$6,512,000). The remaining cost of the acquisition was allocated to the royalty portfolio (described further in note 8 - Royalty intangible assets).

Upon receipt of the cash (in July 2020) the Group recognised a gain on the receivable of \$6,512,000, representing the reversal of the discount applied in the acquisition accounting entries. At the same time, Deterra also recognised a matching income tax liability of \$6,512,000 and tax expense to reflect the tax due. There was no impact on net profit after tax. This accounting treatment is only relevant to the initial acquisition. Future royalty receivables will be recorded at their gross value along with a corresponding income tax liability.

15. Interest in Subsidiaries

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

Name of entity	Country of incorporation	Equity holding ¹ 2020
Deterra Royalties (MAC) Limited	Australia	100%
Deterra Royalties Holdings Pty Limited	Australia	100%

¹ The proportion of ownership interest is equal to the proportion of voting power held.

Principles of consolidation

i. Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Deterra Royalties Limited as at 31 December 2020 and the results of all subsidiaries for the year then ended. Deterra Royalties Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Consolidated Entity, are shown separately within the Equity section of the consolidated Statement of Financial Position and in the consolidated Statement of Profit or Loss and Statement of Other Comprehensive Income.

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

Unrecognised items:

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

- 16. Commitments, contingent liabilities, and contingent assets
- 17. Subsequent events

16. Commitments and Contingencies

There are no other commitments or contingent liabilities outstanding at 31 December 2020.

17. Subsequent Events

The impact of the Coronavirus (COVID-19) pandemic is ongoing and remains uncertain. Whilst the impact of the pandemic for the consolidated entity up to 31 December 2020 has been limited, it is not practicable to estimate the potential impact, positive or negative, after the reporting date.

The situation continues to evolve and remains dependent on measures imposed by the Australian Government and other countries. Of particular relevance to the Group are the localised impact to mining operations over which the Group owns royalties, and the broader macro demand impact on markets for commodities.

Subsequent to period end:

- The Board of Directors recommended an interim dividend of 2.45c per share which is equal to \$12,948,000.

Further details:

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

18. Share based payments
19. Earnings per share
20. Summary of significant accounting policies

18. Share Based Payments

Equity settled transactions

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured 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 valuation techniques appropriate to the instrument being valued, such as Black-Scholes models or Monte Carlo simulations.

In determining the fair value of the equity instruments granted, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Deterra Royalties Limited.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

- the extent to which the vesting period has expired; and
- the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The Statement of Profit or Loss and Other Comprehensive Income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The share-based payment expense recognised in profit or loss of \$115,172 results from several schemes summarised below:

Schemes	\$
(i) Executive Incentive Plan (EIP)	
2018 EIP Replacement	10,069
2019 EIP Replacement - Rights	3,357
2019 EIP Replacement - Restricted Shares	30,215
(i) Initial Equity Grant Plan (IEGP)	
2020 – Initial Equity Grant	43,052
(ii) Long Term Incentive (LTI) Award	
2021 LTI Award	28,479
Total expense for period	115,172

i. Executive Incentive Plan

Equity awarded under the Executive Incentive Plan serve as replacement for instruments issued to the Managing Director under the relevant Iluka Resources Limited Executive Replacement Plan. The number of restricted shares and performance rights to be awarded are determined based on the number of shares previously awarded in Iluka under the scheme. The key terms and inputs for each issue are as follows:

	2018 EIP – Replacement rights	2019 EIP – Replacement rights	2019 EIP – Replacement Restricted shares
Grant date	23 November 2020	23 November 2020	23 November 2020
Share price at Grant Date	\$4.36	\$4.36	\$4.36
Vesting date	31 December 2021	31 December 2022	21 March 2021, 2022 and 2023
FV at Grant Date (avg)	\$2.37	\$2.35	\$4.19
Number of rights/shares	45,153	28,806	41,027
Total FV at Grant date	\$107,013	\$67,694	\$171,903
Performance or Service conditions	Performance	Performance	Service
Expense in period	\$10,069	\$3,357	\$30,215

ii. Initial Equity Grant Plan

Equity awarded under Initial Equity Grant was awarded to the Managing Director and the Chief Financial Officer upon the listing of Deterra Royalties Ltd on the ASX.

	2020 IEG Offer
Grant date	23 November 2020
Share price at Grant Date	\$4.36
Vesting date	30 June 2021 and 2022
FV at Grant Date (avg)	\$2.31
Number of rights/shares	157,817
Total FV at Grant date	\$364,557
Performance or Service conditions	Performance
Expense in period	\$43,052

iii. Long Term Incentive Award

Equity awarded under the Group's Long-Term Incentive Award was awarded based on the Group's Equity Incentive Plan

	2021 Long Term Incentive Award
Grant date	23 November 2020
Share price at Grant Date	\$4.36
Vesting date	30 June 2023
FV at Grant Date (avg)	\$2.34
Number of rights/shares	298,998
Total FV at Grant date	\$719,768
Performance or Service conditions	Performance
Expense in period	\$28,479

19. Earnings Per Share

i. Basic earnings per share

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

ii. Diluted earnings per share

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

Earnings per ordinary share is calculated on the Group's profit after tax of \$33,340,000 and the weighted average number of shares in issue during the year of 528,462,101.

	2020 \$
Net profit attributable to shareholders	33,340,000
Earnings – basic	\$0.0631
Earnings - diluted	\$0.0631

The number of diluted shares was calculated based on the total number of performance rights that had a dilutive effect at 31 December time weighted from the grant date 23 November for the period 15 June 2020 to 31 December 2020.

The weighted average number of shares in issue for the purpose of calculating basic and diluted earnings per share and basic and diluted adjusted earnings per share are as follows:

	2020
Weighted average number of shares in issue	
Basic number of shares outstanding	528,462,101
Dilutive effect of Employee Performance Rights	55,723
Diluted number of shares outstanding	528,517,824
Earnings per share – basic	\$0.0631
Earnings per share – diluted	\$0.0631

20. Summary of Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these condensed consolidated financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to the period presented. These financial statements present the financial information for Deterra Royalties Limited as a consolidated entity consisting of Deterra Royalties Limited and the entities controlled throughout the period (Group or consolidated entity). The Group is a for-profit entity for the purpose of this financial report.

(a) Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period from 15 June 2020 to 31 December 2020 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Act 2001. The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

i. Historical cost convention

These financial statements have been prepared on the historical cost basis.

ii. New standards and interpretations not yet adopted

The following new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been adopted by the Group:

- AASB 17 *Insurance Contracts*
- AASB 2020-8 *Interest Rate Benchmark Reform*
- AASB 2020-3 *Annual improvements and other amendments*

The Group assessed that none of the new accounting standards and interpretations will have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

iii. New standards and interpretations adopted

During the period the Group adopted AASB 2020-1 *Classification of liabilities as current or non-current*.

(b) Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income. Non-monetary assets and liabilities measured at historical cost are translated using the exchange rates at the date of the transaction (and not retranslated). Non-monetary

assets and liabilities measured at fair value are translated using the exchange rates at the date when fair value was determined.

iii. Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for the statement of profit or loss and other comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of profit or loss and other comprehensive income, as part of the gain or loss on sale where applicable. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(c) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

- IT and office equipment – 3 to 5 years

Impairment of property, plant, and equipment

At each reporting date, the Group reviews the carrying amounts of its plant and equipment to determine whether there is any indication that those assets are impaired. If such an indication is identified, the recoverable amount of the asset is estimated in order to determine the extent of any impairment.

The recoverable amount is the higher of fair value (less costs of disposal) and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that has been adjusted to reflect the risks specific to that asset. If the recoverable amount of the asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is also recognised in the income statement.

Should an impairment loss subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment loss is also recognised in the income statement.

(d) Employee benefits

i. Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as other payables.

(e) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(f) Leases

i. The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for the short-term leases (defined as leases with lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

i. Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of modification.

The Group did not make any such adjustments during the period.

ii. Right of use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

The Group applied AASB 136 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in 'Plant and Equipment' policy.

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 11 to 37 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial period from 15 June 2020 to 31 December 2020.
- (b) at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and

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



Julian Andrews
Managing Director

Perth, Western Australia



Jennifer Seabrook
Non-Executive Chair

Perth, Western Australia



Independent auditor's review report to the members of Deterra Royalties Limited

Report on the interim financial report

Conclusion

We have reviewed the interim financial report of Deterra Royalties Limited (the Company) and the entities it controlled during the period (together the Group), which comprises the Condensed consolidated statement of financial position as at 31 December 2020, the Condensed consolidated statement of changes in equity, Condensed consolidated statement of cash flows and the Condensed consolidated statement of profit or loss and other comprehensive income for the period from 15 June 2020 to 31 December 2020, significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying financial report of Deterra Royalties Limited does not comply with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the period from 15 June 2020 to 31 December 2020, and
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the financial report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibility of management for the interim financial report

Management is responsible for the preparation of the interim 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 management determines is necessary to enable the preparation of the interim financial report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

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Auditor's responsibility for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the interim 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 2020 and of its performance for the period from 15 June 2020 to 31 December 2020, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of a 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.

A handwritten signature in cursive script that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to be 'Ian Campbell'.

Ian Campbell
Partner

Perth
23 February 2021