



Andromeda

METALS

FINANCIAL REPORT

For the Half-Year Ended

31 December 2021

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Directors' Report

The names of the directors of Andromeda Metals Limited (the Company) during the half-year and as at the date of this report are:

Rhoderick G J Grivas (Resigned 19/01/22) Non-Executive Chair	BSc (Geology), MAusIMM
James E Marsh Managing Director	BSc (Hons), MAusIMM
Nicholas J Harding (Resigned 11/08/21) Executive Director and Company Secretary	F CPA, F Fin, AGIA, ACIS
Joseph F Ranford Operations Director	BEng (Mining), MBA, FAusIMM, GAICD
Andrew N Shearer Non-Executive Director, Remuneration Committee Chair and Technical Committee Chair	BSc (Geology), Hons (Geophysics), MBA
Melissa K Holzberger (Appointed 23/09/21)	LLM Resources Law (Distinction), Dip. International Nuclear Law (Hons), LLB, BA, Grad Dip Legal Practice, GAICD, FGIA
Non-Executive Director, Acting Chair of the Board and Audit and Risk Committee Chair	

Operating and Financial Review

Strategy

To achieve the goal of growing shareholder wealth, Andromeda Metals' directors have formulated a Company strategy comprising the following key elements:

Kaolin/Halloysite

- The Company will maintain a focus on advancing the Great White Kaolin Project (Great White, the Project) through Definitive and Bankable Feasibility Studies to eventual development and production.
- Consideration of a combination of production streams, including direct shipping of raw ore, product beneficiation on site including the wet processing of raw material for the sale of semi-processed and processed products to overseas and local customers in various markets, are being evaluated.
- The Directors see a strong market demand for quality halloysite-kaolin product along with a decline in global supply.
- New markets such as concrete and High Purity Alumina (HPA) will be pursued, as the Great White project is a world class deposit capable of supplying the large mature existing as well as new developing markets.

Nanotechnologies

- The Company will continue to fund research and development to assist in the commercialisation of new nanotechnology opportunities for halloysite-kaolin in high-growth emerging markets.

Metals

- The Company's partnerships with Cobra Resources PLC (Cobra) over the Eyre Peninsula Gold Project; and Environmental Metals Recovery Pty Ltd (EMR) over the northern part of the Moonta Copper-Gold Project will be continually assessed in line with shareholders' best interests.
- The Company is currently seeking interest from third parties for the Drummond Epithermal Gold Project.

Corporate Affairs and Governance

- The Company will adhere to principles of good corporate governance, caring for its employees, conducting its operations in an environmentally sensitive manner, and maintaining respect for other stakeholders and for the communities in which it operates.

Financial Results

The net result of operations for the six months ending 31 December 2021 was a loss after income tax of \$3,943,864 (2020: loss of \$2,359,997).

Exploration and evaluation expenditure for the six months was \$1,840,471 (2020: \$1,857,726), the majority of which was directed towards the advancement of the Great White Project. In accordance with the Group's accounting policy, \$1,655,557 (2020: \$1,799,265) was capitalised and a total of \$184,914 (2020: \$58,461) was recognised in the profit and loss as a result of amounts impaired or expensed. Operating expenditure, excluding exploration and evaluation impairment and expenses for the six months totalled \$3,801,759 (2020: \$2,359,562) which is inclusive of the valuation of options and performance rights issued to directors. At 31 December 2021 the Company held cash and cash equivalents totalling \$42,816,255 (2020: \$7,938,414).

Review of Operations

During the period 1 July 2021 to 31 December 2021 Andromeda Metals' focus has been to further progress the Great White Project with the granting of the mining lease achieved on the 17th of December 2021, and extensive work continuing on the Definitive Feasibility Study for the Project.

Andromeda Metals Limited and Minotaur Exploration Limited agreed to combine to create a leading Australian kaolin/halloysite company by consolidating ownership of the Great White Kaolin Project and Natural Nanotech into Andromeda.

Great White Kaolin Project

On 17 December 2021, Andromeda announced that the South Australia Minister for Energy and Mining had granted the Company the Mineral Lease (ML) and two Miscellaneous Purposes Licences (MPLs) for the Project.

The grant of the ML and MPLs represented a major milestone for the Project and is the culmination of significant environmental and engineering works undertaken by the Company and supporting independent consulting companies. With these approvals, the Mining Lease conditions were received which will form the basis for developing the next stage of approvals, the Program for Environmental Protection and Rehabilitation (PEPR). The two MPLs are for an access road to the ML, and a water supply pipeline from Poochera.

Andromeda will submit a PEPR to the Department for Energy and Mining (DEM) for subsequent approval. Both the tenements and PEPR approvals are required to allow the Project to progress to the construction phase which is subject to making a Final Investment Decision. The PEPR is expected to be finalised during the 2022 calendar year. Considerable components of the ML application will be used in preparation of the PEPR, which will assist in completing the PEPR in the scheduled timeframe. Community consultation is ongoing as part of this process and further community information and feedback sessions are planned in 2022.

Andromeda has undertaken significant work on the DFS and has made considerable progress since securing its major binding offtake agreements for Great White PRM™ (paints and coatings product) and Great White CRM™ (ceramic product). This diversified product mix required some fundamental changes to the single product Pre-Feasibility Study (PFS) released in June 2020 including significant changes to the mine plan, processing plant and transport logistics. As such, the DFS is not a simple update nor capable of simple comparatives to the PFS, but a new bottom-up study which has required, and continues to require, significant work and analysis to understand the optimal development pathway and product mix.

Primero completed the first phase of the design work for the wet processing and refining plant based on metallurgical work conducted in the UK, Germany, China and Australia. The Streaky Bay pilot plant was recommissioned and confirmed the product quality from samples collected from the area to be mined in the early years of the Project.

Funding options are being considered under the DFS and for the subsequent Bankable Feasibility Study (BFS) with significant assistance being provided by highly experienced corporate advisors Origin Capital.

The announced acquisition of Minotaur, and resultant consolidated and simplified ownership structure of Great White, has potential to provide Andromeda with full development optionality and greater project funding alternatives. Consolidating the ownership of Great White (and Natural Nanotech) provides Andromeda with the optionality to explore several different project development scenarios not previously considered. The Andromeda team has been focused on understanding which potential development scenarios reduce risk and unlock the value for Andromeda.

In addition to the progress made on the DFS and the announced proposed acquisition of Minotaur, Andromeda has continued to pursue some of its other initiatives. These included additional studies on other higher value products including High Purity Alumina (HPA), Halloysite Rheology Modifier (HRM™) for concrete and a cosmetics market.

A large batch of HRM™ was produced at the Streaky Bay pilot plant and customer testing has led to approvals in concrete and other associated applications. Detailed geological work has been in progress along with development of testing methods to be able to quantify this material within the Great White Resource.

The DFS is now planned to be finalised by the end of Q1 of the 2022 calendar year once the acquisition of Minotaur has been completed, thus consolidating the Great White Kaolin Project. This will allow the DFS to reflect a single, 100% owner of the project (and the associated benefits) as well as eliminate the need for the DFS to go through joint venture approval processes prior to its release. Major factors under assessment have been analysis of the benefits of Direct Shipped Ore (DSO)/concentrate, analysis of optimal product mix, capital intensity of the product mixes, value versus risk trade-off and optionality from 100% ownership of Great White.

Product testing and negotiations with numerous parties is ongoing with regards to signing up binding offtake agreements for the remaining approx. 40,000t/pa of product from the Phase 1 plant production capacity. Several tonnes of the ceramic product were commercially manufactured for approval testing by potential customers and distributors. Positive results were received, and negotiations are continuing. Product development work was also progressed in concrete and cosmetic applications with bulk samples extracted used in the next stage of approval testing.

High Purity Alumina (HPA)

The Company engaged Dr Bryn Harris, a leading expert on chloride-based processing, as a consultant and advisor to the Company to progress HPA opportunities. First stage testing of Andromeda's kaolin is highly promising. Andromeda also signed a Memorandum of Understanding (MoU) with AEM Technologies Inc, part of the Advanced Energy Minerals group (AEM) and entered into an initial 90-day exclusivity period, which has been subsequently extended to June 2022, to explore a HPA licencing transaction that is intended to include testing Andromeda kaolin feed, process feasibility studies and potential licensing and marketing arrangements. AEM's Cap Chat HPA Process Plant, located in Quebec Canada, uses its patented process to make 99.99% ("4N") and 99.999% ("5N") pure HPA. With proven technology and extensive patents, Cap Chat is recognised as environmentally friendly with its focus on reducing reagent consumption and transitioning to a near "zero carbon emission" energy consumption plant. The facility is the only one of its type globally that is capable of producing 4/5N HPA from a kaolin feed which they are now selling.

The MoU was signed with AEM to enable kaolin samples from Andromeda's projects on the Eyre Peninsula to be evaluated using the AEM process to determine its suitability for HPA manufacture, and potentially lead to the construction by Andromeda of a HPA plant under a licencing agreement with AEM, which could also include the marketing of HPA manufactured product by Andromeda through AEM's global distribution network. The MoU was subsequently extended to enable completion of the suitability testing as well as remaining due diligence work.

Natural Nanotech

Natural Nanotech Pty Ltd (NNT) is a research and commercialisation venture, jointly owned (50:50) by Andromeda and Minotaur, established to investigate new technology applications for halloysite-kaolin nanoparticles. The company objective is to create new user markets for the halloysite nanotube material including the potential to produce a global alternative to inordinately expensive manufactured carbon nanotubes amongst other things. Potential applications include carbon capture, hydrogen storage and transport, remediation of water and wastewater, energy storage technologies, and antibacterial and agricultural applications.

On 7 July 2021, Andromeda's jointly owned R&D entity Natural Nanotech Pty Ltd (NNT) filed a provisional patent application covering the conversion process for halloysite and halloysite-kaolin into advanced, functionalised carbon nanomaterials. The provisional patent covers the processing pathways for conversion of the natural clay nanotube halloysite and halloysite-kaolin admixtures of varying proportions, into selectively functionalised and chemically activated carbon nanomaterials. Selective functionalisation refers to intended high technology uses for the nanomaterials, with desirable performances documented in the first instance for selective CO₂ adsorption and for specific capacitance and energy storage. Ongoing optimisation of the process continues for hydrogen storage, water and wastewater treatment and agricultural applications.

A bulk sample drilling program was completed at Great White to provide material to be processed in the Streaky Bay pilot plant to provide about 1.5 tonnes of high purity halloysite kaolin to Natural Nanotech for use in the carbon capture demonstration plant, due to arrive in Australia in Q1 2022 calendar year.

The bulk sample holes used for the carbon capture pilot plant will also provide material for a large-scale cosmetic marketing exercise as a laboratory scale sample showed excellent results in this high-value potential market.

Eyre Kaolin Project

A binding Heads of Agreement (HOA) with Peninsula Exploration Pty Ltd (Peninsula) was executed with the intention to form the Eyre Kaolin Project Joint Venture (EKJV). Peninsula holds title to four exploration licences that cover 2,799 km² located on the Eyre Peninsula of South Australia and which are adjacent to, or near, tenements that comprise the Great White Kaolin Project. Andromeda can earn up to an 80% interest in the EKJV tenements through sole funding expenditure of \$2.75 million over 6 years from commencement of the Joint Venture.

Following a geological review of Australia and especially the Eyre Peninsula, the ground held by Peninsula was identified as containing halloysite kaolin targets like those found at numerous locations across the Great White Project and Mount Hope Kaolin Project ground.

Mount Hope Kaolin Project

Analysis work and resource definition studies have continued, using samples from the March 2021 drilling program, with the aim to allow a reclassification of resources from Inferred to Indicated, and to close off the deposit to the south and to the east which remained open from previous drilling. The analysis and modelling are still in progress.

Eyre Peninsula Gold Project

Cobra met the Stage 2 expenditure commitment and therefore earned a 65% equity interest in the Eyre Peninsula Gold Project tenements. Cobra subsequently advised of their intention to proceed with Stage 3 which requires them to spend a further \$1.25M over the next 12 months to move to a 75% interest in the Project.

Moonta Copper ISR Project

Joint venture partner EMR received preliminary in situ leach modelling (COMSOL) results demonstrating that the flow in the copper mineralised Bruce Zone is much higher than in the country rock (outside the mineralised zone), and that the lixiviants are likely to stay well confined within the mineralised zone. EMR also undertook further community engagement with three community field days on the Yorke Peninsula.

Drummond Epithermal Gold Project

During the year ended 30 June 2021, Evolution advised the Company it had decided to withdraw from the joint venture and return the Project to 100% Andromeda ownership, which it was entitled to do as expenditure on the Project had exceeded the required minimum amount under the joint venture terms. In total Evolution spent approximately \$4.3 million since September 2018 on the Drummond Project with drilling undertaken at the Bunyip and Southwest Limey targets. The Company is currently seeking interest from third parties for the Drummond Epithermal Gold Project.

Outlook and Future Developments

The focus of the Company will predominantly be directed towards further advancing the Great White Kaolin Project. Key steps include:

- Completion of the Minotaur Exploration acquisition,
- Completion of the Definitive Feasibility Study by the end of the end of Q1 2022 calendar year,
- Progress the Program for Environment Protection and Rehabilitation (PEPR) to DEM for subsequent approval and commencement of construction during 2022,
- Finalise binding offtake agreements for the remainder of planned production,
- Fully evaluate opportunities for DSO and concentrate business,
- Complete the Bankable Feasibility Study for use to secure debt funding,
- Progress opportunities in concrete and cosmetics markets,
- Progress halloysite nanotechnology opportunities through Natural Nanotech,
- Upgrade the 100% owned Mount Hope Halloysite-Kaolin Resource and commence exploration activities on the Eyre Kaolin Project tenement package,
- Continue exploration activities on other prospects on the Eyre Peninsula.

Dividends

No dividends were paid or declared since the start of the financial year, and the directors do not recommend the payment of dividends in respect of the financial year.

Changes in State of Affairs

There was no significant change in the state of affairs of the Group during the financial year.

COVID-19

The ongoing COVID-19 pandemic affecting Australia and the world has had some impact on the Group's operations to date with travel to meet with potential customers to progress the formalisation of binding offtake agreements and processing of Great White material for customer testing, and challenges associated with maintaining government recommended social distancing practices being the key areas the Group has had to consider. The Company's COVID-19 management plan has been established to address the ongoing potential future impact. The Group will continue to monitor and manage the impact on its operations.

Competent Persons Statements

Information in this report has been compiled by Mr James Marsh a member of The Australasian Institute of Mining and Metallurgy (AusIMM). Mr Marsh is an employee of Andromeda Metals Limited who holds shares and options in the company and has sufficient experience, which is relevant to the style of mineralisation, type of deposits and their ore recovery under consideration and to the activity being undertaking to qualify as Competent Persons under the 2012 Edition of the 'Australasian Code for reporting of Exploration Results, Mineral Resources and Ore Reserves' (JORC Code). This includes Mr Marsh attaining over 30 years of experience in kaolin processing and applications. Mr

Marsh consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

Information in this report that relates to the Exploration Results for the Great White Kaolin Project and Mt Hope Halloysite-Kaolin Project is based on information evaluated by Mr Eric Whittaker who is a Member of the Australasian Institute of Mining and Metallurgy (MAusIMM). Mr Whittaker is the Chief Geologist of Andromeda Metals Limited and has sufficient experience relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code"). Mr Whittaker consents to inclusion in this document of the information in the form and context in which it appears.

The information in this report that relates to Ore Reserves is based on and fairly represents information and supporting documentation compiled by Paul Griffin, BMinTech, GradDip(Tech)Man, a Competent Person who is a Member of the Australasian Institute of Mining and Metallurgy (AusIMM Member No. 100234). Paul Griffin is an Employee and Director of MinEcoTech Pty Ltd and is retained as a consultant and study manager by Andromeda Metals Limited. Paul Griffin holds options in Andromeda Metals Limited. Paul Griffin has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Paul Griffin consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Subsequent Events

Resignation of Chair

On 19th January 2022 Andromeda Metals Chair, Mr Rhoderick Grivas resigned as Chair and Non-Executive Director for family reasons. The Board wishes to express its appreciation for the significant contribution Mr Grivas has made since his appointment in October 2017. Melissa Holzberger, current Non-Executive Director, has assumed the role of acting Chair.

Acquisition of Minotaur Exploration Limited (Minotaur)

On the 10th of November 2021 Andromeda announced the unanimously recommended off-market takeover offer of Minotaur Exploration Limited. The deal will see the consolidation of the Great White and Natural Nanotech joint ventures as 100% owned under Andromeda. The offer of 1.15 new Andromeda shares for every Minotaur share is seen as an accretive transaction for Andromeda. The bid was subject to a number of conditions precedent, which had not been met prior to 31 December 2021.

On the 7th February 2022, Andromeda announced the offer made under its off-market takeover bid for all the securities in Minotaur Exploration Limited was free from all Conditions set out in section 14.7 of the Bidder's Statement. As at 9.00am on the 7th February Andromeda's relevant interest in MEP was 79.16% with the ADN share price being \$0.19 cent per share. At the closing of the offer period on the 25th February 2022 Andromeda's relevant interest had increased to 92.12% with the ADN share price being \$0.17 cents per share. On this date Andromeda also announced the intention to commence the compulsory acquisition of the remaining shares in Minotaur to bring Andromeda's interest to 100%.

As per the arrangement outlined in the Bidder's Statement, Andromeda has provided funding to Minotaur during the offer period for approved expenditure by Minotaur and to seed fund Demetallica. As part of the agreement, Minotaur have demerged its copper & gold assets into a wholly owned subsidiary (Demetallica), which it intends to list on the ASX.

In addition to the \$475,000 provided in December and detailed in this report (Note 11), Andromeda provided \$1,393,812 and \$1,738,000 in funding on the 3rd and 23rd of February 2022 respectively. No additional funding will be provided to Minotaur under this agreement.

Additionally, subsequent to the removal of the Conditions of the off-market takeover of Minotaur, transaction success fees with Andromeda's corporate advisors became payable on the 7th February 2022.

Given the timing of the acquisition, the Company will complete the acquisition accounting in the second half of FY22.

Other Matters

There has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or state of affairs of the Group in future financial years.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 12 of the half-year financial report.

Dated at Adelaide this 16th day of March 2022 and signed in accordance with a resolution of the directors.



James E Marsh
Managing Director



A N Shearer
Non-Executive Director

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16 March 2022

The Board of Directors
Andromeda Metals Limited
69 King William Road
UNLEY SA 5061

Dear Board Members

Auditor's Independence Declaration to Andromeda Metals Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Andromeda Metals Limited.

As lead audit partner for the review of the financial report of Andromeda Metals Limited for the half year ended 31 December 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- i) The auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- ii) Any applicable code of professional conduct in relation to the review.

Yours sincerely


DELOITTE TOUCHE TOHMATSU


David Newman
Partner
Chartered Accountants

**Condensed Consolidated Statement of Profit or Loss and Other
Comprehensive Income
for the Half-Year ended 31 December 2021**

	Note	Half-Year Ended 31/12/21	Half-Year Ended 31/12/20
		\$	\$
Other income	2	42,809	58,026
Impairment of exploration and evaluation expenditure	3	-	(35,898)
Exploration and evaluation expenditure expensed	3	(184,914)	(22,563)
Administration expenses		(758,717)	(438,913)
Corporate consulting expenses		(744,840)	(344,323)
Company promotion		(45,143)	(53,375)
Salaries and wages		(318,182)	(38,088)
Directors fees		(92,955)	(55,000)
Share based remuneration	6	(1,602,385)	(1,257,937)
Share of loss of joint venture	4	(239,537)	(171,926)
Loss before income tax		(3,943,864)	(2,359,997)
Income tax expense		-	-
Loss for the period		(3,943,864)	(2,359,997)
Other comprehensive income		-	-
Total comprehensive loss for the period		(3,943,864)	(2,359,997)
Earnings Per Share			
Basic (cents per share) – (Loss)		(0.16)	(0.13)
Diluted (cents per share) – (Loss)		(0.16)	(0.13)

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 2021**

	Note	31/12/21 \$	30/06/21 \$
CURRENT ASSETS			
Cash and cash equivalents		42,816,255	4,904,719
Trade and other receivables		1,701,192	853,927
TOTAL CURRENT ASSETS		<u>44,517,447</u>	<u>5,758,646</u>
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	3	13,931,727	13,180,462
Plant and equipment		206,312	212,960
Other financial assets		310,025	184,500
Investment in joint venture	4	264,158	282,638
Other assets	11	973,052	-
TOTAL NON-CURRENT ASSETS		<u>15,685,274</u>	<u>13,860,560</u>
TOTAL ASSETS		<u>60,202,721</u>	<u>19,619,206</u>
CURRENT LIABILITIES			
Trade and other payables		766,662	1,110,176
Lease liabilities		20,330	56,974
Other liabilities		88,400	41,933
TOTAL CURRENT LIABILITIES		<u>875,392</u>	<u>1,209,083</u>
NON-CURRENT LIABILITIES			
Provisions		35,498	30,679
Lease liabilities		19,471	26,591
Other liabilities	10	1,863,679	1,863,643
TOTAL NON-CURRENT LIABILITIES		<u>1,918,648</u>	<u>1,920,913</u>
TOTAL LIABILITIES		<u>2,794,040</u>	<u>3,129,996</u>
NET ASSETS		<u>57,408,681</u>	<u>16,489,210</u>
EQUITY			
Issued capital	5	101,207,023	56,929,522
Reserves		6,424,428	5,838,594
Accumulated losses		(50,222,770)	(46,278,906)
TOTAL EQUITY		<u>57,408,681</u>	<u>16,489,210</u>

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 Half-Year ended 31 December 2021

	Issued capital \$	Share Option Reserve \$	Accumulated losses \$	Total \$
Balance at 1 July 2020	47,826,518	2,939,738	(39,835,607)	10,930,649
Loss attributable to the period	-	-	(2,359,997)	(2,359,997)
Total comprehensive income (loss) for the period	-	-	(2,359,997)	(2,359,997)
Shares issued on the exercise of listed options	7,436,523	(66,308)	-	7,370,215
Shares issued on the exercise of unlisted options	363,520	-	-	363,520
Fair value of options issued to directors	-	291,631	-	291,631
Fair value of performance rights issued to directors	-	966,306	-	966,306
Balance at 31 December 2020	55,626,561	4,131,367	(42,195,604)	17,562,324
Balance at 1 July 2021	56,929,522	5,838,594	(46,278,906)	16,489,210
Loss attributable to the period	-	-	(3,943,864)	(3,943,864)
Total comprehensive income (loss) for the period	-	-	(3,943,864)	(3,943,864)
Issue of Share Capital through placement	44,999,913	-	-	44,999,913
Costs Associated with the issue of shares	(2,300,962)	-	-	(2,300,962)
Shares issued on the exercise of unlisted options	1,578,550	(1,016,550)	-	562,000
Fair value of options issued to directors	-	25,976	-	25,976
Fair value of performance rights issued to directors	-	1,482,337	-	1,482,337
Fair value of options issued to employees	-	9,688	-	9,688
Fair value of performance rights issued to employees	-	340,528	-	340,528
Share based payment forfeited	-	(256,145)	-	(256,145)
Balance at 31 December 2021	101,207,023	6,424,428	(50,222,770)	57,408,681

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 Half-Year ended 31 December 2021

	Note	Half-Year Ended 31/12/21 Inflows (Outflows) \$	Half-Year Ended 31/12/20 Inflows (Outflows) \$
Cash flows related to operating activities			
Government grants received		-	62,000
Payments to suppliers and employees		(2,792,301)	(797,675)
Net cash used in operating activities		(2,792,301)	(735,675)
Cash flows related to investing activities			
Interest received		3,317	7,762
Government grants received		631,883	317,479
Payment for Bank Guarantee		(125,525)	-
Payments for exploration and evaluation expenditure		(1,981,457)	(2,424,950)
Payment for investment in Joint Venture	4	(229,035)	(198,126)
Payment received from joint venture partner		448,298	324,732
Payments for plant and equipment		(56,914)	(49,169)
Loans advanced to Minotaur Exploration	11	(475,000)	-
Payments related to asset acquisition	11	(498,052)	-
Net cash used in investing activities		(2,282,485)	(2,022,272)
Cash flows related to financing activities			
Proceeds from shares and equity options issued		45,331,912	7,733,735
Lease payments		(43,763)	(34,693)
Interest paid		(865)	(1,307)
Payments for capital raising costs		(2,300,962)	-
Net cash provided by financing activities		42,986,322	7,697,735
Net increase in cash and cash equivalents		37,911,536	4,939,788
Cash and cash equivalents at beginning of financial period		4,904,719	2,998,626
Cash and cash equivalents at end of financial period		42,816,255	7,938,414

The above Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

Half-Year ended 31 December 2021

1. BASIS OF PREPARATION OF ACCOUNTS

This half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting". Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting". The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

The accounting policies adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the 2021 annual financial report, other than as disclosed below.

In the current period, there were no new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the "AASB") that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2021.

Changes in Accounting Policies

The accounting policies adopted in the preparation of the half-year financial report are consistent with those applied in the preparation of the Group's annual financial report for the year ended 30 June 2021.

Going Concern

The interim financial statements have been prepared on a going concern basis, which assumes the continuity of normal business activities, and that the Group will be able to realise its assets and extinguish its liabilities in the normal course of business.

For the financial half-year ended 31 December 2021, the Group incurred a net loss of \$3,943,864 (31 December 2020: \$2,359,997) and experienced a net cash outflow from operating activities of \$2,792,301 (31 December 2020: outflow \$735,675) and a net cash outflow from investing activities of \$2,282,485 (31 December 2020: outflow \$2,022,272).

At 31 December 2021 the Group has cash reserves of \$42,816,255 (30 June 2021: \$4,904,719).

The Group has prepared a cash flow forecast for the period ending 31 March 2023. The forecast indicates that the Group will have sufficient funding to meet all expected cash outflows, including its currently envisaged exploration and evaluation activities with the strategic objective of advancing the Great White Kaolin Project towards a final investment decision during the forecast period. The forecast however does not assume that a final investment decision is made, nor that development activities commence during the forecast period.

When the final investment decision is made in relation to the Great White Kaolin Project, the cash flow forecast will be updated to identify any additional funding required i.e. Debt and/or equity.

The directors are satisfied therefore, that the going concern basis of preparation is appropriate.

2. OTHER INCOME

	Half-Year Ended 31/12/21 \$	Half-Year Ended 31/12/20 \$
Interest income on bank deposits	20,829	6,126
Other (i)	21,980	51,900
	<u>42,809</u>	<u>58,026</u>

- (i) Proceeds from the Entrepreneurs Program Grant (2020: Government assistance in the form of Job Keeper and Covid cashflow boost).

3. EXPLORATION AND EVALUATION EXPENDITURE

	Half-Year Ended 31/12/21 \$	Year Ended 30/06/21 \$
Costs brought forward	13,180,462	9,218,491
Expenditure incurred during the period (net)	1,655,556	4,023,911
Research & Development Incentives (i)	(904,291)	-
	<u>13,931,727</u>	<u>13,242,402</u>
Exploration impaired	-	(61,940)
	<u>13,931,727</u>	<u>13,180,462</u>

The recoverability of the carrying value of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Exploration and evaluation expenditure expensed

Exploration and evaluation expenditure expensed relates to exploration activities, such as regional exploration to identify new exploration targets where no tenure is currently held by the Group. Such expenditure is expensed as incurred in accordance with the requirements of AASB 6.

- (i) *Research and Development incentives are made up of amounts receivable relating to Government R&D incentives for expenditure directly associated with the Great White Project. An amount of \$640,691 has been recognised related to the FY2021 draft return and \$263,600 has been estimated for FY2022 based on expenditure to date.*

4. INVESTMENT IN JOINT VENTURE

	Half-Year Ended 31/12/21 \$	Year Ended 30/06/21 \$
Cost brought forward (i)	282,638	157,964
Additional investments during the period	221,057	387,258
Share in joint venture losses	(239,537)	(262,584)
	<u>264,158</u>	<u>282,638</u>

(i) Relates to investment in Natural Nanotech Pty Ltd. As at 31 December 2021 ADN has joint control by virtue of having one of two board positions.

5. ISSUED CAPITAL

	Half-Year Ended 31/12/21 \$	Half-Year Ended 31/12/20 \$
Fully paid ordinary shares	101,259,244	55,678,782
Treasury shares	(52,221)	(52,221)
	<u>101,207,023</u>	<u>55,626,561</u>

Movement in issued shares for the year:

	Half-Year Ended 31/12/21 No.	Half-Year Ended 31/12/21 \$	Half-Year Ended 31/12/20 No.	Half-Year Ended 31/12/20 \$
<u>Fully paid ordinary shares</u>				
Balance at 1 July	2,160,727,827	56,981,743	1,532,863,256	47,878,739
Placement at 15.0 cents	299,999,219	44,999,913	-	-
Issue of shares as part payment of director fees	-	-	-	-
Exercise of listed options	-	-	614,184,571	7,436,523
Exercise of unlisted options	23,000,000	1,578,550	5,680,000	363,520
Costs associated with the issue of shares	-	(2,300,962)	-	-
Balance at 31 December	<u>2,483,727,046</u>	<u>101,259,244</u>	<u>2,152,727,827</u>	<u>55,678,782</u>
<u>Treasury shares</u>				
Balance at 1 July	(2,107,500)	(52,221)	(2,107,500)	(52,221)
Change in treasury shares	-	-	-	-
Balance at 31 December	<u>(2,107,500)</u>	<u>(52,221)</u>	<u>(2,107,500)</u>	<u>(52,221)</u>
Total issued capital	<u>2,481,619,546</u>	<u>101,207,023</u>	<u>2,150,620,327</u>	<u>55,626,561</u>

6. SHARE OPTIONS AND PERFORMANCE RIGHTS

Half-year ended 31 December 2021

During the half-year ended 31 December 2021 the Company issued the following share options:

	Number	Exercise Price	Vesting Date	Expiry Date
Unlisted Share Options	6,160,000	\$0.2375	31 December 2023	31 December 2025
Unlisted Share Options	273,333	\$0.0000	30 June 2022	31 December 2025
Unlisted Share Options	273,333	\$0.0000	30 June 2023	31 December 2025
Unlisted Share Options	273,333	\$0.0000	30 June 2024	31 December 2025

The share options were granted to key management personnel and directors and have been valued at the grant date using a Black-Scholes Model. At grant date, the share options were valued to a total of \$0.686 million.

During the half-year ended 31 December 2021 the Company issued the following performance rights:

	Number	Vesting Condition	Expiry Date
Performance rights (EIP)	3,820,000	Commencement of mining at the Great White Deposit (or equivalent deposit)	23 December 2023
Performance rights (EIP)	1,819,475	First shipment of kaolin product	23 December 2023
Performance rights (EIP)	750,000	Various individual performance hurdles	31 December 2023
Performance rights (EIP)	2,625,000	Various kaolin shipment volume targets	30 June 2024
Performance rights (Directors)	2,760,000	Various kaolin shipment volume targets	30 June 2024

The performance rights were granted to various employees (under the Employee Incentive Plan) and to executive directors for no cash consideration. At grant date, the performance rights were valued to a total of \$1.884 million, which vest in the tranches above, with the expense recognised in profit or loss over the estimated period to achieve each vesting condition. The vesting conditions are subject to an expiry date as stated above and require continued services.

Half-year ended 31 December 2020

During the half-year ended 31 December 2020 the Company issued the following performance rights.

	Number	Vesting Condition	Expiry Date
Performance rights	3,500,000	Completion of the Definitive Feasibility Study for the Great White Kaolin Project	26 November 2022
Performance rights	3,500,000	Submission of a Mining Lease application for the Great White Kaolin Project	26 November 2022
Performance rights	2,000,000	Approval of the Mining Lease application for the Great White Kaolin Project	26 November 2022
Performance rights	14,250,000	Commencement of mining at the Great White Deposit (or equivalent deposit)	26 November 2023

The performance rights were granted to the Directors for no cash consideration. At grant date, the performance rights were valued to a total of \$6.8 million, which vest in the tranches above, with the expense recognised in profit or loss over the estimated period to achieve each vesting condition. The vesting conditions are subject to an expiry date as stated above and require continued services.

7. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no changes in contingent assets from those disclosed in the annual report for the year ended 30 June 2021.

Refer to note 9 for further information associated with contingent liabilities related to the acquisition of Minotaur Exploration Limited.

8. SEGMENT INFORMATION

The Group has a number of exploration licenses in Australia which are managed on a portfolio basis. The decision to allocate resources to individual projects in the portfolio is predominantly based on available cash reserves, technical data and the expectations of future commodity prices. Accordingly, the Group effectively operates as one segment, being exploration in Australia. This is the basis on which internal reports are provided to the directors for assessing performance and determining the allocation of resources within the Group.

9. SUBSEQUENT EVENTS

Resignation of Chair

On 19th January 2022 Andromeda Metals Chair, Mr Rhoderick Grivas resigned as Chair and Non-Executive Director for family reasons. The Board wishes to express its appreciation for the significant contribution Mr Grivas has made since his appointment in October 2017. Melissa Holzberger, current Non-Executive Director, has assumed the role of acting Chair.

Acquisition of Minotaur Exploration Limited (Minotaur)

On the 10th of November 2021 Andromeda announced the unanimously recommended off-market takeover offer of Minotaur Exploration Limited. The deal will see the consolidation of the Great White and Natural Nanotech joint ventures as 100% owned under Andromeda. The offer of 1.15 new Andromeda shares for every Minotaur share is seen as an accretive transaction for Andromeda. The bid was subject to a number of conditions precedent, which had not been met prior to 31 December 2021.

On the 7th February 2022, Andromeda announced the offer made under its off-market takeover bid for all the securities in Minotaur Exploration Limited was free from all Conditions set out in section 14.7 of the Bidder's Statement. As at 9.00am on the 7th February Andromeda's relevant interest in MEP was 79.16% with the ADN share price being \$0.19 cent per share. At the closing of the offer period on the 25th February 2022 Andromeda's relevant interest had increased to 92.12% with the ADN share price being \$0.17 cents per share. On this date Andromeda also announced the intention to commence the compulsory acquisition of the remaining shares in Minotaur to bring Andromeda's interest to 100%.

As per the arrangement outlined in the Bidder's Statement, Andromeda has provided funding to Minotaur during the offer period for approved expenditure by Minotaur and to seed fund Demetallica. As part of the agreement, Minotaur have demerged its copper & gold assets into a wholly owned subsidiary (Demetallica), which it intends to list on the ASX.

In addition to the \$475,000 provided in December and detailed in this report (Note 11), Andromeda provided \$1,393,812 and \$1,738,000 in funding on the 3rd and 23rd of February 2022 respectively. No additional funding will be provided to Minotaur under this agreement.

Additionally, subsequent to the removal of the Conditions of the off-market takeover of Minotaur, transaction success fees with Andromeda's corporate advisors became payable on the 7th February 2022.

Given the timing of the acquisition, the Company will complete the acquisition accounting in the second half of FY22.

Other Matters

There has not been any other matter or circumstance occurring subsequent to the end of the half-year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or state of affairs of the Group in future financial years.

10. OTHER NON-CURRENT LIABILITIES

The amount is a non-cash item and relates to deferred income (government grants received for exploration activities). This will be recognised as income when the corresponding capitalised expenditure is amortised or written-off.

11. OTHER ASSETS

	Half-Year Ended 31/12/21 \$	Year Ended 30/06/21 \$
Cost brought forward	-	-
Loans advanced to Minotaur Exploration	475,000	-
Payments related to asset acquisition	498,052	-
	<u>973,052</u>	<u>-</u>

Loan Advanced to Minotaur Exploration

As part of the off-market takeover of Minotaur Exploration Limited, the Company on the 10th of November committed to providing an amount of up to \$4.0 million by way of funding Minotaur expenditure within the Approved Budget and to seed fund the breakaway Group, Demetalica, from Minotaur with up to \$2.0 million on completion of the Demerger.

On the 10th of December 2021, Andromeda provided \$475,000 to Minotaur under this facility.

As of 31 December 2021, should the acquisition not complete the loan is repayable to Andromeda.

Payments related to asset acquisition

Costs directly associated with the acquisition of Minotaur Exploration Limited have been capitalised as at 31 December 2021 as a result of the proposed acquisition meeting the definition of an asset acquisition. This expenditure has been capitalised on the basis that as at 31 December 2021 it was deemed probable that the acquisition would be completed.

On completion of the acquisition these costs will form part of the capitalised costs associated with the acquisition. Refer to note 9 for further information in relation to the acquisition which became unconditional post period end.

Directors' Declaration

The directors declare that:

- (a) In the directors' opinion, 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
- (b) In the directors' opinion, the financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the directors



J E Marsh
Managing Director



A N Shearer
Non-Executive Director

Adelaide, South Australia
16th March 2022

Independent Auditor's Review Report to the members of Andromeda Metals Limited

Conclusion

We have reviewed the accompanying half-year financial report of Andromeda Metals Limited (the "Company") and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2021, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 13 to 24.

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

- a. giving a true and fair view of the Group's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- b. 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*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year 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 half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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



DELOITTE TOUCHE TOHMATSU



David Newman
Partner
Chartered Accountants
Perth, 16 March 2022