

Release Date: 21 July 2021

ASM signs \$US250m framework agreement with South Korean consortium for 20% in Dubbo Project and offtake from Korean Metals Plant

Key points

- ASM has signed a conditional framework agreement with a consortium of South Korean investors for the acquisition of a 20% equity interest in ASM's Dubbo Project holding company.
- Under the Agreement a consortium fund will invest \$US250m for the 20% equity interest.
- The Investing Partnership intends to establish a second fund to develop a domestic Korean permanent magnet manufacturing business that will enter into an offtake agreement for NdFeB (neodymium-iron-boron) alloy from ASM's Korean Metals Plant.
- The Agreement creates a pathway for ASM to develop the Dubbo Project and execute its "mine to metal" strategy.

Australian Strategic Materials Ltd (**ASX: ASM** or the **Company**) has entered into a conditional exclusive framework agreement (**Agreement**) with a consortium of South Korean Investors to subscribe for a 20% equity interest in Australian Strategic Materials (Holdings) Ltd (**ASMH**) for a subscription price of US\$250m (equivalent to AU\$340m based on current exchange rates) (**Proposed Transaction**). ASMH is a wholly owned subsidiary of ASM and is the holding company for ASM's Dubbo Project.

The Agreement includes provision for a ten-year offtake agreement for up to 2,800tpa of NdFeB (neodymium-iron-boron) alloy from ASM's Korean Metals Plant (KMP), which is currently under construction in Ochang, South Korea (Proposed Offtake Agreement). The volumes outlined in the Proposed Offtake Agreement anticipate 100% of the neodymium oxide planned to be produced at the Dubbo Project being the primary source of feed to the KMP post the completion of construction.

The Investing Partnership comprises three respected South Korean private equity firms (none of which are related to the Company): Cerritos Holdings Co., Ltd, Kamur Partners LLC and ACE Equity Partners LLC (the Investing Partnership). The Investing Partnership intends to establish a South Korean consortium fund (Consortium Fund) for the purposes of the acquisition of the 20% equity in ASMH. Further, the Investing Partnership intends to form a separate consortium fund to establish and develop a permanent magnet manufacturing business in South Korea (MagnetCo Fund). MagnetCo Fund will be the counterparty to the Proposed Offtake Agreement.

The Investing Partnership will arrange investment into the Consortium Fund which is expected to include strategic investment from major Korean industrial companies. Under the Agreement, the subscription funds are payable to ASMH on satisfaction of the conditions. The funds are intended to be used by ASMH, in combination with other funding sources, to progress the development of the Dubbo Project.

The Agreement represents an important contribution of financial support for the Dubbo Project, a proposed long-term polymetallic resource development containing rare earths, zirconium, niobium, and hafnium, all critical metals essential for advanced and clean technologies. ASM recently announced conditional finance support from Export Finance Australia (EFA) (ASX Announcement 28 June 2021).

ASM Chair, Ian Gandel, said: "I am truly delighted that the vision shown by the whole ASM team to become a leading global supplier of critical metals is bearing fruit. I would like to thank the Non-Executive

Directors comprising Ian Chalmers, Nic Earner and Gavin Smith for their significant and valued contribution to ASM. In particular, I would like to acknowledge the loyalty and commitment that Ian Chalmers has shown to the Dubbo Project over the past 25 years. I would also like to thank our Managing Director, David Woodall, for his dedication and persistence to deliver this incredible opportunity during the Covid19 pandemic.

We welcome the encouragement received from the South Korean business community and Government, which are grounded in strong relationships. We would also like to thank the Australian Government for its interest and support for our projects. We look forward to finalising arrangements with the Investing Partnership and funding entities as soon as possible and delivering on ASM's 'mine to metal' strategy."

ASM Managing Director, David Woodall, said: "In opening a financing pathway for the Dubbo Project, this Agreement heralds an exciting new phase in ASM's growth and puts us one step closer to executing our 'mine to metal' strategy.

"We are delighted our new South Korean partners have recognised the mutual value of the strategic investment opportunity represented by our integrated manufacturing capability that offers a new, cleaner source of critical metals and alloys to a rapidly expanding market. Cementing our ties with South Korea's advanced manufacturing sector represents an incredible opportunity to create value from our Dubbo Project."

CEO of Kamur Partners LLC, Jerry Kwak, said: "We are very proud to be associated with this strategically important project that will give rise to significant upstream and downstream benefits for both Korea and Australia, ushering in new opportunities for downstream permanent magnet product manufacturing."

ASM and the Investing Partnership will now work towards finalising the conditions before completing the Proposed Transaction and Proposed Offtake Agreement by the end of 2021.



Signing ceremony for the Framework Agreement. Attendees from L to R: Ms Catherine Raper, Australian Ambassador to the Republic of Korea; Mr David Ko, CEO of ACE Equity Partners LLC; Mr PS Ra, CEO of Cerritos Holdings Co., Ltd; Mr Jerry Kwak, CEO of Kamur Partners LLC; Mr Ian Gandel, Chair of ASM; The Honorable Mr Dan Tehan, Australian Minister for Trade, Tourism and Investment; and Mr David Woodall, Managing Director of ASM.

Conditional Exclusive Framework Agreement

- For a subscription price of US\$250m (**Subscription Price**), the Consortium Fund will acquire 20% of the shares of ASMH.
- The transaction is subject to the satisfaction of certain conditions by the end of Q3 2021, including:
 - The Investing Partnership completing technical, legal, financial and tax due diligence; and
 - The Investing Partnership establishing formal structures for the Consortium Fund and MagnetCo Fund that are satisfactory to ASM.

(First Stage Conditions)

- Once the First Stage Conditions are satisfied, the parties will proceed to finalise the transaction, again subject to the satisfaction of certain conditions during Q4 2021, including:
 - ASM, ASMH and the Consortium Fund entering into formal legally binding agreements to give effect to the Proposed Transaction, including a subscription and shareholders agreement;
 - entry into the Proposed Offtake Agreement, the full terms of which are yet to be negotiated and finalised;
 - Australian FIRB, Bank of Korea and any other necessary regulatory approvals to be completed;
 - satisfactory project equity and debt financing arrangements with respect to the Dubbo Project;
 - entry into satisfactory turnkey EPC arrangements in connection with the construction and commissioning of the Dubbo Project; and
 - entry into sufficient bankable offtake agreements to justify the customary and reasonable requirements of lenders to finance the Dubbo Project.

(Second Stage Conditions)

- Deposit payment terms:
 - the Investing Partnership will deposit US\$1m into escrow (**Initial Deposit**) within seven business days of signing the Agreement;
 - following satisfaction of the First Stage Conditions, the Investing Partnership will deposit an additional US\$9m into escrow (**Second Deposit**); and
 - upon satisfaction of the Second Stage Conditions, ASM will apply the Deposits (and any interest thereon) in part satisfaction of the Subscription Price and the Consortium Fund will pay the remaining Subscription Price to ASMH. If the conditions are not satisfied in circumstances where the Investing Partnership is not in material breach, then the Deposits will be returned to the Investing Partnership.
- The parties must use reasonable endeavours to satisfy the First Stage Conditions and the Second Stage Conditions by the applicable dates. In the event that the conditions are not satisfied by the applicable dates, either party may terminate the Agreement.
- The parties have agreed to deal exclusively with each other until the end of Q3 2021 for the

purpose of satisfying the First Stage Conditions. If those conditions are satisfied, exclusivity will be extended into Q4 2021 to enable the parties to satisfy the Second Stage Conditions, with exclusivity to expire on 31 December 2021.

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This document has been authorised for release to the market by David Woodall, Managing Director.

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About Australian Strategic Materials: <https://asm-au.com/>

Australian Strategic Materials Ltd (ASM) is an integrated materials business and emerging “mine to metals” producer of critical metals. The company’s cornerstone Dubbo Project (100% owned) is a potential long-term resource of rare earths, zirconium, niobium, and hafnium located in central-western NSW, Australia. It represents an alternative, sustainable and secure source of these metals, which are critical for a diverse range of advanced and clean technologies.

ASM’s metals business is founded on an innovative metallisation process that converts oxides into high-purity metals, alloys, and powders using less energy than conventional methods. The pilot plant in South Korea has proven the commercial scalability of the process and successfully produced a range of high-purity metals and alloys, including titanium, neodymium, praseodymium, dysprosium, and zirconium. Following this success, ASM’s first metallisation plant will be constructed in South Korea to initially supply a range of critical metals including rare earths, zirconium, and titanium.

A Dubbo Project optimisation study will be completed by the end of Q3 2021, targeting improved capital and operating costs, along with an increased revenue stream. Elements of this optimisation study include simplifying the flowsheet and increasing recoveries of rare earths.

About the Investing Partnership

Ace Equity Partners LLC Holdings Co Ltd - <http://acelp.co.kr/aboutus/profile>

ACE Equity Partners are a private equity firm focused on industrial technology and advanced manufacturing companies.

Cerritos Holdings Co., Ltd - <http://cerritos-hld.com/>

Cerritos Holdings is an independent Seoul-based financial service provider with a proven track-record in arrangement and consulting of investment opportunities.

Kamur Partners LLC

Kamur Partners is a private equity firm based in South Korea focused on a variety of industries including manufacturing and infrastructure.

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